



c/o ALLIANT INSURANCE SERVICES, INC.
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OFFICERS:

Greg Baatrup, *President*
707.429.8930
Craig Murray, *Vice President*
805.684.7214

PAST PRESIDENTS:

Paul Bushee
2014-2018
Russ Baggerly
2010-2014

February 28, 2019

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

Annual Financial Audit Filing with County Auditor Pursuant to Governmental Code 6505

California Sanitation Risk Management Authority (CSRMA), a Joint Exercise of Powers Agency, has member(s) located with the County of Orange. Those member agencies within your county are listed below:

South Orange County Wastewater Authority
34156 Del Obispo
Dana Point, CA 92629

Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688

Pursuant to Governmental Code 6505, we are enclosing copies of the Annual Report and Audited Financial Statements for the year ended June 30, 2018.

If you have any questions, please contact Myron Leavell at (415) 403-1404.

Signed: _____

Dated: February 28, 2019

AUDITOR-CONTROLLER
MAR 01 2019

CSRMA

California Sanitation Risk Management Authority



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended June 30, 2018 & 2017
State of California

**CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEARS ENDED JUNE 30, 2018 & 2017**

EXECUTIVE BOARD & OFFICERS

| <u>Name</u> | <u>Office</u> | <u>Entity</u> |
|----------------|----------------|--|
| Paul Bushee | President | Leucadia Wastewater District |
| Greg Baatrup | Vice President | Fairfield-Suisun Sewer District |
| George Emerson | Secretary | Goleta Sanitary District |
| Jason Warner | Treasurer | Oro Loma Sanitary District |
| Ed Oyama | Member | West Valley Sanitation District |
| Craig Murray | Member | Carpinteria Sanitary District |
| Sandeep Karkal | Member | Novato Sanitary District |
| Betty Burnett | Member | South Orange County Wastewater Authority |
| Jason Dow | Member | Central Marin Sanitation Agency |

Office Address

c/o Alliant Insurance Services
 100 Pine Street, 11th Floor
 San Francisco, CA 94111

**Report Prepared By The
Finance Department**

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

For The Fiscal Years Ended June 30, 2018 And 2017

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INTRODUCTORY SECTION

In 1986 a looming crisis in obtaining insurance coverage led a group of wastewater utilities in the San Francisco Bay Area to look at alternative ways to address the exposures common to their agencies. From that limited and experimental starting point CSRMA, a Joint Powers Authority, was formed and today has 60 member agencies statewide. Members participate in some or all of CSRMA's coverage and risk management programs at their discretion, and in conformance with CSRMA's rules regulating participation. The primary purpose of CSRMA, as a risk management authority, is to provide financial protection to its members when damage to their assets, or covered third party liability claims against them arise.

Profile

James Marta & Company has audited CSRMA's financial statements. They concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that CSRMA's financial statements for the fiscal years ended June 30, 2018 & 2017, are fairly presented, and in conformity with Accounting Principles Generally Accepted in the United States of America.

Management of CSRMA is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles and the activities and reporting of CSRMA are in compliance with relevant laws and regulations. Internal accounting controls are designed to provide reasonable rather than absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Attached is the Comprehensive Annual Financial Report of the California Sanitation Risk Management Authority (CSRMA) for your review and consideration. The Report is prepared by our staff, and CSRMA takes full responsibility for the accuracy, completeness, disclosure, and fairness of the data presented. We believe the data, as presented, is materially accurate in all respects, and allows the reader to gain a maximum understanding of CSRMA's financial picture.

Ladies and Gentlemen:

Members of the Board of Directors
California Sanitation Risk Management Authority

November 5, 2018

PAST PRESIDENTS:
Russ Bagerly
2010-2014
Robert Reid
2006-2010

OFFICERS:
Paul Bushee, President
760.753.0155
Greg Baatrup, Vice President
707.429.8930

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Tel: 415.403.1400 Insurance License No.: 0C36861
Fax: 415.874.4813



Assessing CSRMA's Financial Condition

As a jointly owned and jointly governed organization, members have a direct stake in the efficient operation and financial performance of CSRMA. Funding of the JPA is predominantly dependent upon claim activity. While insurance / reinsurance coverage is an important aspect of the JPA's cost structure, the pricing of such coverage is largely dependent upon prevailing market conditions. Risk control efforts and program administration costs comprise the third category of JPA expenses. Policies, procedures and day to day practices among members that are uniform and consistent greatly benefit CSRMA and the membership as a whole. The greatest challenge of CSRMA is to identify member risks at their source, and develop risk control techniques to reduce or eliminate those risks.

Through long range planning and strong member participation in committees, many new initiatives arise that when implemented benefit individual programs, members, and CSRMA as a whole. Examples include, a standardized sewer backup policy-procedure, a revised investment strategy for long term reserve investments, a program for revenue enhancement through licensing access to CSRMA owned web-based training, review and update of major program documents, and consideration of new programs and services. Effective management of a pooled insurance authority for the benefit of all concerned is both active and dynamic.

Membership

Membership is limited to public entities with substantial wastewater operations. The Authority is governed by a Board of Directors. Each member agency is entitled to participate and have a representative on the Board of Directors. An Executive Board elected from the pool of member appointed Board members conducts, directs and supervises the JPA staff that runs the day-to-day business of the Authority.

Programs and Services

CSRMA has an agreement with Alliant Insurance Services, Inc. (San Francisco) to administer the Authority and to provide insurance brokerage and risk management services, including safety and risk control. The Authority has separate agreements in effect with Carl Warren & Co. for handling general liability claims, and with York Risk Services Group for handling workers' compensation claims. CSRMA has several other contracts for general legal services, workers' compensation consulting services, employment practices consulting and legal services, actuarial services, audit services and website services. In addition to a full board of directors of its members, the governance and oversight of CSRMA is handled by the aforementioned Executive Board and four standing committees: Officers, Finance, Liability Program, and Workers Compensation Program. Committees are generally staffed by employees of the members, or others connected to the members, such as elected officials. Members of the Executive Board are elected by the Board for two year terms, and Committee members are appointed by the president.

Risk Control Services

CSRMA provides a number of leading edge risk control services for its members. The heart of the system is a web-based platform that was custom built and designed for member agencies and their needs. "CSRMA Risk Control Online" offers an employee training management system to help agencies comply with Cal/OSHA training requirements, wastewater specific utility worker training, an ergonomic evaluation program, sewer backup response and claims handling, contractor safety program builder, and more. The other main venue for risk control is on-location training provided at various member agencies as well as in conjunction with two annual conferences of the California Association of Sanitation Agencies (CASA). In addition, member agencies are each scheduled for onsite loss control audits with follow-up reports that describe potential exposures found, and gives specific recommendations to mitigate exposures. Other notable risk control services provided to members include an "Employment Practices Hotline" where authorized agency personnel can get free consultation with legal experts on employment liability issues.

Shared Risk Programs

CSRMA members can choose to participate in two different risk pool programs: the Pooled Liability Program and the Workers' Compensation Program. These programs are an alternative to traditional commercial insurance, in that they are member owned and operated. Interest earning funds are placed on deposit with the Authority where they are used to pay members' claims and related expenses. Funds not spent or reserved are refunded to members through retrospective rating adjustments and dividend payments. The Pooled Liability Program provides members with third party liability coverage specifically designed to meet the exposures faced by the wastewater industry. Coverages include general liability, automobile liability, employment practices liability, and public entity errors and omissions liability. The Workers' Compensation Program provides State mandated benefits to injured employees of member agencies. Both programs are subject to the terms and conditions of a Memorandum of Coverage specifically adopted by the Board of Directors to govern the actual payment of claims.

Group Purchase Programs

CSRMA Group Purchase Programs provide member agencies the benefit of buying power while assuring their special needs will be addressed. The Property Program provides "All Risk" property and boiler & machinery insurance, cyber liability, and environmental liability insurance. The Primary Insurance Program buys traditional liability insurance coverage for members who do not choose to participate in the Pooled Liability Program. Several other smaller insurance programs are provided for specialized needs of members. The Vehicle Physical Damage Program provides "all risk" property (physical damage) coverage for private passenger vehicles, light trucks and high valued specialized vehicles such as motor trucks. The Storage Tank Program furnishes members with third party pollution legal, liability and clean-up for above and below ground storage tanks. The Commercial Crime Program provides public employee dishonesty coverage. Additional coverages include forgery, theft, disappearance of money and securities, and computer fraud. The Pollution and Remediation Legal Liability Program provides coverage for environmental exposures unique to the wastewater industry.

Budget Process

The budget process begins four months prior to the start of a new budget cycle. The Program Administrators prepare a draft budget, and finalize the draft working in coordination with the Finance Committee and Executive Board. For the budget, the program administrators take into account past history as well as any known conditions, trends, or circumstances that may be applicable to any particular program or situation. Part of this process is to develop the best possible projection of final amounts of revenues and expenses of the current year for use, at a minimum, as an initial foundation for the next budget year. When a draft budget is complete after Finance Committee and Executive Board review, a proposed budget is submitted to the Board of Directors for their review and approval. Upon approval, the budget becomes adopted.

A requirement of the California Government Code is for the governing body of public entities to annually adopt an investment policy that must meet certain requirements. For this reason, the CSRMA investment policy is included within this budget packet for approval prior to the start of each fiscal year.

Revenue / Funding

Pooled program funding – funding for the risk assumed by the pool, in the form of pooled deposits for both the liability and workers' compensation programs is actuarially determined, and the JFA funds each new year for its expected "ultimate net loss" at the 70% confidence level. Within the pooling community this is thought to be a conservative position, but not overly so (Insurance companies generally fund to a 50% to 55% confidence level). Each year of coverage, called a "Program Year" is funded and accounted for separately from other years of coverage. Charges for expected administration and insurance costs are added to actuarial projections to determine total Program Year costs.

Fully insured program funding – the primary insurance (PIP) and property programs are fully insured (excepting member deductibles) by commercial insurers, and are funded essentially on a cost reimbursement basis. Costs include the cost of insurance premiums to third party insurers together with the cost of program administration.

Investment

The Board has adopted an Investment Policy governing CSRMA's investments. CSRMA joined the California Asset Management Program (CAMP) in 2004 and has invested \$17,000,000 in short-term notes through its individual portfolio managed by PFM Asset Management, LLC. The remaining funds are invested in the California State Treasurer, Local Agency Investment Fund (LAIF).

Dividends / Retrospective Rating Adjustments

The shared risk (pooling) programs are an alternative to traditional commercial insurance, in that they are member owned and operated, meaning that the participants share in both the costs and benefits if actual losses turn out to be higher or lower than projected. Interest earning funds are placed on deposit with CSRMA where they are used to pay members' claims and related expenses. Funds not spent or reserved are refunded to members through retrospective rating adjustments and dividend payments.

Retrospective rating adjustments – retrospective rating adjustments are adjustments made to member deposits ("premium") that may occur, either up or down, shortly after the expiration of a program year due to the actual cost of claims, and credits or debits for the adjustments are reflected on member renewal invoices.

Dividends – the Board may declare dividends for each of the pooled programs not sooner than five years after the expiration of a Program Year, at which point it is believed that most claim values have become known. Dividends are a return of pooled deposits in excess of the ultimate cost of known claims.

Conclusion

By learning to better manage risk and reduce exposure, the members of CSRMA are sharing in our common goal to provide wastewater services to the public as safely and cost-effectively as possible. For more information regarding the current fiscal year, please see Management's Discussion and Analysis on page 4 of this report.

Accreditation and Acknowledgments

CSRMA as a risk management authority is fully accredited with excellence by the California Association of Joint Powers Authorities, CAJPA. Such accreditation validates the soundness of CSRMA practices. The accreditation program was established as a model of professional standards which serve as a guideline for all risk management pools regardless of size, scope of operation, or membership structure.

We would like to extend a special thank you to the Executive Board, Officers and Finance Committee for their hard work and dedication to make this report possible.

Respectfully submitted,



Paul Bushee
President of the Board



Jason Warner
Treasurer

CSRMA

**Board of Directors
60 Members**

Executive Board

Paul Bushée, Leucadia Wastewater District (President)
 Greg Baatrup, Fairfield-Suisun SD (Vice President)
 Ed Oyama, West Valley Sanitation District
 Craig Murray, Carpinteria SD
 Sandeep Karkal, Novato SD
 Betty Burnett, South Orange County Wastewater Authority
 Jason Dow, Central Marin Sanitation Agency
 VACANT (Alternate)

Treasurer-
 Jason Warner

**Finance
 Committee**
 Jason Warner, Chair
 Richard Duffey
 Helen Gaumann
 Matt Anderson

Secretary
 George Emerson

**Officers
 Committee**
 Paul Bushée
 Greg Baatrup

**Program Management
 Alliant Insurance Services, Inc.**
 JPA Administration & Insurance

Dennis Mulqueeny
 Seth Cole
 Myron Leavell
 Marilyn Schley
 P.J. Skarlanic
 Rosanna Der
 Thary Ou
 Teva Him
 Phuntsook Gaphel

Loss Control Services

David Pater, Risk Management Solutions
 CSRMA Risk Control Advisor
 Heather Twro, HT Consulting
 Return to Work Consultant
 Accounting
 Tamt Giovanni

**Pooled Liability Program
 Committee**
 Jason Dow, Chair
 Central Marin Sanitation Agency
 Michelle Callardo, Dublin-San Ramon SD
 Jeff Palmer, Ojai Valley SD
 Jon Newby, West Valley SD
 Chad Davissou, Ironhouse SD
 Melissa Morton, Vallejo Flood and
 Wastewater District (Alternate)

Coverage Counsel
 Alan Swerlow, Esq.
 Boornazan, Jensen &
 Garthe

Legal Counsel
 Byrne Conley, Esq.
 Gibbons & Conley

Claims
 Xumi Augustus
 Carl Warren & Co.

Financial Advisor
 Montague Spylke
 PFM Asset Management
 LLC

Financial Auditor
 David Becker
 James Maria & Company

**Workers' Compensation
 Program Committee**
 Craig Murray, Carpinteria SD, Chair
 Roland Williams, Castro Valley SD
 LeeAnn Warhol, Encina WA
 Steve Wagner, Goleta SD
 Ben Munoz, Selma-Kingsburg-Fowler SD
 Blake Tresan, Truckee SD (Alternate)

Claims
 Chris Richard
 York Insurance
 Services, Inc.



Mission Statement

OUR MISSION

The California Sanitation Risk Management Authority provides broad coverage and risk management services to its members.

OUR VISION

To sustain cutting edge service and value that fulfills our member's long term needs.

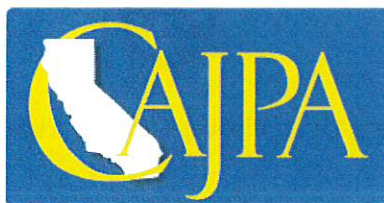
OUR VALUES

- *Protecting public resources through reducing risk of loss*
- *Creative, dynamic, and participative program management*
- *Responsible financial position at reasonable cost*
- *Unique industry specialization that is flexible and adaptable to change*
- *Commitment to member satisfaction, equity and fairness*

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY JURISDICTION MAP



- Bayshore Sanitary District
- Byron Sanitary District
- Carmel Area Wastewater District
- Carpinteria Sanitary District
- Castro Valley Sanitary District
- Central Contra Costa Sanitary District
- Central Marin Sanitation Agency
- Chino Basin Desalter Authority
- County Sanitation District No. 2-3 of Santa Clara County
- Crockett Community Services District
- Cupertino Sanitary District
- Delta Diablo
- Dublin San Ramon Services District
- East Bay Dischargers Authority
- Encina Wastewater Authority
- Fairfield-Suisun Sewer District
- Goleta Sanitary District
- Goleta West Sanitary District
- Inland Empire Utilities Agency
- Ironhouse Sanitary District
- Lake Arrowhead Community Services District
- Las Gallinas Valley Sanitary
- Leucadia Wastewater District
- Montara Water & Sanitary District
- Montercito Sanitary District
- Monterey Regional Water Pollution Control Agency
- Mt. View Sanitary District
- Napa Sanitation District
- North of River Sanitary District
- Novato Sanitary District
- Oceana Marin Sewer Improvement District
- Ojai Valley Sanitary District
- Oro Loma Sanitary District
- Richardson Bay Sanitary District
- Rodeo Sanitary District
- San Elijo Joint Powers Authority
- San Rafael Sanitation District
- Sanitary District No. 1 of Marin County
- Sanitary District No. 5 of Marin County
- Santa Margarita Water District
- Sausalito-Marin City Sanitary District
- Selma-Kingsburg-Fowler County Sanitation District
- Sewer Authority Mid-Coastside
- Sewerage Agency Of Southern Marin
- Silicon Valley Clean Water
- South Orange County Wastewater Authority
- South Tahoe Public Utilities District
- Steger Sanitary District
- Tahoe-Truckee Sanitation Agency
- Triunfo County Sanitation District
- Truckee Sanitary District
- Union Sanitary District
- Vallejo Sanitation & Flood Control District
- Valley Sanitary District
- Ventura Regional Sanitation District
- Victor Valley Wastewater Reclamation Authority
- West Bay Sanitary District
- West County Wastewater District
- West Valley Sanitation District of Santa Clara County
- Western Riverside County Regional Wastewater Authority



It is the purpose of this organization to give professional recognition to properly qualified self-insurance pools.

THEREFORE, the Board of Directors of the California Association of Joint Powers Authorities, has conferred upon

California Sanitation Risk Management Authority

this

CERTIFICATE OF ACCREDITATION WITH EXCELLENCE

having fulfilled the conditions of eligibility as prescribed by the Association for Accreditation.



Accreditation Period: May 15, 2016 – May 15, 2019

Executive Director/CDO

Christopher P. Merrill

June 30, 2017

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

Risk Management Authority

California Sanitation

Presented to

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Government Finance Officers Association



FINANCIAL SECTION

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Sanitation Risk Management Authority
San Francisco, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the Authority as of June 30, 2018 and 2017 and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

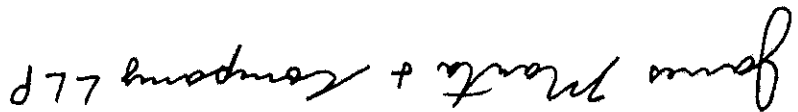
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Reconciliation of Claims Liabilities by Type of Contract and the Claims Development Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally 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 basic financial statements taken as a whole. The accompanying supplementary information including the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement 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 Schedule of Net Position, Combining Schedule of Revenues, expenses and Changes in Net Position and Graphical Summary of Claims are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 5, 2018



c/o ALLIANT INSURANCE SERVICES, INC
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OFFICERS:

Paul Bushee, *President*
760.274.2275
Greg Baatrup, *Vice President*
707.428.9162

PAST PRESIDENTS:

Russ Bagglery
2010-2014
Robert Reid
2006-2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Discussion

Since April 1986, the California Sanitation Risk Management Authority (CSRMA), a Joint Powers Authority (JPA), has provided financial protection to its membership which is comprised mainly of water and wastewater special districts within the State of California. CSRMA operates risk management and coverage programs for the Liability, Workers' Compensation, and Property risks associated with member operations.

CSRMA is governed by a Board of Directors comprised of representatives from each of its members. The Board of Directors elects a President, Vice President and Executive Board. The Boards and various Committees oversee the operations of the JPA including rating, dividend, and loss control plans, as well as other activities in accordance with the JPA Agreement, Bylaws, and Board adopted policies and procedures.

CSRMA's day-to-day operations are, and have always been managed by a third party. Alliant Insurance Services, Inc. currently manages the JPA, and is responsible for implementing the organizations' objectives in accordance with the JPA's aforementioned organizational documents, and in accordance with direction provided by the Board of Directors, its Officers, the Executive Board, and various operational Committees. Since CSRMA has never had employees, it has no post employment obligations.

Description of Basic Financial Statements

Individual program accounting is maintained for each program of the JPA and is provided as supplemental information to the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the combined financial position of CSRMA as of June 30, 2018 and 2017. The Statement of Revenues, Expenses and Changes in Net Position reports the operations of the organization for the years ended June 30, 2018 and 2017. The Statement of Cash Flows is presented on the direct method to reflect the operations of CSRMA for the years ended June 30, 2018 and 2017 based strictly on the inflow and outflow of cash.

The footnotes provide information on unique accounting policies of CSRMA, such as discounting of claims reserves, development of estimates of incurred but not reported liabilities and the provision for unallocated loss adjustment expenses. There were no significant changes in the accounting practices of CSRMA during the fiscal year.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Analysis of Overall Financial Position and Results of Operations

Statement of Revenues, Expenses and Change in Net Position Fiscal Year 2016-2017 vs. Fiscal Year 2017-2018

| Revenues and Expenses | | Fiscal Year 2016-17 vs. Fiscal Year 2017-18 | |
|-------------------------------------|-----------|---|--------------|
| | | 2017-18 | 2016-17 |
| | \$ Change | | |
| | % Change | | |
| Operating revenues | | \$10,287,672 | \$10,408,711 |
| Member contributions | -1.2% | \$(121,039) | |
| Retrospective contributions | 90.2% | (568,345) | (630,063) |
| Member fees | 1.4% | 17,881 | 1,312,531 |
| Other income | -16.2% | (6,530) | 40,275 |
| Total Operating Revenues | -6.1% | (678,033) | 11,131,454 |
| Investment income | -100.4% | (35,222) | 35,069 |
| Total Revenues | -6.4% | (713,255) | 11,166,523 |
| Operating expenses | | 13,779,578 | 11,443,343 |
| General and administrative expenses | 20.4% | 2,336,235 | |
| Total Expenses | 0.8% | 1,142 | 145,468 |
| Change in Net Position | -722.4% | (3,050,632) | (422,288) |
| Net Position, Beginning of year | -3.6% | 11,178,670 | 11,600,958 |
| Net Position, End of year | -31.1% | \$7,705,750 | \$11,178,670 |

Revenues are collected on the basis of recovering the costs of actual expenses incurred as well as an applicable provision for claim expenses that are actuarially incurred, but not reported.

Total revenues decreased from the prior period primarily due to an increase in the retrospective rating contributions credited to member invoices. Total expenses increased year over year primarily due to an increase in the provision for unpaid claims and claims adjustment expenses in the Workers' Compensation Program.

Projections of the ultimate value of outstanding claims associated with the Pooled Liability, and Workers' Compensation Programs is the largest single category of liabilities, and payments made from this liability is the single biggest expense item. It is from this projected liability that member contribution rates are set, and from which the asset base of CSRMA is largely derived. The outstanding liability represents both claims reserves for claims that have been reported, the unknown development on these claims, and the liability associated with claims that have been incurred, but not yet reported (IBNR) to either the membership or the Authority itself.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Statement of Revenues, Expenses and Change in Net Position Fiscal Year 2015-2016 vs. Fiscal Year 2016-2017

| | Revenues and Expenses | | | |
|-------------------------------------|--|---------------------|--------------------|-----------------|
| | Fiscal Year 2015-16 vs. Fiscal Year 2016-17 | | | |
| | <u>2015-16</u> | <u>2016-17</u> | <u>\$ Change</u> | <u>% Change</u> |
| Operating revenues | | | | |
| Member contributions | \$10,325,970 | \$10,408,711 | \$82,741 | 0.8% |
| Retrospective contributions | (400,607) | (630,063) | (229,456) | 57.3% |
| Member fees | 1,277,250 | 1,312,531 | 35,281 | 2.8% |
| Other income | 46,275 | 40,275 | (6,000) | -13.0% |
| <i>Total Operating Revenues</i> | <u>11,248,888</u> | <u>11,131,454</u> | <u>(117,434)</u> | <u>-1.0%</u> |
| Investment income | 594,695 | 35,069 | (559,626) | -94.1% |
| Total Revenues | <u>11,843,583</u> | <u>11,166,523</u> | <u>(677,060)</u> | <u>-5.7%</u> |
| Operating expenses | 10,779,660 | 11,443,343 | 663,683 | 6.2% |
| General and administrative expenses | 166,425 | 145,468 | (20,957) | -12.6% |
| Total Expenses | <u>10,946,085</u> | <u>11,588,811</u> | <u>642,726</u> | <u>5.9%</u> |
| Change in Net Position | 897,498 | (422,288) | (1,319,786) | 147.1% |
| Net Position, Beginning of year | <u>10,703,460</u> | <u>11,600,958</u> | <u>897,498</u> | <u>8.4%</u> |
| Net Position, End of year | <u>\$11,600,958</u> | <u>\$11,178,670</u> | <u>(\$422,288)</u> | <u>-3.6%</u> |

Total revenues decreased from the prior period primarily due to a reduction in investment income (unrealized gains/losses). Total expenses increased year over year primarily due to an increase in the provision for unpaid claims and claims adjustment expenses in the Pooled Liability Program.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Statement of Net Position Fiscal Year 2016-2017 vs. Fiscal Year 2017-2018

Financial Summary

Fiscal Year 2016-17 vs. Fiscal Year 2017-18

| | 2016-17 | 2017-18 | \$ Change | % Change |
|-------------------------|--------------|--------------|---------------|----------|
| Current assets | \$10,463,689 | \$5,786,021 | (\$4,677,668) | -44.7% |
| Non-current assets | 17,956,018 | 19,917,098 | 1,961,080 | 10.9% |
| Total Assets | \$28,419,707 | \$25,703,119 | (\$2,716,588) | -9.6% |
| Current liabilities | 6,027,082 | 7,535,174 | 1,508,092 | 25.0% |
| Non-current liabilities | 11,213,955 | 10,462,195 | (751,760) | -6.7% |
| Total Liabilities | 17,241,037 | 17,997,369 | 756,332 | 4.4% |
| Net Position | \$11,178,670 | \$7,705,750 | (\$3,472,920) | -31.1% |

Claim reserve amounts are set by the JPA's third party claims adjusters who are contractually obligated to administer and resolve member claims. Essentially, reserves are the expected amount to be paid on an open claim over time based on the professional judgment of the adjuster who is familiar with the facts surrounding specific claims. BNR is a liability carried by the JPA to ensure that funds are available to pay for potential adverse development on these "known" claims, and for claims that have been incurred but not yet reported to either the membership or the Authority.

CSRMA engages an actuary to project its unknown liabilities for its Pooled Liability and Workers' Compensation Programs. The actuary uses standard methods of actuarial science to make these projections. Such methods take into consideration historical claims data, industry trends, open case reserves and expected interest rate levels. Actuarial studies are conducted at regular intervals and are reviewed by Committees of the Board of Directors. During the fiscal year ended June 30, 2018, there were changes in actuarial projections used in connection with the provision for unpaid claims and claim adjustment expenses. These changes resulted in increases in the expected ultimate value of insured claims overall, driven by the Workers' Compensation Program. It is from the actuarial projections that rates are set for the membership, which then results in the assets of the organization which are used to pay claims and administrative expenses.

The total assets of CSRMA increased by approximately \$2,700,000 or 9.6% from June 30, 2017 to June 30, 2018. Net Position decreased by approximately \$3,400,000 or 31% due primarily to a decrease in total assets in the Workers' Compensation Program.

The Authority invests its cash, which is not immediately needed to play claims, in accordance with a Board adopted policy and procedure. Funds are invested in the California Local Agency Investment Fund (LAIIF) and in the California Asset Management Program (CAMP) and Public Financial Management (PFM) portfolios. On June 30, 2017 and 2018, our non LAIF investments, including accrued interest, were valued at \$21,787,288 and \$21,842,057, respectively.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Statement of Net Position Fiscal Year 2015-2016 vs. Fiscal Year 2016-2017

| Financial Summary | | | | |
|--|---------------------|---------------------|--------------------|-----------------|
| Fiscal Year 2016-17 vs. Fiscal Year 2016-17 | | | | |
| | <u>2015-16</u> | <u>2016-17</u> | <u>\$ Change</u> | <u>% Change</u> |
| Current assets | \$8,803,565 | \$10,463,689 | \$1,660,124 | 18.9% |
| Non-current assets | 19,533,001 | 17,956,018 | (1,576,983) | -8.1% |
| Total Assets | <u>28,336,567</u> | <u>28,419,707</u> | <u>83,140</u> | <u>0.3%</u> |
| Current liabilities | 5,771,405 | 6,027,082 | 255,677 | 4.4% |
| Non-current liabilities | 10,964,204 | 11,213,955 | \$249,751 | 2.3% |
| Total Liabilities | <u>16,735,609</u> | <u>17,241,037</u> | <u>505,428</u> | <u>3.0%</u> |
| Net Position | <u>\$11,600,958</u> | <u>\$11,178,670</u> | <u>(\$422,288)</u> | <u>-3.6%</u> |

The total assets of CSRMA increased by approximately \$83,000 or 0.3% from June 30, 2016 to June 30, 2017. Net Position decreased by approximately \$422,000 or 3.6% due primarily to a decrease in total assets in the Workers' Compensation Program.

Target Equity

The Authority maintains policies and procedures governing rate adequacy, retrospective rating calculations, dividends, and target equity for each of its pooling programs. Along with projected ultimate and incurred losses, it is the interaction of these policies in the operation of the JPA that largely determine the net results from year to year. Key provisions of these policies include the requirement that each Program Year will be funded to a 70% confidence level at the outset of the Program Year, and that monies held in excess of Board adopted financial targets will be returned to the member of each program in an orderly manner through the Board adopted retrospective rating and dividend plans.

In addition, the Board reviews CSRMA's financial results against standard insurance industry financial ratios to gain additional perspective. The following tables depict the ratios as compared to the California Association of Joint Powers Authority standards, along with a brief explanation of each, and commentary regarding the ratios with respect to the Workers' Compensation Program:

Pooled Liability Program

| Equity Target Formulas | Industry Goal | Calculation Result | CAJPA Standard |
|--------------------------------|----------------------|---------------------------|-----------------------|
| Contributions to Equity | Less than 3:1 | 0.48 | Met |
| Equity to Self Insd. Retention | Greater than 7:1 | 17.7 | Met |
| Loss Reserves to Equity | Less than 4:1 | 0.22 | Met |

Workers' Compensation Program

| Equity Target Formulas | Industry Goal | Calculation Result | CAJPA Standard |
|--------------------------------|------------------|--------------------|----------------|
| Contributions to Equity | Less than 3:1 | 10.0 | Not Met |
| Equity to Self Insd. Retention | Greater than 7:1 | -1.85 | Not Met |
| Loss Reserves to Equity | Less than 4:1 | 20.0 | Not Met |

Contributions to Equity - This is a measure of the sensitivity of equity to total contributions; a measure of how net position (equity) is leveraged against possible pricing inaccuracies. A percentage under 3:1 is considered the proper target.

Equity to Self-Insured Retention - This is a measure of the number of catastrophic losses the program can absorb at the full SIR. Recommendation 5 times for a pool that is comfortable with assessing, 7 times for a pool that is "uneasy" about assessing, and 10 times for a typical insurance company.

Loss Reserves to Equity - This is a measure of flexibility the pool has to absorb development of the expected losses. Recommend less than a ratio of 4:1.

The Target Equity Ratios for the Workers' Compensation Program are below the industry goals in large part due to an increase in claims liabilities the past several years. The Board does intend to meet the standards adopted, and has embarked upon a plan to ensure rate adequacy in what appears to be a growing working compensation claims environment. The first step has been the elimination, at least for the time being, of dividend declaration. In accordance with the dividend formula, dividends of over \$9 million have been paid to the members since the inception of the program. Additionally, CSRMA is exploring other mechanisms to address claim deterioration either by transferring the outstanding liabilities to a third party insurer, or by capping the liabilities through a Loss Portfolio Transfer or Adverse Development Cover. The Finance Committee, Executive Board and Workers' Compensation Committee are monitoring the program and will take further action as needed. It is expected that with the forestalling of any dividends for the time-being, and a focus on rate adequacy, that the program will quickly achieve the financial metrics the Board has set.

Analysis of Balances and Transactions of Individual Funds

As the overall financial results of the JPA are simply the sum of the results of each individual coverage program, the results of each program will be discussed in the sections below.

Liability Program

Total Operating Revenues for the Liability Program increased by approximately \$83,000 for the year ended June 30, 2018 due primarily to a decrease in retrospective rating adjustments credited to member invoices year over year. The Program realized an operating loss of approximately \$1,100,000 due primarily to an increase in the provision for unpaid claims and claims adjustment expenses. The ending net position of the Program was \$8,851,274.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Workers' Compensation Program

Total Operating Revenues for the Workers' Compensation Program decreased by approximately \$775,000 for the year ended June 30, 2018 due primarily to an increase in retrospective rating adjustments credited to member invoices. The Program realized an operating loss of approximately \$2,200,000 primarily due to an increase in the provision for unpaid claims and claims adjustment expenses. The ending net position of the Program was (\$1,387,616). Total assets in the Program are \$12,192,953.

Property Program

The Property Program operates as a group purchase insurance program for property insurance to protect members' physical asset from financial loss. There is no risk sharing between the members in the Program. As such, the Net Position maintained in the program is relatively small, with a goal only to cover any unanticipated operational expenses. The Program's revenues and expenses remained relatively unchanged year over year with the primary revenue and expense being dollars taken in and paid out to cover commercial insurance premiums.

Primary Insurance Program

The Primary Insurance Program operates as a group purchase insurance program to cover the general liability exposures of members who do not wish to share risk with one another. Again, the amount of cash maintained in the program is small with the goal being only to cover insurance and any unanticipated expenses. Member contributions and Operating Expenses for the Program remained relatively unchanged over the prior year.

Possible Conditions Impacting Financial Position

With respect to current facts, conditions, or decisions that may impact the financial position of CSRMA, there are no known issues either internal to the JPA nor the external environment that are expected to materially impact the organization. That said, there are trends that may influence the membership and developments in the commercial insurance market that warrant notice.

The workers' compensation operating environment continues to be challenging due primarily to increases in the cost of medical care and prescription drugs combined with an aging workforce. To combat increasing costs to settle workers' compensation claims, CSRMA has implemented a Workers' Compensation Claims Management and Return to Work Program, and has focused risk control efforts on reducing the frequency and severity of work related injuries.

2017 was the worst year on record for the commercial insurance sector with estimated insured losses in excess of \$100 billion. Despite this, the outlook for the U.S. property/casualty commercial insurance sector for the next 12 to 18 months remains stable given healthy core earnings and sound balance sheets in the view of analysts at Moody's Investors Service. Looking ahead, the expectation is that there will continue to be upward pressure on property rates. Poor performing accounts and classes will experience increased pressure.

Intentional breaches into computer networks continue to be one of the fastest growing crimes in America due to the wide availability of data online, and the commercial value of personal and confidential information. As a result of new regulations and the potential release of confidential information, class action suits are becoming more commonplace. The resulting damage could range from loss of reputation, financial loss or regulatory intervention.

CSRMA member agencies are not immune from workplace violence and/or so called "active shooter" situations. There have been a growing number of incidents nationally, and to better prepare for any incidents at a member agency, CSRMA has purchased "Deadly Weapons Response Coverage" for members of the JPA that provides not only specialized coverage, but also services to assist both on a "pre and post" attack basis.

Interest earning funds are placed on deposit with CSRMA to pay expected claims in the pooled programs. The valuation of claims liabilities is discounted based on assumed earning rates. A divergence in the rate assumed for discounting claims liabilities and investment earnings can affect the ultimate claims liability recorded in the financial statements. To guard against possible divergence, pool deposit rates charged to members are set using a higher confidence level than that which is reported in the financial statements, and the dividend calculation utilized to return excess funds to the membership also uses a more conservative calculation of equity.

CSRMA's most frequent and severe claims continue to be costs associated with sewer back-ups. However, CSRMA has taken action from an actuarial, underwriting and risk management standpoint to attempt to address and mitigate this exposure to both CSRMA and its membership. Finally, while CSRMA believes that it has properly addressed the three most probable catastrophic events facing its membership (earthquake, pollution liability, and possibly terrorism) through offers of coverage, or exclusions of coverage, there is no guarantee that a catastrophic event could not financially impact the Authority.

Request for Financial Information

This financial report is designed to provide a general overview of CSRMA's finances. This financial report seeks to demonstrate CSRMA's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to CSRMA, in care of Alliant Insurance Services, Inc., 100 Pine Street, 11th Floor, San Francisco, California, 94111.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,905,627 | \$ 4,820,445 |
| Investments | 1,924,959 | 3,831,270 |
| Accounts receivable: | | |
| Members | 489,182 | 368,085 |
| Interest | 141,171 | 136,283 |
| Prepaid expenses | <u>1,325,082</u> | <u>1,307,606</u> |
| Total Current Assets | 5,786,021 | 10,463,689 |
| Noncurrent Assets | | |
| Investments | <u>19,917,098</u> | <u>17,956,018</u> |
| Total Assets | <u>25,703,119</u> | <u>28,419,707</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 116,303 | 119,713 |
| Unearned revenue | 2,418,871 | 2,407,369 |
| Current portion of unpaid claims and claim adjustment expense | <u>5,000,000</u> | <u>3,500,000</u> |
| Total Current Liabilities | 7,535,174 | 6,027,082 |
| Noncurrent Liabilities | | |
| Unpaid claims and claim adjustment expense | <u>10,462,195</u> | <u>11,213,955</u> |
| Total Liabilities | <u>17,997,369</u> | <u>17,241,037</u> |
| NET POSITION | | |
| Unrestricted | <u>\$ 7,705,750</u> | <u>\$ 11,178,670</u> |

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

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|-------------------------------------|--------------------|-------------------|
| REVENUES | | |
| Member contributions | \$ 10,287,672 | \$ 10,408,711 |
| Retrospective contributions | (1,198,408) | (630,063) |
| Member fees | 1,330,412 | 1,312,531 |
| Other income | 33,745 | 40,275 |
| Total Operating Revenues | 10,453,421 | 11,131,454 |
| OPERATING EXPENSES | | |
| Program expenses: | | |
| Provision for unpaid claims | 6,573,019 | 4,471,457 |
| and claim adjustment expenses | 4,016,128 | 3,938,364 |
| Excess insurance | 328,102 | 269,558 |
| Management consultants | 1,332,453 | 1,314,304 |
| Program directors fee | 1,217,635 | 1,083,091 |
| Dividends | 312,241 | 366,569 |
| Other program expenses | 13,779,578 | 11,443,343 |
| Total program expenses | 146,610 | 145,468 |
| General and administrative expenses | 13,926,188 | 11,588,811 |
| Total operating expenses | (3,472,767) | (457,357) |
| Operating income (loss) | (153) | 35,069 |
| NONOPERATING REVENUES | | |
| Investment income | (3,472,920) | (422,288) |
| Change in Net Position | 11,178,670 | 11,600,958 |
| Net Position, Beginning of year | \$ 7,705,750 | \$ 11,178,670 |
| Net Position, End of year | \$ 11,178,670 | \$ 11,178,670 |

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

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Cash received from members | \$ 10,343,826 | \$ 11,547,369 |
| Cash paid for claims | (5,824,779) | (3,921,706) |
| Dividends paid | (1,217,635) | (1,083,091) |
| Cash paid for Insurance | (4,033,604) | (1,222,086) |
| Cash paid to vendors | <u>(2,122,816)</u> | <u>(2,155,176)</u> |
| Net Cash Flows Provided (Used) by Operating Activities | <u>(2,855,008)</u> | <u>3,165,310</u> |
| Cash Flows From Investing Activities | | |
| Investment income received | 440,499 | 333,492 |
| Payments for purchases of investments | (15,431,466) | (17,406,372) |
| Proceeds from sales and maturities of investments | <u>14,931,157</u> | <u>17,217,969</u> |
| Net Cash Flows Provided (Used) by Investing Activities | <u>(59,810)</u> | <u>145,089</u> |
| Net Increase (decrease) in Cash | (2,914,818) | 3,310,399 |
| Cash and Cash Equivalents - Beginning of year | <u>4,820,445</u> | <u>1,510,046</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 1,905,627</u> | <u>\$ 4,820,445</u> |
| Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities | | |
| Operating income (loss) | \$ (3,472,767) | \$ (457,357) |
| Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operations: | | |
| (Increase) Decrease in: | | |
| Member receivable | (121,097) | 400,960 |
| Prepaid expenses | (17,476) | 2,716,278 |
| Increase (Decrease) in: | | |
| Accounts payable | (3,410) | (59,277) |
| Unearned revenue | 11,502 | 14,955 |
| Claims liability | <u>748,240</u> | <u>549,751</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (2,855,008)</u> | <u>\$ 3,165,310</u> |
| Supplementary Information | | |
| Noncash Investing and Financing Transactions | | |
| Change in fair value of investments | <u>\$ (366,636)</u> | <u>\$ (204,886)</u> |

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

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

California Sanitation Risk Management Authority ("the Authority") was established by a Joint Powers Agreement on April 2, 1986 in accordance with Article I, Chapter 5, Division 7, Title I of the California Government Code. The Authority operates common risk management and loss prevention programs related to public liability, property loss and workers' compensation risk for member governmental agencies. Membership is limited to public entities with substantial wastewater operations. The Authority had 60 members as of June 30, 2018 and 2017.

For financial reporting purposes, the Authority is considered a stand-alone government that separately issues financial statements. Accordingly, the Authority is a joint venture governed by its member participants as a separate and specific activity in which member participants retain an ongoing financial responsibility.

Admission

Agencies applying for membership must be approved by a majority vote of the Executive Board Members present and voting, and by paying an appropriate entry fee or charge, as established by the Board of Directors.

Withdrawal

Agencies may withdraw 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 agency to continue paying its share of assessment or other financial obligations incurred by reason of its previous participation.

B. DESCRIPTION OF PROGRAMS

Workers' Compensation

The Workers' Compensation Program was established on July 1, 1990, to account for the provision of this coverage to participating members. The program year runs from July 1 to June 30. Funding is based on member deposits established by the Executive Board. The Authority has contracted with a third party administrator, York Insurance Services, to administer claims on behalf of participating members. The excess insurance premiums ceded for the years ended June 30, 2018 and 2017 were \$540,409 and \$503,763, respectively. There were no excess claims recoverable for either year.

Self-insured coverage at June 30, 2018:
JPA's SIR: \$750,000
Excess Insurance: To Statutory Limits

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Property/Liability

Liability

In January 1987, the Pooled Liability Program was established for the purposes of creating a pool to share the costs of liability claims, administrative costs, and excess insurance for Members. The program year runs from January 1 to December 31. Funding for the calendar year program is based on member deposits established by the Executive Board. The Authority has contracted with a third party administrator, Carl Warren & Co., to administer claims on behalf of participating members. The excess insurance premiums ceded for the years ended June 30, 2018 and 2017 were \$1,387,131 and \$1,357,059, respectively. There were no excess claims recoverable for either year.

Self-insured coverage at June 30, 2018:

| | |
|--------------------------------------|--|
| <i>Member Deductible:</i> | \$2,500 to \$500,000 liability per occurrence. |
| <i>JPA's SIR:</i> | \$500,000 per occurrence. |
| <i>Reinsurance/Excess Insurance:</i> | \$25 million per occurrence. |

Property

Established in 1990, the Property Insurance Program allows members to benefit from group pricing and favorable coverage terms, including Boiler and Machinery coverage. The program year runs from July 1 to June 30 of each year with Alliant Insurance Services as the broker. The insurance premiums ceded for the years ended June 30, 2018 and 2017 were \$1,665,211 and \$1,662,345, respectively.

Primary Insurance

On January 1, 1989, the Primary Insurance Program (PIP) was established to provide for the group purchase of general and auto liability and auto physical damage coverage. The program year runs from January 1 to December 31 with Alliant Insurance Services as the broker. The insurance premiums ceded for the years ended June 30, 2018 and 2017 were \$423,377 and \$415,197, respectively.

C. BASIS OF ACCOUNTING

These statements are prepared on the economic resources measurement focus and accrual basis of accounting. Under this method, revenues are from contributions and interest and are recognized when earned and expenses are recognized when goods or services have been received, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements.

- D. MANAGEMENT ESTIMATES**
- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the projected claim losses and discount rate used in establishing the outstanding claims liability. Management's estimate of the claim liabilities is based on calculations reported by the actuary and the discount rate selected by the board, which is intended to be reflective of the Authority's long-term return on investments. The current discount rate used is discussed in Note 3 to the financial statements.
- E. CASH AND CASH EQUIVALENTS**
- For purposes of the Statements of Cash Flows, cash and cash equivalents include cash in bank, cash with the Local Agency Investment Fund (LAIF), CAMF cash reserve and all highly liquid investments purchased with an original maturity of three months or less.
- F. RECEIVABLES**
- All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2018 and 2017, the total accounts receivable portfolio was considered collectible. Interest on investments is recorded in the year the interest is earned.
- G. INVESTMENTS**
- The Authority records its investments and cash in LAIF at fair value. Changes in fair value are reported as revenue in the Statements of Revenues, Expenses and Changes in Net Position. The effect of recording investments and LAIF at fair value is reflected as a net increase in the fair value of investments on the Statements of Revenues, Expenses and Changes in Net Position. Fair values of investments and LAIF have been determined by the sponsoring government based on quoted market prices. The Authority's investments in LAIF have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.
- H. UNEARNED REVENUE/PREPAID EXPENSES**
- The policy year-end for the pooled liability program and primary insurance program is December 31. As such, certain revenues collected prior to the beginning of the fiscal year are treated as unearned and certain expenses benefiting the subsequent year as prepaid. This is to reflect a proper matching of revenues and expenses for the fiscal year-end financial statements.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

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

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

J. UNALLOCATED LOSS ADJUSTMENT EXPENSE

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

K. EXCESS INSURANCE

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

L. INCOME TAXES

The Authority's income is exempt from state and federal income taxes under Internal Revenue Service Section 115, which excludes income derived from the exercise of any essential governmental function and accrues to a state political subdivision. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

M. OPERATING AND NONOPERATING REVENUES

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

Revenues mainly consist of premium contributions from members. Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. The activities of the Authority consist solely of risk management programs and claims management activities related to the coverages described above.

N. MEMBER CONTRIBUTIONS

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

O. SUBSEQUENT EVENTS

Management has considered subsequent events through November 5, 2018, the date which the financial statements were available to be issued, and noted no additional disclosures were required.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------------|---------------------|
| General Checking | \$ 1,019,188 | \$ 239,848 |
| Workers Compensation Trust | 77,984 | 62,992 |
| Pooled Liability Trust | 100,000 | 49,341 |
| CAMP Cash Reserve | 46,131 | 144,548 |
| Local Agency Investment Fund | <u>662,324</u> | <u>4,323,716</u> |
| Total Cash and Cash Equivalents | <u>\$ 1,905,627</u> | <u>\$ 4,820,445</u> |

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

Local Agency Investment Fund

The Authority 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 the Authority's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

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

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

B. INVESTMENTS

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

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

Interest Rate Risk

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

As of June 30, 2018 and 2017, the Authority had the following investments held in a managed portfolio:

| Investment Type | Fair Value | <1 year | 1-2 years | 2-5 years |
|----------------------------|---------------|--------------|--------------|---------------|
| June 30, 2018 | \$ 8,514,491 | \$ - | \$ - | \$ 8,514,491 |
| US Treasuries | 1,560,921 | - | 1,560,921 | - |
| Supra-National Agency Bond | 322,582 | 55,416 | 152,121 | 115,045 |
| Federal Agencies | 1,652,387 | - | - | 1,652,387 |
| Asset-Backed Security | 3,683,341 | 1,420,538 | 2,262,803 | - |
| Certificates of Deposit | 449,005 | 449,005 | - | - |
| Commercial Paper | 5,659,330 | - | 5,462,155 | 197,175 |
| Corporate Notes | \$ 21,842,057 | \$ 1,924,959 | \$ 9,438,000 | \$ 10,479,098 |
| Investment Type | Fair Value | <1 year | 1-2 years | 2-5 years |

| Investment Type | Fair Value | <1 year | 1-2 years | 2-5 years |
|-------------------------|---------------|--------------|---------------|--------------|
| June 30, 2017 | \$ 10,332,340 | \$ - | \$ 6,441,675 | \$ 3,890,665 |
| US Treasuries | 1,250,309 | - | 759,133 | 491,176 |
| Federal Agencies | 301,638 | 301,638 | - | - |
| Municipal Bonds | 3,876,482 | 1,920,934 | 1,955,548 | - |
| Certificates of Deposit | 549,283 | 549,283 | - | - |
| Commercial Paper | 5,477,236 | 1,059,415 | 3,928,169 | 489,652 |
| Corporate Notes | \$ 21,787,288 | \$ 3,831,270 | \$ 13,084,525 | \$ 4,871,493 |
| Investment Type | Fair Value | <1 year | 1-2 years | 2-5 years |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

B. INVESTMENTS (CONTINUED)

Credit Risk

The primary investment objective of the Authority's Investment Policy is to preserve capital by investing in securities in accordance with the Government Code while maintaining an appropriate level of risk. It limits investments in medium-term corporate notes to A-AAA ratings issued by nationally recognized statistical ratings organizations. As of June 30, 2018 and 2017, the Authority's investments in corporate notes were rated by Standard and Poor's. The following is the rating by Standard and Poor's:

| <u>June 30, 2018</u> | | | | | | | | | | |
|----------------------------|----------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>AAA</u> | <u>AA+</u> | <u>AA</u> | <u>AA-</u> | <u>A+</u> | <u>A</u> | <u>A-</u> | <u>BBB+</u> | <u>NR</u> |
| US Treasuries | \$ 8,514,491 | \$ - | \$ 8,514,491 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Supra-National Agency Bond | 1,560,921 | 1,560,921 | - | - | - | - | - | - | - | - |
| Federal Agencies | 322,582 | - | 322,582 | - | - | - | - | - | - | - |
| Asset-Backed Security | 1,652,387 | 861,646 | - | - | - | - | - | - | - | 790,741 |
| Certificates of Deposit | 3,683,341 | - | - | - | 1,192,227 | 947,180 | 1,543,934 | - | - | - |
| Commercial Paper | 449,005 | - | - | - | - | - | 449,005 | - | - | - |
| Corporate Notes | 5,659,330 | - | 295,790 | 279,538 | 343,979 | 1,410,640 | 1,326,672 | 1,143,470 | 859,241 | - |
| | <u>\$ 21,842,057</u> | <u>\$ 2,422,567</u> | <u>\$ 9,132,863</u> | <u>\$ 279,538</u> | <u>\$ 1,536,206</u> | <u>\$ 2,357,820</u> | <u>\$ 3,319,611</u> | <u>\$ 1,143,470</u> | <u>\$ 859,241</u> | <u>\$ 790,741</u> |

| <u>June 30, 2017</u> | | | | | | | | | | |
|-------------------------|----------------------|-------------------|----------------------|-------------------|---------------------|---------------------|---------------------|-------------------|-------------------|------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>AAA</u> | <u>AA+</u> | <u>AA</u> | <u>AA-</u> | <u>A+</u> | <u>A</u> | <u>A-</u> | <u>BBB+</u> | |
| US Treasuries | \$ 10,332,340 | \$ - | \$ 10,332,340 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal Agencies | 1,250,309 | - | 1,250,309 | - | - | - | - | - | - | - |
| Municipal Bonds | 301,638 | 301,638 | - | - | - | - | - | - | - | - |
| Certificates of Deposit | 3,876,482 | - | - | - | 1,232,085 | 2,193,713 | 450,684 | - | - | - |
| Commercial Paper | 549,283 | - | - | - | - | 549,283 | - | - | - | - |
| Corporate Notes | 5,477,236 | 347,921 | 560,497 | 399,569 | 1,662,165 | 653,172 | 701,180 | 630,327 | 522,405 | - |
| | <u>\$ 21,787,288</u> | <u>\$ 649,559</u> | <u>\$ 12,143,146</u> | <u>\$ 399,569</u> | <u>\$ 2,894,250</u> | <u>\$ 3,396,168</u> | <u>\$ 1,151,864</u> | <u>\$ 630,327</u> | <u>\$ 522,405</u> | |

Concentration of Credit Risk

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

Realized Gains and Losses

The Authority had realized loss of \$78,904 on the sale of investments for the year ended June 30, 2018 and a gain of \$119,320 for the year ended June 30, 2017. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments and realized gains and losses of the current period include unrealized amounts from the prior periods.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

B. INVESTMENTS (CONTINUED)

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs other than quoted prices within Level 1 that are observable, either directly or indirectly such as quoted prices for similar assets or liabilities in active markets or inactive markets, or inputs other than quoted prices that are observable for the asset or liability; Level 3 inputs are significant unobservable inputs. Valuations for assets and liabilities are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Investments' fair value measurements at June 30, 2018 are as shown below:

| | June 30, 2018 | | | | June 30, 2017 | | | |
|----------------------------|---------------|---------------|--------------|-----------|---------------|---------------|--------------|-----------|
| | Fair Value | (Level 1) | (Level 2) | (Level 3) | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| US Treasuries | \$ 8,514,491 | \$ 8,514,491 | \$ - | \$ - | \$ 10,332,340 | \$ 10,332,340 | \$ - | \$ - |
| Supra-National Agency Bond | 1,560,921 | 1,560,921 | - | - | 1,250,309 | 1,250,309 | - | - |
| Federal Agencies | 322,582 | 322,582 | - | - | 301,638 | 301,638 | - | - |
| Municipal Bonds | 1,652,387 | 1,652,387 | - | - | 3,876,482 | 3,876,482 | - | - |
| Certificates of Deposit | 3,683,341 | - | 3,683,341 | - | 549,283 | - | 549,283 | - |
| Commercial Paper | 449,005 | - | 449,005 | - | 5,477,236 | 5,477,236 | - | - |
| Corporate Notes | 5,659,330 | 5,659,330 | - | - | 21,787,288 | 17,361,523 | 4,425,765 | - |
| Total Investments | \$ 21,842,057 | \$ 17,709,711 | \$ 4,132,346 | \$ - | \$ 21,787,288 | \$ 17,361,523 | \$ 4,425,765 | \$ - |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

3. UNPAID CLAIMS LIABILITIES

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 14,713,955 | \$ 14,164,204 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of the current year | 4,659,495 | 3,926,631 |
| Increase/(decrease) in provision of insured events of prior years | <u>1,913,524</u> | <u>544,826</u> |
| Total incurred claims and claim adjustment expenses | <u>6,573,019</u> | <u>4,471,457</u> |
| Payments: | | |
| Claim and claim adjustment expenses attributable to insured events of the current year | 850,283 | 424,231 |
| Claim and claim adjustment expenses attributable to insured events of the prior years | <u>4,974,496</u> | <u>3,497,475</u> |
| Total Payments | <u>5,824,779</u> | <u>3,921,706</u> |
| Total unpaid claims and claims adjustment expenses | <u>\$ 15,462,195</u> | <u>\$ 14,713,955</u> |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

3. UNPAID CLAIMS LIABILITIES (CONTINUED)

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

| | | |
|---|----------------------|----------------------|
| Claims reserves | \$ 7,696,228 | \$ 7,644,882 |
| Claims incurred but not reported (IBNR) | 6,796,508 | 6,117,087 |
| Unallocated loss adjustment expenses (ULAE) | 969,458 | 951,986 |
| Current portion | 15,462,194 | 14,713,955 |
| Non-current portion | (5,000,000) | (3,500,000) |
| | <u>\$ 10,462,194</u> | <u>\$ 11,213,955</u> |

At June 30, 2018 and 2017, \$17,265,903 and \$16,590,004 of unpaid claims and claim adjustment expenses were presented at their net present value of \$15,462,194 and \$14,713,955, respectively. These claims were discounted at an annual rate of 2.5% for workers compensation claims and 2.5% for liability claims as determined by the Board.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| | Workers Compensation | | Liability | | Totals | |
|--|----------------------|---------------|--------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 12,861,240 | \$ 12,166,648 | \$ 1,852,715 | \$ 1,997,556 | \$ 14,713,955 | \$ 14,164,204 |
| Incurrd claims and claim adjustment expenses: | | | | | | |
| Provision for insured events of the current year | 3,878,756 | 3,110,585 | 780,739 | 816,046 | 4,659,495 | 3,926,631 |
| Increase/(decrease) in provision of insured events of prior years | 1,157,060 | 713,446 | 756,464 | (168,620) | 1,913,524 | 544,826 |
| Total incurrd claims and claim adjustment expenses | 5,035,816 | 3,824,031 | 1,537,203 | 647,426 | 6,573,019 | 4,471,457 |
| Payments: | | | | | | |
| Claim and claim adjustment expenses attributable to insured events of the current year | 666,871 | 420,439 | 183,412 | 3,792 | 850,283 | 424,231 |
| Claim and claim adjustment expenses attributable to insured events of the prior years | 3,705,615 | 2,709,000 | 1,268,881 | 788,475 | 4,974,496 | 3,497,475 |
| Total Payments | 4,372,486 | 3,129,439 | 1,452,293 | 792,267 | 5,824,779 | 3,921,706 |
| Total unpaid claims and claims adjustment expenses | \$ 13,524,570 | \$ 12,861,240 | \$ 1,937,625 | \$ 1,852,715 | \$ 15,462,195 | \$ 14,713,955 |
| Claims reserves | \$ 6,536,342 | \$ 7,092,974 | \$ 1,159,887 | \$ 551,908 | \$ 7,696,229 | \$ 7,644,882 |
| Claims incurred but not reported (IBNR) | 6,110,689 | 4,895,377 | 685,819 | 1,221,710 | 6,796,508 | 6,117,087 |
| Unallocated loss adjustment expenses (ULAE) | 877,539 | 872,889 | 91,919 | 79,097 | 969,458 | 951,986 |
| Current portion | 13,524,570 | 12,861,240 | 1,937,625 | 1,852,715 | 15,462,195 | 14,713,955 |
| Non-current portion | (4,000,000) | (3,000,000) | (1,000,000) | (500,000) | (5,000,000) | (3,500,000) |
| | \$ 9,524,570 | \$ 9,861,240 | \$ 937,625 | \$ 1,352,715 | \$ 10,462,195 | \$ 11,213,955 |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION – WORKERS COMPENSATION

AS OF JUNE 30, 2018

| | Fiscal Years Ended June 30 | | | | | | | | | |
|---|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 1. Premiums and investment revenue: | | | | | | | | | | |
| Earned | \$ 3,539,007 | \$ 3,350,705 | \$ 3,539,095 | \$ 3,953,865 | \$ 4,433,419 | \$ 3,808,541 | \$ 3,555,826 | \$ 4,401,852 | \$ 5,101,316 | \$ 5,214,224 |
| Ceded | (500,706) | (532,534) | (389,024) | (399,312) | (424,284) | (460,803) | (425,019) | (471,592) | (503,763) | (340,409) |
| Net earned | \$ 3,038,301 | \$ 2,818,171 | \$ 3,150,071 | \$ 3,554,553 | \$ 4,009,135 | \$ 3,347,738 | \$ 3,130,807 | \$ 3,930,260 | \$ 4,597,553 | \$ 4,873,815 |
| 2. Unallocated expenses | 1,211,000 | 1,207,000 | 570,846 | 551,211 | 635,478 | 898,310 | 766,078 | 481,351 | 771,935 | 739,417 |
| Dividends | - | - | - | - | - | - | - | - | - | - |
| 3. Estimated incurred claims and expenses, and of policy year | 2,209,112 | 2,393,667 | 2,408,766 | 2,887,945 | 2,315,271 | 2,580,733 | 2,531,778 | 3,032,931 | 2,928,006 | 3,878,756 |
| Incurred | - | - | - | - | - | - | - | - | - | - |
| Ceded Claims | 2,209,112 | 2,393,667 | 2,408,766 | 2,887,945 | 2,315,271 | 2,580,733 | 2,531,778 | 3,032,931 | 2,928,006 | 3,878,756 |
| Net incurred claims | - | - | - | - | - | - | - | - | - | - |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 316,525 | 210,345 | 388,018 | 614,005 | 379,117 | 330,782 | 243,766 | 455,719 | 420,439 | 666,871 |
| One year later | 798,450 | 659,505 | 966,396 | 1,369,221 | 968,090 | 964,867 | 661,233 | 1,098,723 | 1,387,585 | - |
| Two years later | 1,049,303 | 975,483 | 1,559,008 | 2,086,107 | 1,431,463 | 1,468,776 | 1,124,723 | 1,849,270 | - | - |
| Three years later | 1,334,452 | 1,084,111 | 1,827,139 | 2,270,514 | 1,933,252 | 1,875,410 | 1,694,901 | - | - | - |
| Four years later | 1,453,283 | 1,146,188 | 1,938,359 | 2,800,876 | 2,422,995 | 2,347,017 | - | - | - | - |
| Five years later | 1,496,839 | 1,199,554 | 1,982,640 | 2,464,564 | 2,308,274 | - | - | - | - | - |
| Six years later | 1,859,582 | 1,227,226 | 1,982,640 | 2,075,925 | 2,653,853 | - | - | - | - | - |
| Seven Years Later | 1,940,644 | 1,386,559 | 1,386,559 | 2,105,610 | - | - | - | - | - | - |
| Eight Years Later | 2,116,822 | 2,116,822 | - | - | - | - | - | - | - | - |
| Nine Years Later | 2,224,913 | 1,387,399 | - | - | - | - | - | - | - | - |
| 5. Reestimated ceded claims and expenses: | - | - | - | - | - | - | - | - | - | - |
| 6. Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | 2,209,112 | 2,393,667 | 2,408,766 | 2,887,945 | 2,315,271 | 2,580,733 | 2,531,778 | 3,032,931 | 2,928,006 | 3,878,756 |
| One year later | 2,432,832 | 2,001,584 | 2,550,453 | 3,292,249 | 2,442,521 | 2,377,087 | 2,373,731 | 2,871,463 | 3,525,187 | - |
| Two years later | 2,155,546 | 1,971,693 | 2,486,220 | 3,435,137 | 2,514,255 | 2,810,138 | 2,422,623 | 3,406,414 | - | - |
| Three years later | 2,178,051 | 1,799,319 | 2,682,868 | 3,313,455 | 2,910,407 | 2,945,059 | 2,666,667 | - | - | - |
| Four years later | 2,015,668 | 1,806,452 | 2,594,542 | 3,368,081 | 3,025,765 | 3,522,373 | - | - | - | - |
| Five years later | 2,022,916 | 1,530,276 | 1,806,239 | 3,187,581 | 2,780,755 | - | - | - | - | - |
| Six years later | 2,441,067 | 1,545,239 | 2,477,087 | 3,227,762 | - | - | - | - | - | - |
| Seven years later | 2,413,851 | 1,595,141 | 2,518,787 | - | - | - | - | - | - | - |
| Eight Years Later | 2,582,103 | 1,625,434 | - | - | - | - | - | - | - | - |
| Nine Years Later | 2,589,473 | - | - | - | - | - | - | - | - | - |
| 7. Increase (decrease) in estimated incurred claims and expense from end of policy year | \$ 380,361 | \$ (768,233) | \$ 110,021 | \$ 339,817 | \$ 465,484 | \$ 941,640 | \$ 134,889 | \$ 373,483 | \$ 597,181 | \$ - |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION – LIABILITY

AS OF JUNE 30, 2018

| | Fiscal Years Ended June 30 | | | | | | | | | |
|--|----------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 1. Premiums and investment revenue: | | | | | | | | | | |
| Earned | \$ 2,463,086 | \$ 2,469,093 | \$ 2,009,367 | \$ 2,293,688 | \$ 1,996,090 | \$ 1,719,123 | \$ 1,627,657 | \$ 1,676,338 | \$ 2,370,775 | \$ 1,875,002 |
| Ceded | (995,000) | (1,153,943) | (1,162,646) | (1,302,683) | (1,305,608) | (1,300,001) | (1,337,370) | (1,345,173) | (1,357,059) | (1,387,131) |
| Net earned | 1,468,086 | 1,315,150 | 846,721 | 991,005 | 690,482 | 419,122 | 290,287 | 331,165 | 1,013,716 | 487,871 |
| 2. Unallocated expenses | 591,406 | 220,392 | 888,032 | 900,170 | 808,025 | 740,906 | 909,617 | 896,043 | 836,476 | 871,217 |
| Dividends | 186,210 | 556,409 | - | - | - | - | - | - | 1,083,091 | 1,217,635 |
| 3. Estimated incurred claims and expenses, end of policy year | | | | | | | | | | |
| Incurred | 1,184,625 | 1,292,429 | 1,029,262 | 1,074,579 | 978,819 | 752,751 | 758,365 | 757,651 | 781,369 | 780,739 |
| Ceded Claims | - | - | - | - | - | - | - | - | - | - |
| Net incurred claims | 1,184,625 | 1,292,429 | 1,029,262 | 1,074,579 | 978,819 | 752,751 | 758,365 | 757,651 | 781,369 | 780,739 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 82,508 | 19,723 | 54,716 | - | 48,309 | 5,756 | 3,377 | 41,278 | 3,792 | 183,412 |
| One year later | 1,278,013 | 66,130 | 601,350 | 371,978 | 571,573 | 105,423 | 56,506 | 254,942 | 170,495 | - |
| Two years later | 1,381,984 | 105,626 | 814,239 | 450,442 | 762,248 | 158,294 | 185,325 | 1,118,267 | - | - |
| Three years later | 1,515,472 | 144,454 | 900,218 | 1,410,535 | 868,819 | 158,294 | 204,281 | - | - | - |
| Four years later | 1,636,394 | 160,188 | 1,301,330 | 1,501,330 | 1,185,031 | 158,294 | - | - | - | - |
| Five years later | 1,916,015 | 160,966 | 1,036,795 | 1,351,848 | 1,185,031 | - | - | - | - | - |
| Six years later | 1,816,229 | 160,966 | 1,049,649 | 1,383,458 | - | - | - | - | - | - |
| Seven Years Later | 1,816,229 | 160,966 | 1,062,736 | - | - | - | - | - | - | - |
| Eight Years Later | 1,816,229 | 160,966 | - | - | - | - | - | - | - | - |
| Nine Years Later | 1,816,229 | - | - | - | - | - | - | - | - | - |
| 5. Reestimated ceded claims and expenses: | | | | | | | | | | |
| 6. Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | 1,184,625 | 1,292,429 | 1,029,262 | 1,074,579 | 978,819 | 752,751 | 758,365 | 757,651 | 781,369 | 780,739 |
| One year later | 2,432,390 | 1,843,507 | 2,085,763 | 1,779,077 | 1,195,425 | 881,726 | 635,744 | 1,018,198 | 771,496 | - |
| Two years later | 1,822,359 | 1,287,313 | 1,491,991 | 1,277,767 | 1,075,743 | 404,860 | 353,310 | 1,610,392 | - | - |
| Three years later | 1,829,941 | 655,317 | 1,219,513 | 1,629,998 | 1,073,904 | 280,983 | 268,660 | - | - | - |
| Four years later | 1,842,289 | 189,947 | 1,261,068 | 1,445,570 | 1,064,809 | 165,524 | - | - | - | - |
| Five years later | 1,941,415 | 170,471 | 1,065,493 | 1,398,035 | 1,185,030 | - | - | - | - | - |
| Six years later | 1,831,476 | 160,966 | 1,065,797 | 1,497,833 | - | - | - | - | - | - |
| Seven years later | 1,816,229 | 160,966 | 1,124,468 | - | - | - | - | - | - | - |
| Eight Years Later | 1,816,230 | 160,966 | - | - | - | - | - | - | - | - |
| Nine Years Later | 1,816,230 | - | - | - | - | - | - | - | - | - |
| 7. Increase (decrease) in estimated incurred claims and expense from end of policy year: | \$ 631,605 | \$ (1,131,463) | \$ 95,206 | \$ 423,254 | \$ 206,211 | \$ (587,227) | \$ 268,560 | \$ 852,741 | \$ (9,873) | \$ - |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2018

1. RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

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

2. CLAIMS DEVELOPMENT INFORMATION

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

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the Authority including overhead, dividends and claims expense not allocable to individual claims.

3. This line shows the Authority's gross incurred claims and allocated claim adjustment expense (both paid and accrued), claims assumed by reinsurers and net incurred claims and allocated adjustment expenses as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). The original estimate of ceded claims was not available.

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claim, reevaluation of existing information on known claims and emergence of new claims not previously known.

7. This line compares the latest reestimated 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 estimated. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. This is the third year of the presentation and development of this information.

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

COMBINING SCHEDULE OF NET POSITION

JUNE 30, 2018

| | Workers' Compensation | Pooled Liability | Property | Primary Insurance | Total |
|--|----------------------------------|-----------------------------|-------------------|------------------------------|---------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 941,711 | \$ 944,624 | \$ 7,548 | \$ 11,744 | \$ 1,905,627 |
| Investments | 951,264 | 954,207 | 7,625 | 11,863 | 1,924,959 |
| Accounts receivable: | | | | | |
| General | 371,741 | 110,016 | 6,950 | 475 | 489,182 |
| Interest | 80,326 | 59,927 | 522 | 395 | 141,171 |
| Prepaid expenses | 5,404 | 1,024,296 | 17,987 | 277,396 | 1,325,082 |
| Total Current Assets | 2,350,446 | 3,093,069 | 40,632 | 301,874 | 5,786,021 |
| Noncurrent Assets | | | | | |
| Investments | 9,842,507 | 9,872,953 | 78,892 | 122,746 | 19,917,098 |
| Total Assets | 12,192,953 | 12,966,022 | 119,524 | 424,620 | 25,703,119 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | 55,999 | 54,935 | 2,800 | 2,569 | 116,303 |
| Unearned revenue | - | 2,122,188 | - | 296,683 | 2,418,871 |
| Current portion of unpaid claims and claim adjustment expense | 4,000,000 | 1,000,000 | - | - | 5,000,000 |
| Total Current Liabilities | 4,055,999 | 3,177,123 | 2,800 | 299,252 | 7,535,174 |
| Noncurrent Liabilities | | | | | |
| Unpaid claims and claim adjustment expense | 9,524,570 | 937,625 | - | - | 10,462,195 |
| Total Liabilities | 13,580,569 | 4,114,748 | 2,800 | 299,252 | 17,997,369 |
| NET POSITION | \$ (1,387,616) | \$ 8,851,274 | \$ 116,724 | \$ 125,368 | \$ 7,705,750 |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
AS OF JUNE 30, 2018

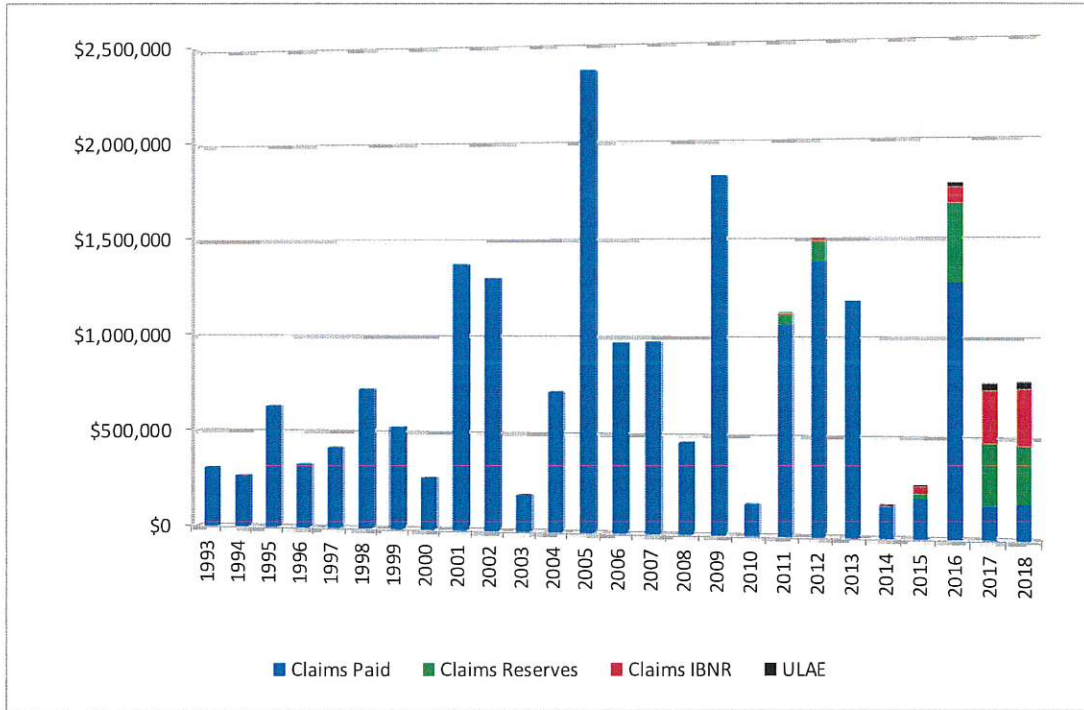
| | Workers' Compensation | Pooled Liability | Property | Primary Insurance | Total |
|---|-----------------------|------------------|--------------|-------------------|---------------|
| REVENUES | | | | | |
| Member contributions | \$ 4,513,475 | \$ 3,614,043 | \$ 1,698,783 | \$ 461,371 | \$ 10,287,672 |
| Retrospective contributions | (859,977) | (338,431) | - | - | (1,198,408) |
| Member fees | 401,774 | 627,210 | 175,778 | 125,650 | 1,330,412 |
| Other income | 17,495 | 13,000 | 1,625 | 1,625 | 33,745 |
| Total Operating Revenues | 4,072,767 | 3,915,822 | 1,876,186 | 588,646 | 10,453,421 |
| OPERATING EXPENSES: | | | | | |
| Program expenses: | | | | | |
| Provision for unpaid claims and claim adjustment expenses | 5,035,816 | 1,537,203 | - | - | 6,573,019 |
| Excess insurance | 540,409 | 1,387,131 | 1,665,211 | 423,377 | 4,016,128 |
| Management consultants | 159,141 | 127,437 | 20,762 | 20,762 | 328,102 |
| Program directors fee | 401,774 | 628,557 | 176,082 | 126,040 | 1,332,453 |
| Dividends | - | 1,217,635 | - | - | 1,217,635 |
| Other program expenses | 178,502 | 115,223 | 9,258 | 9,258 | 312,241 |
| Total program expenses | 6,315,642 | 5,013,186 | 1,871,313 | 579,437 | 13,779,578 |
| General and administrative expenses | 45,624 | 57,914 | 30,202 | 12,870 | 146,610 |
| Total operating expenses | 6,361,266 | 5,071,100 | 1,901,515 | 592,307 | 13,926,188 |
| Operating income (loss) | (2,288,499) | (1,155,278) | (25,329) | (3,661) | (3,472,767) |
| NONOPERATING REVENUES | | | | | |
| Investment income | 5,726 | (5,877) | (1) | (1) | (153) |
| Change in Net Position | (2,282,773) | (1,161,155) | (25,330) | (3,662) | (3,472,920) |
| Net Position, Beginning of year | 895,157 | 10,012,429 | 142,054 | 129,030 | 11,178,670 |
| Net Position, End of year | \$ (1,387,616) | \$ 8,851,274 | \$ 116,724 | \$ 125,368 | \$ 7,705,750 |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

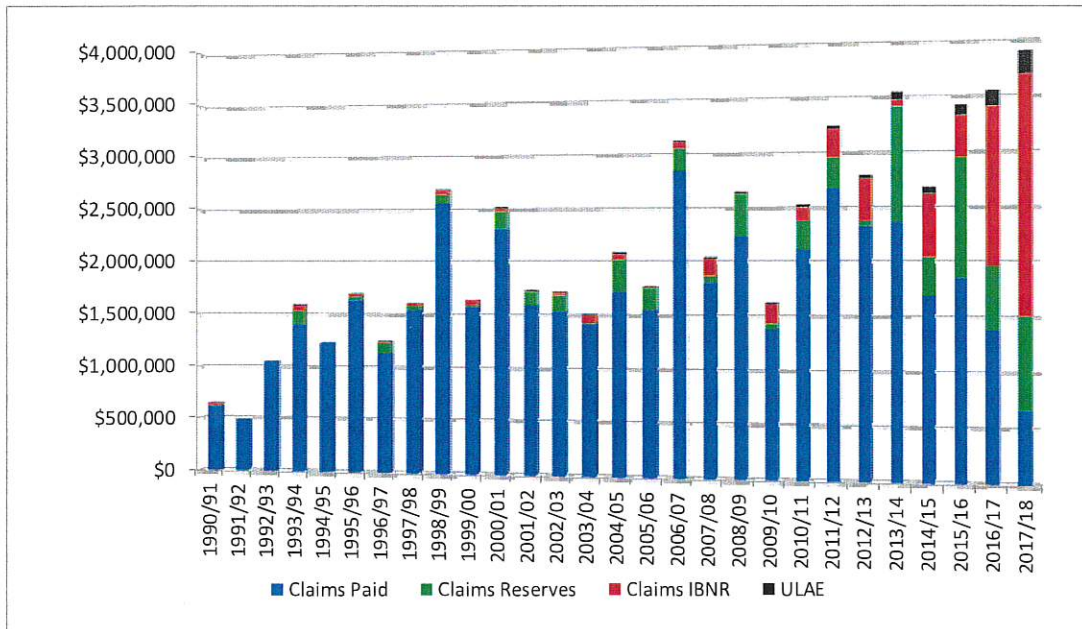
GRAPHICAL SUMMARY OF CLAIMS

AS OF JUNE 30, 2018

Liability Program



Workers' Compensation Program





**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**

INDEPENDENT AUDITOR'S REPORT

The Governing Body
California Sanitation Risk Management Authority
San Francisco, 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 California Sanitation Risk Management Authority, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the California Sanitation Risk Management Authority's basic financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

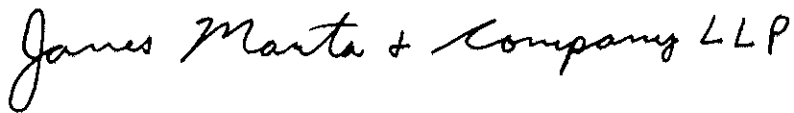
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given 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 California Sanitation Risk Management Authority's financial statements are free of 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.

A handwritten signature in cursive script that reads "James Marta & Company LLP".

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 5, 2018

STATISTICAL SECTION

**STATISTICAL SECTION NARRATIVE
JUNE 30, 2018**

STATISTICAL SECTION

This part of the California Sanitation Risk Management Authority's comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Authority's overall financial health.

Financial Trends

These schedules and graphs contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time. They highlight the change in net position over the past 10 years.

- Comparative Statement of Net Position and Changes in Net Position
- Financial Position Over Last 10 Years
- Financial History Over Last 10 Years

Demographic and Economic Information

These graphs offer information to help the reader understand the environment within which the Authority's financial activities take place. The Workers' Compensation and Pooled Liability claims experience is an indicator of the Provision for Claims and Claims Adjustment Expenses. Payroll history combined with the Workers' Compensation claims experience is an indicator for premium revenue.

- Workers' Compensation Program – Loss and Expenses Paid to Date and Future Reserve – Last 10 Years
- Workers' Compensation Program – Total Incurred Over Last 10 Years
- Workers' Compensation Program – Payroll History Over 10 Years
- Pooled Liability Program – Loss and Expenses Paid to Date and Future Reserve
- Pooled Liability Program – Program – Total Incurred Over Last 10 Years

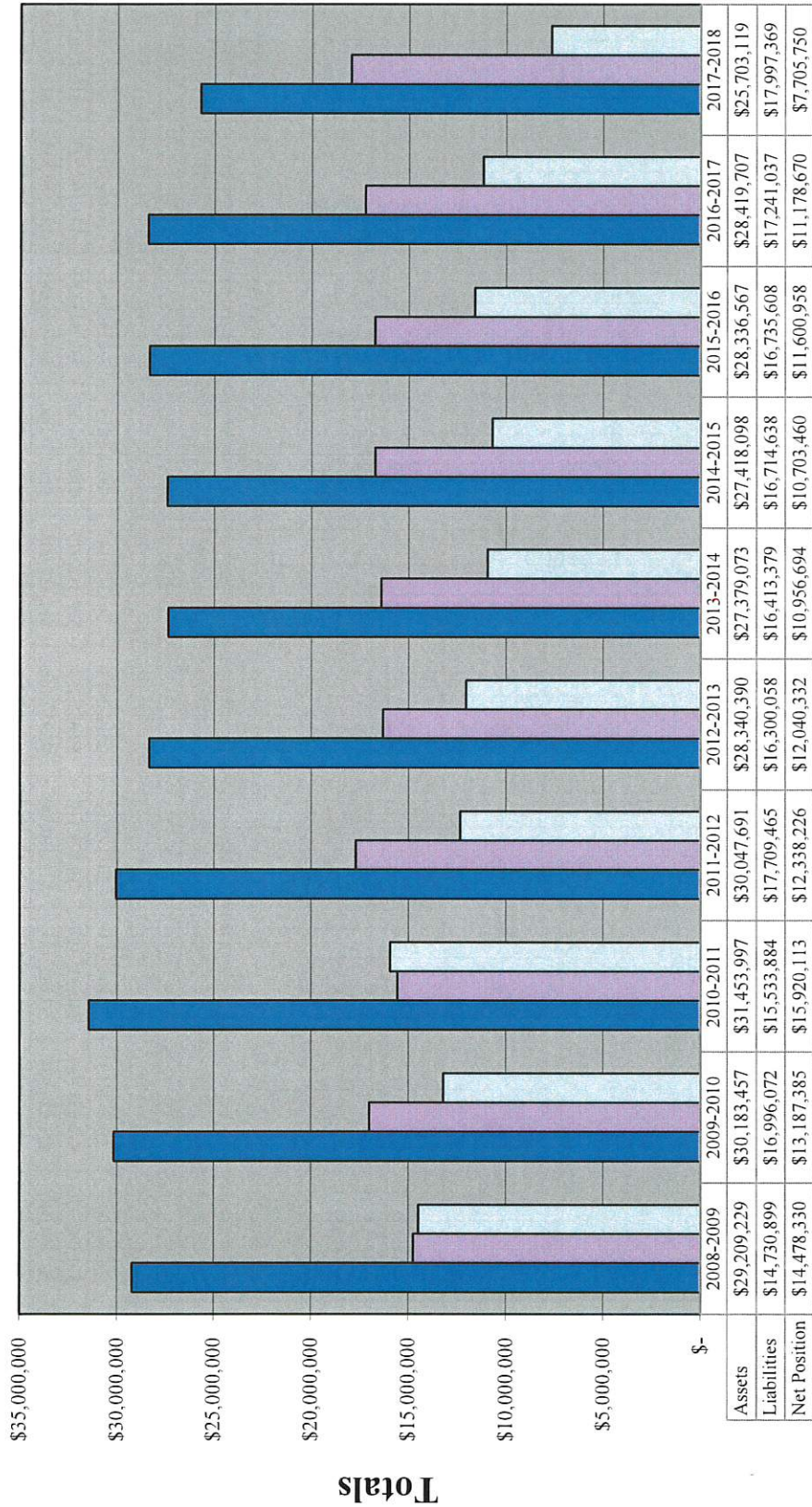
CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

COMPARATIVE STATEMENT OF NET POSITION AND CHANGES IN NET POSITION
FISCAL YEAR END JUNE 30

| Last Ten Fiscal Years (Expressed in Thousands) | 2018 | | | | | | | | | | 2017 | | | | | | | | | | 2016 | | | | | | | | | | 2015 | | | | | | | | | | 2014 | | | | | | | | | | 2013 | | | | | | | | | | 2012 | | | | | | | | | | 2011 | | | | | | | | | | 2010 | | | | | | | | | | 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------|--|--|--|--|--|--|--|--|--|----------|--|--|--|--|--|--|--|--|--|----------|--|--|--|--|--|--|--|--|--|----------|--|--|--|--|--|--|--|--|--|-----------|--|--|--|--|--|--|--|--|--|-----------|--|--|--|--|--|--|--|--|--|-----------|--|--|--|--|--|--|--|--|--|----------|--|--|--|--|--|--|--|--|--|-----------|--|--|--|--|--|--|--|--|--|----------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operating Revenues | \$10,288 | | | | | | | | | | \$10,409 | | | | | | | | | | \$10,326 | | | | | | | | | | \$9,805 | | | | | | | | | | \$9,599 | | | | | | | | | | \$9,522 | | | | | | | | | | \$9,097 | | | | | | | | | | \$9,270 | | | | | | | | | | \$9,178 | | | | | | | | | | \$8,587 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Member Contributions | (\$1,198) | | | | | | | | | | (\$630) | | | | | | | | | | (\$401) | | | | | | | | | | (\$521) | | | | | | | | | | (\$420) | | | | | | | | | | (\$1,185) | | | | | | | | | | (\$1,978) | | | | | | | | | | (\$695) | | | | | | | | | | (\$551) | | | | | | | | | | \$93 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retrospective Contribution | \$1,330 | | | | | | | | | | \$1,313 | | | | | | | | | | \$1,277 | | | | | | | | | | \$1,277 | | | | | | | | | | \$1,269 | | | | | | | | | | \$1,232 | | | | | | | | | | \$1,215 | | | | | | | | | | \$1,196 | | | | | | | | | | \$1,180 | | | | | | | | | | \$1,141 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Member Fees | \$34 | | | | | | | | | | \$40 | | | | | | | | | | \$46 | | | | | | | | | | \$58 | | | | | | | | | | \$48 | | | | | | | | | | \$18 | | | | | | | | | | \$73 | | | | | | | | | | \$72 | | | | | | | | | | \$73 | | | | | | | | | | \$1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other Income | \$10,453 | | | | | | | | | | \$11,131 | | | | | | | | | | \$11,249 | | | | | | | | | | \$10,620 | | | | | | | | | | \$10,496 | | | | | | | | | | \$9,587 | | | | | | | | | | \$8,406 | | | | | | | | | | \$9,843 | | | | | | | | | | \$9,880 | | | | | | | | | | \$9,822 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Operating Revenues | (\$0) | | | | | | | | | | \$35 | | | | | | | | | | \$595 | | | | | | | | | | \$276 | | | | | | | | | | \$317 | | | | | | | | | | \$65 | | | | | | | | | | \$473 | | | | | | | | | | \$512 | | | | | | | | | | \$756 | | | | | | | | | | \$1,181 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment/Interest Income | \$10,453 | | | | | | | | | | \$11,167 | | | | | | | | | | \$11,844 | | | | | | | | | | \$10,896 | | | | | | | | | | \$10,813 | | | | | | | | | | \$9,652 | | | | | | | | | | \$8,879 | | | | | | | | | | \$10,355 | | | | | | | | | | \$10,636 | | | | | | | | | | \$11,002 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Revenues | \$13,780 | | | | | | | | | | \$11,443 | | | | | | | | | | \$10,780 | | | | | | | | | | \$11,013 | | | | | | | | | | \$11,754 | | | | | | | | | | \$9,805 | | | | | | | | | | \$12,317 | | | | | | | | | | \$7,471 | | | | | | | | | | \$11,777 | | | | | | | | | | \$7,640 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operating/Program Expenses | \$147 | | | | | | | | | | \$145 | | | | | | | | | | \$166 | | | | | | | | | | \$145 | | | | | | | | | | \$134 | | | | | | | | | | \$145 | | | | | | | | | | \$144 | | | | | | | | | | \$151 | | | | | | | | | | \$150 | | | | | | | | | | \$169 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| General & Administrative Expenses | \$13,926 | | | | | | | | | | \$11,589 | | | | | | | | | | \$10,946 | | | | | | | | | | \$11,158 | | | | | | | | | | \$11,888 | | | | | | | | | | \$9,950 | | | | | | | | | | \$12,461 | | | | | | | | | | \$7,622 | | | | | | | | | | \$11,927 | | | | | | | | | | \$7,809 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Expenses | (\$3,473) | | | | | | | | | | (\$422) | | | | | | | | | | \$897 | | | | | | | | | | (\$262) | | | | | | | | | | (\$1,075) | | | | | | | | | | (\$298) | | | | | | | | | | (\$3,582) | | | | | | | | | | \$2,733 | | | | | | | | | | (\$1,291) | | | | | | | | | | \$3,193 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Change in Net Position | \$7,706 | | | | | | | | | | \$11,179 | | | | | | | | | | \$11,601 | | | | | | | | | | \$10,703 | | | | | | | | | | \$10,966 | | | | | | | | | | \$12,040 | | | | | | | | | | \$12,338 | | | | | | | | | | \$15,920 | | | | | | | | | | \$13,187 | | | | | | | | | | \$14,478 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Net Position - Unrestricted | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

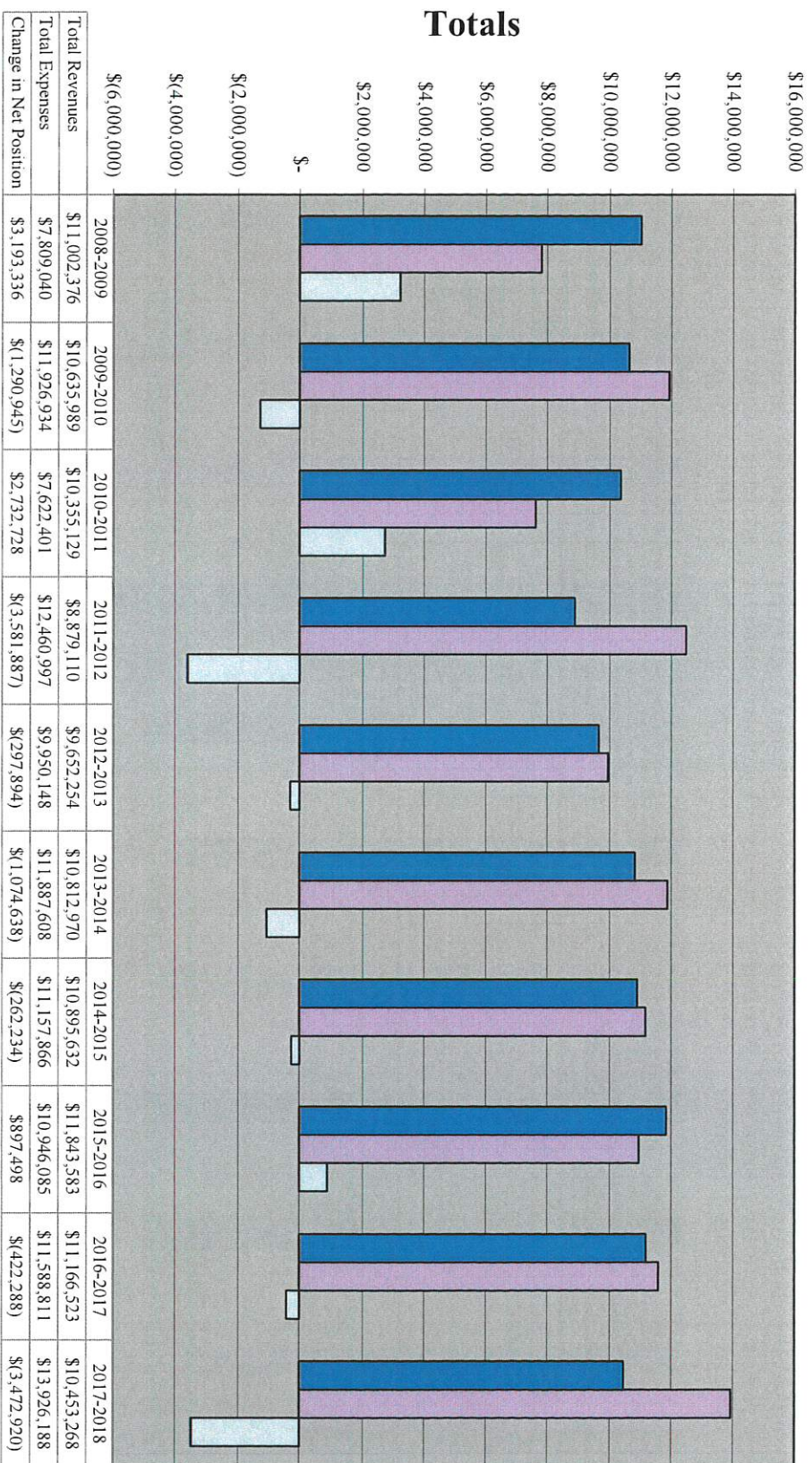
**FINANCIAL POSITION OVER LAST 10 YEARS
FISCAL YEAR END JUNE 30**



Program Years



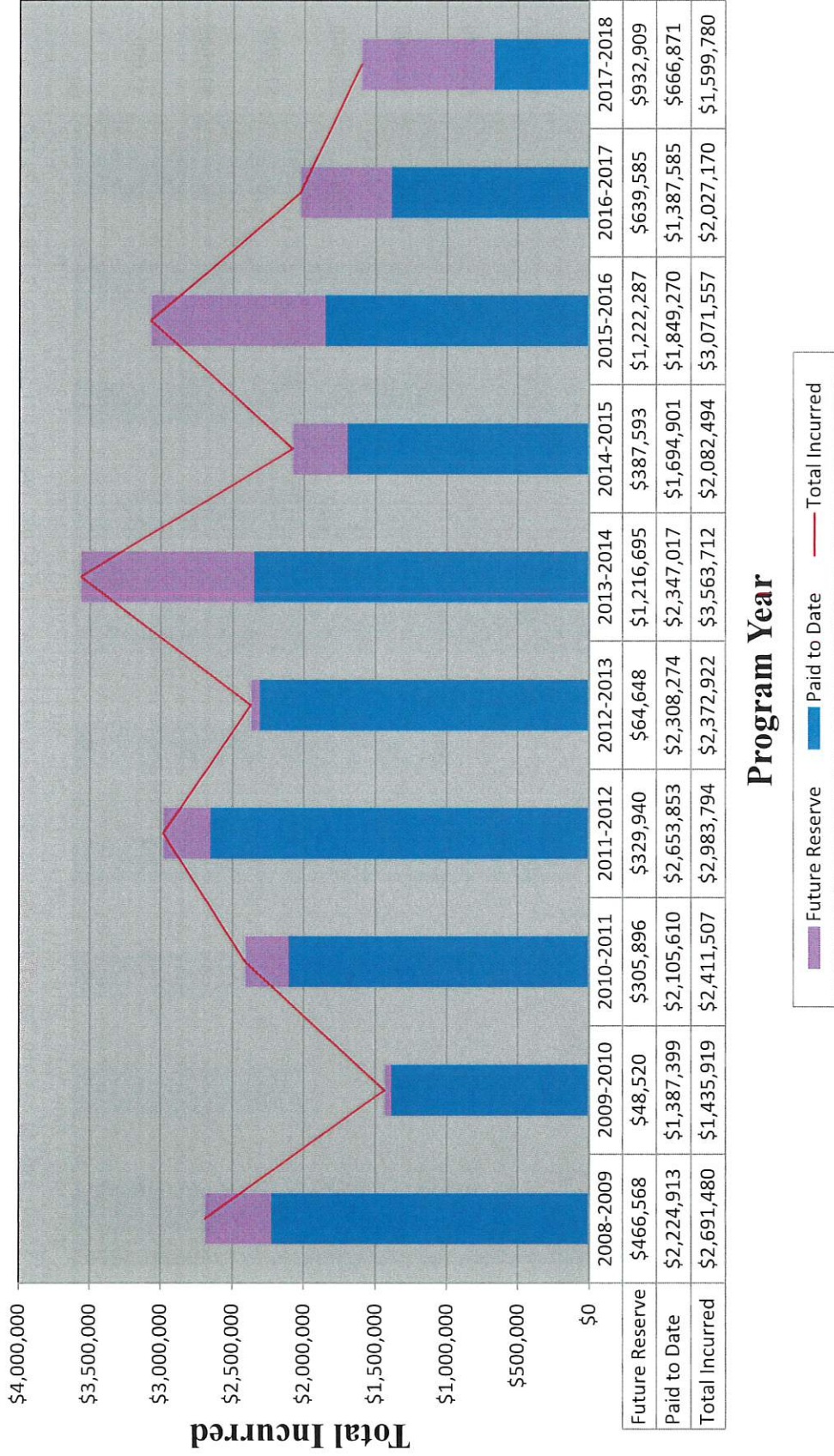
**CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
FINANCIAL HISTORY OVER LAST 10 YEARS
FISCAL YEAR END JUNE 30**



Program Years

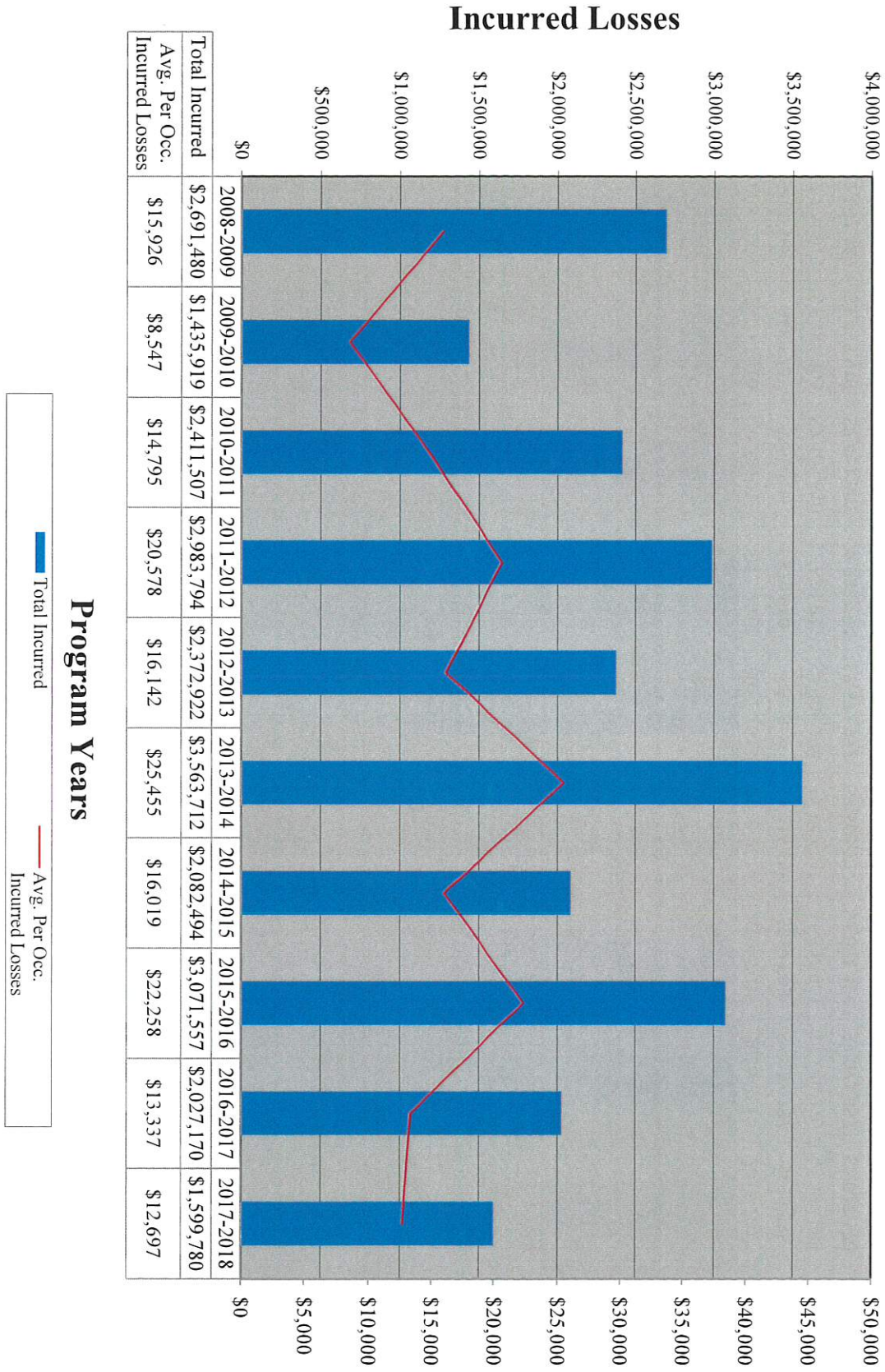
■ Total Revenues
 ■ Total Expenses
 ■ Change in Net Position

**CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY
 WORKERS COMPENSATION PROGRAM - LOSSES AND EXPENSES PAID TO DATE AND FUTURE RESERVE
 FISCAL YEAR END JUNE 30**



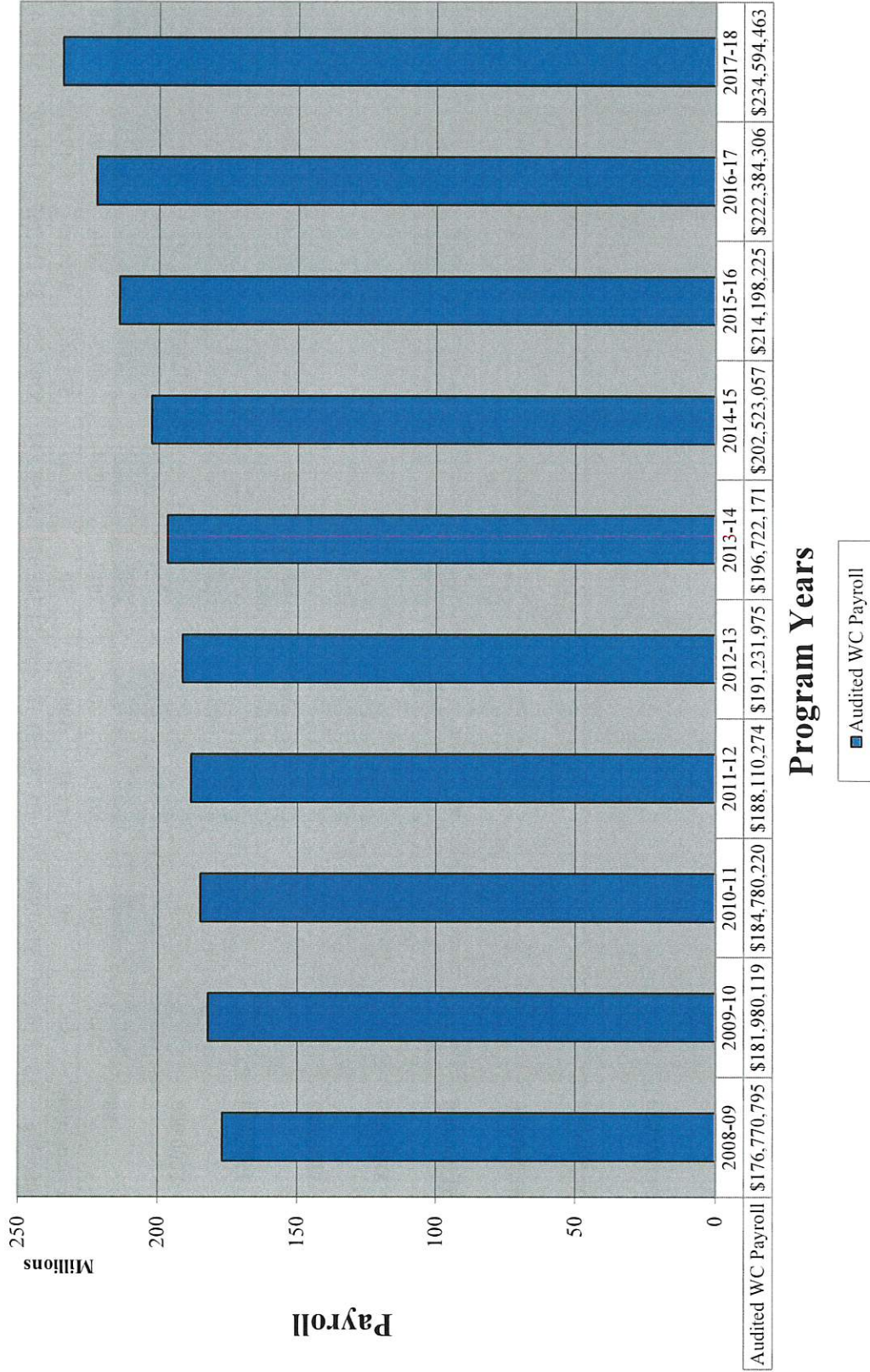
CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

WORKERS COMPENSATION PROGRAM - TOTAL INCURRED OVER LAST 10 YEARS
FISCAL YEAR END JUNE 30



CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

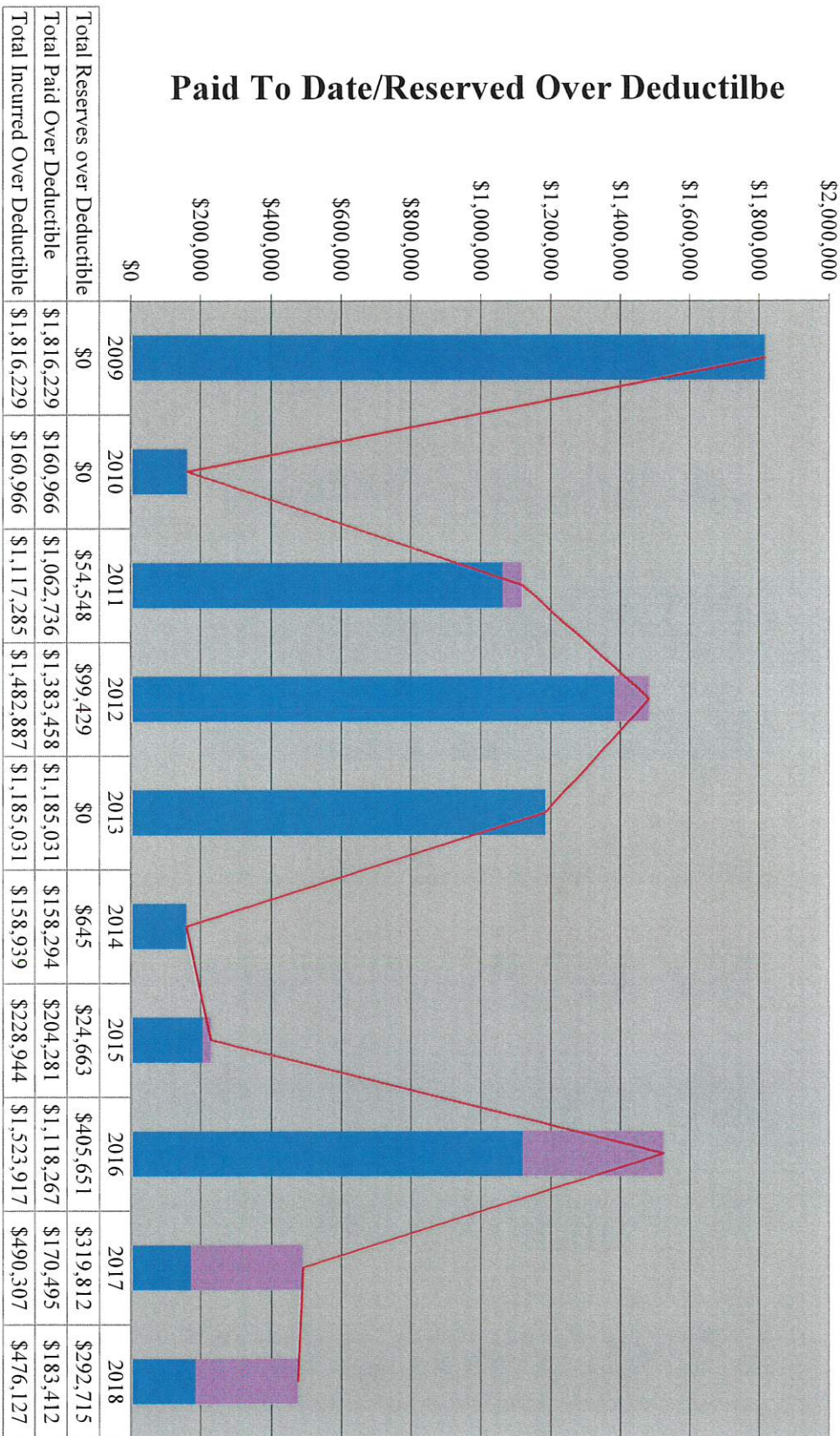
WORKERS COMPENSATION PROGRAM - PAYROLL HISTORY OVER 10 YEARS
FISCAL YEAR END JUNE 30



CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

POOLED LIABILITY PROGRAM - LOSSES AND EXPENSES PAID TO DATE AND FUTURE RESERVE
FISCAL YEAR END JUNE 30

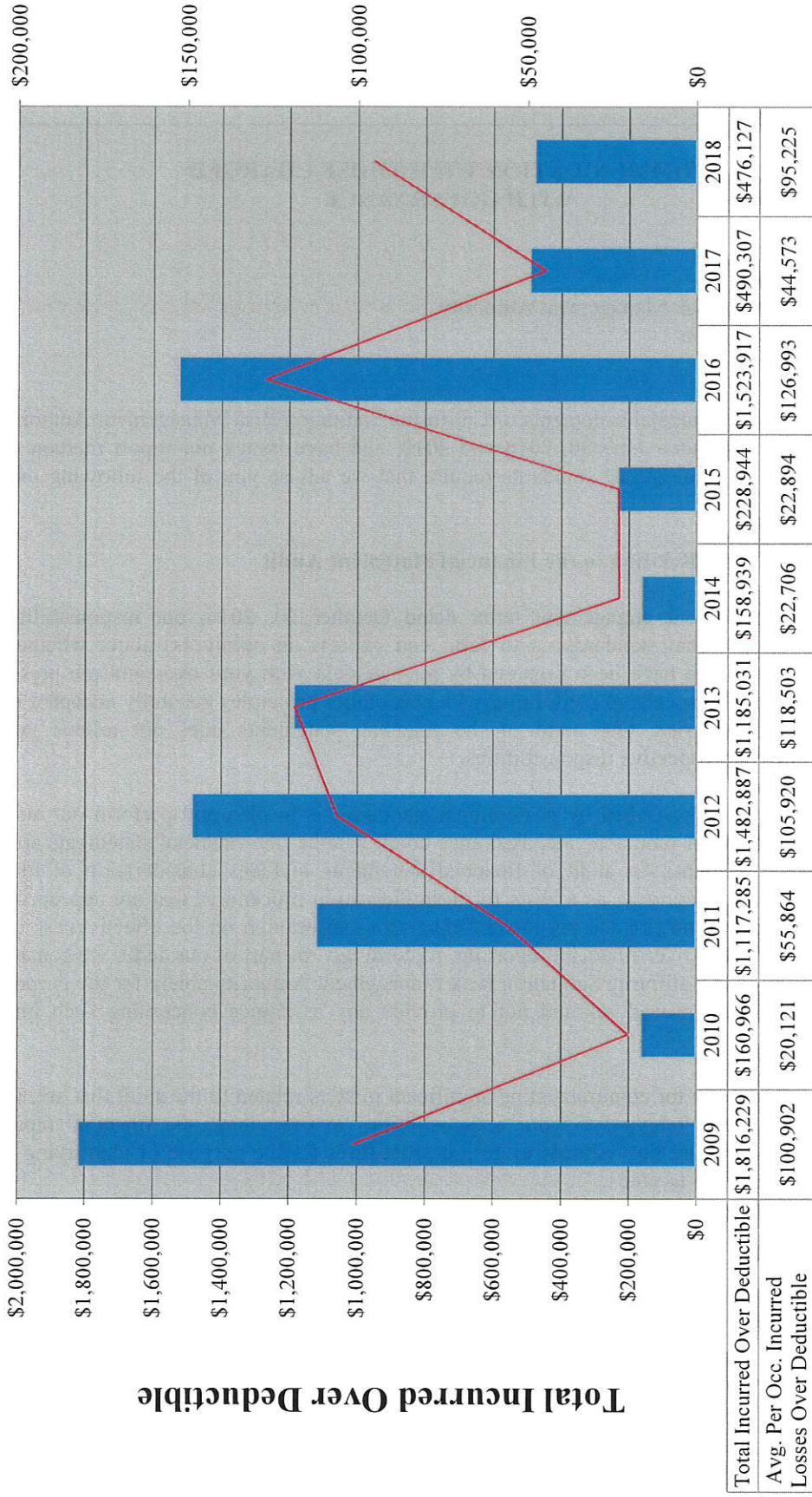
Paid To Date/Reserved Over Deductible



■ Total Paid Over Deductible
 ■ Total Reserves over Deductible
 — Total Incurred Over Deductible

CALIFORNIA SANITATION RISK MANAGEMENT AUTHORITY

**POOLED LIABILITY PROGRAM - TOTAL INCURRED OVER DEDUCTIBLE OVER LAST 10 YEARS
FISCAL YEAR END JUNE 30**



Program Years





**COMMUNICATION WITH THOSE CHARGED
WITH GOVERNANCE**

Board of Directors
California Sanitation Risk Management Authority
San Francisco, California

We have audited the financial statements of California Sanitation Risk Management Authority as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated November 5, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 20, 2015, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of California Sanitation Risk Management Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

We follow the AICPA Ethics Standard Rule 201C, in conjunction with this; we annually review with all engagement staff potential conflicts and obtain a conflict certification. In addition, we inquire on each engagement about potential conflicts with staff. We have not identified any relationships or other matters that in the auditor's judgment may be reasonably thought to bear on independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by California Sanitation Risk Management Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. However, we have identified new accounting standards that will be applicable in subsequent years and are included in Attachment A.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the estimate of claim liabilities.

Management's estimate of the claims liabilities is based on an independent actuarial study. We evaluated the key factors and assumptions used to develop the claims liabilities and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting California Sanitation Risk Management Authority's financial statements relate to accounting policies affecting claims liabilities.

In the normal course of our professional association with California Sanitation Risk Management Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as California Sanitation Risk Management Authority's auditors.

Other Significant Matters, Findings, or Issues

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Management's Consultations with Other Accountants

We have requested certain written representations from management, which are included in the attached letter dated November 5, 2018.

Representations Requested from Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to California Sanitation Risk Management Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Disagreements with Management

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material misstatements identified as a result of our audit procedures. All adjustments made to the financial statements were provided by management and are attached to this letter.

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements identified as a result of our audit procedures.

Uncorrected and Corrected Misstatements

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Significant Difficulties Encountered during the Audit

This report is intended solely for the information and use of the Board of Directors and management of California Sanitation Risk Management Authority and is not intended to be and should not be used by anyone other than these specified parties.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 5, 2018

Attachment A – Upcoming Changes in Accounting Standards As of June 30, 2018

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Trust in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Trust. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB Statement No. 83, Certain Asset Retirement Obligations *Effective for the fiscal year ending June 30, 2019*

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 assets should recognize a liability based on the guidance in this Statement.

GASB Statement No. 84, Fiduciary Activities *Effective for the fiscal year ending June 30, 2020*

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 87, Leases *Effective for the fiscal year ending June 30, 2021*

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.

| Account | Description | Debit | Credit |
|--|--|---------------------|---------------------|
| Adjusting Journal Entry JE # 1 | | | |
| To tie out beginning equity balance. | | | |
| 8945 | Computer Software/Programming | 314.00 | |
| 3901 | Retained Earnings | | 314.00 |
| Total | | 314.00 | 314.00 |
| Adjusting Journal Entry JE # 4 | | | |
| PBC - To record reimbursement for committee meeting travel costs | | | |
| 6652 | Program Committee | 631.00 | |
| 2000 | Accounts Payable | | 631.00 |
| Total | | 631.00 | 631.00 |
| Adjusting Journal Entry JE # 5 | | | |
| To record accrual requested by client. | | | |
| 6522 | Safety Other | 1,135.00 | |
| 2000.25 | Accounts Payable:Accounts Payable - WC | | 1,135.00 |
| Total | | 1,135.00 | 1,135.00 |
| Adjusting Journal Entry JE # 6 | | | |
| To book client entry to adjust LAIF | | | |
| 1200 | Interest Receivable | 25.00 | |
| 1200 | Interest Receivable | 2,723.00 | |
| 1002 | LAIF | | 2,723.00 |
| 4620 | Interest Income | | 25.00 |
| Total | | 2,748.00 | 2,748.00 |
| Adjusting Journal Entry JE # 7 | | | |
| To record claims liability based on new actuary reports and client prepared reconciliation | | | |
| 2300.25 | Claims Reserves:Claims Reserves - WC | 556,632.00 | |
| 2500.24 | Claims IBNR:Claims IBNR - Liab | 535,891.00 | |
| 5215 | Change in Claim Liability | 84,910.00 | |
| 5215 | Change in Claim Liability | 663,330.00 | |
| 2300.24 | Claims Reserves:Claims Reserves - Liab | | 607,979.00 |
| 2500.25 | Claims IBNR:Claims IBNR - WC | | 1,215,312.00 |
| 2600.24 | Claims ULAE:Claims ULAE - Liab | | 12,822.00 |
| 2600.25 | Claims ULAE:Claims ULAE - WC | | 4,650.00 |
| Total | | 1,840,763.00 | 1,840,763.00 |

| Reclassifying Journal Entry JE # 2 | |
|--|----------------------------|
| To reclassify investments out of CAMF reserve account. | |
| 1008 | PFM/WCA Asset Mgmt Program |
| 1009 | PFM-CAMP Cash Reserve |
| Total | |

| Reclassifying Journal Entry JE # 3 | |
|--|--|
| To remove accrual for 2018/19 workers comp premium set up as AP and prepaid. | |
| 2000 | Accounts Payable |
| 1540.25 | Prepaid Insurance Premium:Prepaid Insurance Prem - WC |
| 1550.25 | Prepaid Program Directors' Fee:Prepaid Prog. Dir. Fee - WC |
| Total | |

| | |
|-------------------|--|
| 928,824.00 | |
| 928,824.00 | |
| 928,824.00 | |

| | |
|-------------------|--|
| 928,433.00 | |
| 530,300.00 | |
| 398,133.00 | |
| 928,433.00 | |



OFFICERS:

Paul Bushee, *President*
760.753.0155
Greg Baatrup, *Vice President*
707.429.8930

PAST PRESIDENTS:

Russ Baggerly
2010-2014
Robert Reid
2006-2010

MANAGEMENT REPRESENTATION LETTER

November 5, 2018

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

This representation letter is provided in connection with your audit of the financial statements of California Sanitation Risk Management Authority as of June 30, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of California Sanitation Risk Management Authority in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 5, 2018:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated October 20, 2015, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation, of the financial statements or the various opinion units referred to above, such as records, documentation, meeting minutes,⁷ and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and

Information Provided

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have reviewed and approved the adjusting and reclassifying journal entries reflected in the audit statements and Attachment A.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major or are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund and principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management’s intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- California Sanitation Risk Management Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which California Sanitation Risk Management Authority is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- California Sanitation Risk Management Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

We agree with the findings of specialists in evaluating the valuation of claims liabilities and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

The work of a specialist has been used by the entity.

Use of a Specialist

appropriate in the circumstances:
Claims Development Information, and the basis for our assumptions and interpretations, are reasonable and the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and presentation of the significant assumptions or interpretations underlying the measurement or presentation of the methods of measurement or presentation have not changed from those used in the prior period.
We believe the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP, GASB-10 and GASB-30.

- We acknowledge our responsibility for the presentation of the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information in accordance with U.S. GAAP, GASB-10 and GASB-30.
- We believe the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP, GASB-10 and GASB-30.
- The methods of measurement or presentation have not changed from those used in the prior period.
- We believe the significant assumptions or interpretations underlying the measurement or presentation of the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

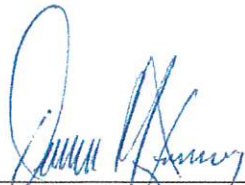
With respect to the Management Discussion & Analysis, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information accompanying the financial statements:

Required Supplementary Information

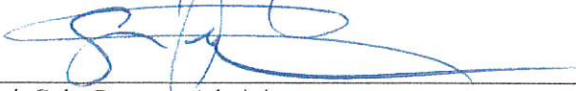
- We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
- We acknowledge our responsibility to present the supplementary information with the audited financial statements, management will make the audited financial statements readily available to the intended users of the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- When the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- The methods of measurement or presentation have not changed from those used in the prior period.
- We believe the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
- We believe the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- We acknowledge our responsibility for the presentation of the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims in accordance with accounting principles generally accepted in the United States of America.

With respect to the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims in the accompanying financial statements:

Supplementary Information in Relation to the Financial Statements as a Whole



Dennis Mulqueeny, Program Administrator



Seth Cole, Program Administrator

| Account | Description | Debit | Credit |
|--|--|------------|--------------|
| Adjusting Journal Entry JE # 1 | | | |
| 8945 | Computer Software/Programming | 314.00 | |
| 3901 | Retained Earnings | | 314.00 |
| Total | | | |
| To tie out beginning equity balance. | | | |
| Adjusting Journal Entry JE # 4 | | | |
| 6652 | Program Committee | 631.00 | |
| 2000 | Accounts Payable | | 631.00 |
| Total | | | |
| PBC - To record reimbursement for committee meeting travel costs | | | |
| Adjusting Journal Entry JE # 5 | | | |
| 6522 | Safety Other | 1,135.00 | |
| 2000.25 | Accounts Payable:Accounts Payable - WC | | 1,135.00 |
| Total | | | |
| To record accrual requested by client. | | | |
| Adjusting Journal Entry JE # 6 | | | |
| 1200 | Interest Receivable | 25.00 | |
| 1200 | Interest Receivable | | 2,723.00 |
| 1002 | LAF | | 25.00 |
| 4620 | Interest Income | | 2,748.00 |
| Total | | | |
| To book client entry to adjust LAF | | | |
| Adjusting Journal Entry JE # 7 | | | |
| 2300.25 | Claims Reserves:Claims Reserves - WC | 556,632.00 | |
| 2500.24 | Claims IBNR:Claims IBNR - Liab | 535,891.00 | |
| 5215 | Change in Claim Liability | 84,910.00 | |
| 5215 | Change in Claim Liability | | 663,330.00 |
| 2300.24 | Claims Reserves:Claims Reserves - Liab | | 607,979.00 |
| 2500.25 | Claims IBNR:Claims IBNR - WC | | 1,215,312.00 |
| 2600.24 | Claims ULAE:Claims ULAE - Liab | | 12,822.00 |
| 2600.25 | Claims ULAE:Claims ULAE - WC | | 4,650.00 |
| Total | | | |
| To record claims liability based on new actuary reports and client prepared reconciliation | | | |
| Reclassifying Journal Entry JE # 2 | | | |
| 1008 | PFM/WCA Asset Mgmt Program | 928,824.00 | |
| 1009 | PFM/CAMP Cash Reserve | | 928,824.00 |
| Total | | | |
| To reclassify investments out of CAMP reserve account. | | | |
| Reclassifying Journal Entry JE # 3 | | | |
| 2000 | Accounts Payable | 928,433.00 | |
| 1540.25 | Prepaid Insurance Premium:Prepaid Insurance Prem - WC | | 530,300.00 |
| 1550.25 | Prepaid Program Directors' Fee:Prepaid Prog. Dir. Fee - WC | | 398,133.00 |
| Total | | | |
| To remove accrual for 2018/19 workers comp premium set up as AP and prepaid. | | | |