

**CALIFORNIA INSURANCE
POOL AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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

NEWPORT BEACH, CALIFORNIA

JUNE 30, 2016

BOARD OF DIRECTORS

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Mark Aalders	City of Yorba Linda	President
Gary Charleston	City of Montclair	Vice President
Derick Yasuda	City of Tustin	Secretary/Treasurer
Edward S. Fenton	City of Buena Park	Underwriting Chairperson
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Jeannette Flores-Chaves	City of Arcadia	Member
Michael Harary	City of Westminster	Member
Alisha Farnell	City of Cypress	Member
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Mario Madonado	City of Brea	Member
Robin Juengel	City of La Habra	Member
Rod C. Hill	City of Whittier	Member

ADMINISTRATION

Janet Kiser	Kiser & Company	General Manager
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CALIFORNIA INSURANCE POOL AUTHORITY
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the California Insurance Pool Authority (CIPA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise CIPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CIPA, as of June 30, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, CIPA adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CIPA's basic financial statements. The combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the 2015 financial statements of CIPA, and we expressed an unmodified opinion on the financial statements in our report dated October 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of CIPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CIPA's internal control over financial reporting and compliance.



Laguna Hills, California
September 30, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Description of the Basic Financial Statements

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

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

2015 to 2016 Analysis of Financial Position and Results of Operations

The overall net position decreased 7%. The Liability Program net position decreased 14% and the Workers' Compensation net position increased 9%. The following highlights the major changes:

- Cash and cash equivalents increased \$1,026,084 (49%) due to increasing the targeted LAIF balance from \$2,000,000 to \$3,000,000. The higher LAIF balance is based on CIPA's increased pool retention from \$2,000,000 to \$3,000,000 and anticipated claim payments.
- Noncurrent Receivables decreased \$1,144,737 (41%) due primarily to a reduction in the outstanding Worker's Compensation Program assessment which decreased \$1,210,976 as calculated by the actuary. Likewise, contributions-prior year assessments decreased. Workers' Compensation losses have not developed upward as they have in the past, thus reducing the actuary's projected assessments. The outstanding Liability Program assessment increased \$66,239 as calculated by the actuary.
- Noncurrent Investments increased \$1,485,696 (6%) due to a contribution of \$1,000,000 to Investments in September 2015. Interest income increased \$60,920 compared to prior year and there was an upward change in market value of \$317,044.
- Due to members decreased \$230,366 (91%). This decrease is primarily due to having a payroll adjustment of \$189,946 due to members in the prior year. This year's payroll adjustment is \$31,414 due from members. There was also a reduction of \$40,420 in claim reimbursement due to City of Los Alamitos, a withdrawn member, when compared to prior year.
- Dividends payable decreased \$207,534 (43%) compared to the prior year. Dividends are calculated and recommended by the actuary based on CIPA's Dividend and Assessment Allocation Plan Policy.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

- Unpaid Liability Program Claims: The actuary projected an increase in the provision of loss reserves in the Liability Program of \$3,027,440 due to adverse development of several claims. The current portion of unpaid Liability Program claims and claims adjustment expenses increased \$582,524; and the noncurrent portion of unpaid claims and claims adjustment expenses increased \$2,444,916. The current portion of unpaid claims was based on the status of claims and expected timing of payments.
- Unpaid Workers' Compensation Program Claims: The actuary projected an increase in the provision for loss reserves or noncurrent portion of the Workers' Compensation Program unpaid claims and claim adjustment expenses of \$197,475. No change was made in the current portion.
- Contributions increased \$892,940 (12%). The majority of the increase was in the pool premium of the Liability Program. The Liability Program pool premium was increased due to the pool assuming a higher retention of \$3,000,000 versus \$2,000,000, and adverse development of Liability Program claims. The 2014/15 contributions was also lower because of the Workers' Compensation payroll adjustment of \$189,946. A payroll adjustment of \$31,414 was due from members in 2015/16 which increased the contributions for the current year.
- Total Liability and Workers' Compensation Program claim payments decreased \$1,813,806 (46%). Claim payments fluctuate from year to year and the 2014/15 year saw the highest claim payments in CIPA's history. In 2015/16, the Liability Program claim payments decreased \$1,390,092 (47%). Workers' Compensation Program claim payments declined \$423,714 (42%). Workers' Compensation claim reimbursements during 2015/16 included two settlements that increased the payments for that year, along with increased medical expenses on one claim.
- Litigation management services increased from \$1,260 in 2014/15 to \$29,542 in 2015/16. Assistance was sought from legal counsel on two Employment Practices Liability claims involving the Cities of La Habra and Westminster. Additionally, three coverage opinions were requested.
- Administration expenses decreased \$41,818 (26%). Liability and Workers' Compensation claim audits are conducted semi-annually. A claim audit was conducted in 2014/15 for a total fee of \$20,780 that was not incurred in 2015/16. Safety services are obtained by members who are reimbursed for this expense, and safety services expenses declined by over \$8,000 in the current year. General legal counsel expenses decreased over \$4,000 when compared to the prior year. General legal expenses during 2014/15 reflected a review of CIPA's Liability Memorandum of Coverage that was completed during that year.

Contacting CIPA's Financial Management

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

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

CONDENSED FINANCIAL INFORMATION

Statement of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>2015-2016</u> <u>% Change</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,131,966	\$ 2,105,882	49%
Receivables	425,615	413,224	3%
Short-term investments	5,172,943	5,036,121	3%
Total Current Assets	<u>8,730,524</u>	<u>7,555,227</u>	16%
Noncurrent Assets			
Receivables	1,635,034	2,779,771	-41%
Investments	27,294,060	25,808,364	6%
Total Non-Current Assets	<u>28,929,094</u>	<u>28,588,135</u>	
Total Assets	<u>37,659,618</u>	<u>36,143,362</u>	4%
LIABILITIES			
Current Liabilities			
Accounts payable	4,625	7,390	-37%
Due members	21,784	252,150	-91%
Dividends payable	275,396	482,930	-43%
Current portion of unpaid claims and claim adjustment expenses	3,106,796	2,524,272	23%
Total Current Liabilities	<u>3,408,601</u>	<u>3,266,742</u>	4%
Unpaid claims and claim adjustment expenses, noncurrent portion	17,698,723	15,056,332	18%
Total Liabilities	<u>21,107,324</u>	<u>18,323,074</u>	15%
NET POSITION			
Net Position-unrestricted	16,552,294	17,820,288	-7%
Total Net Position	<u>\$ 16,552,294</u>	<u>\$ 17,820,288</u>	-7%

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	2015-2016 % Change
Operating Revenues:			
Contributions	\$ 8,426,631	\$ 7,533,691	12%
Contributions-prior year assessments	(757,691)	1,211,255	163%
Excess insurance	(1,553,410)	(1,559,002)	0%
Joint purchase insurance	(2,037,861)	(2,010,600)	-1%
Other	250	250	0%
Total Operating Revenues	<u>4,077,919</u>	<u>5,175,594</u>	-21%
Operating Expenses:			
Claims paid	2,131,608	3,945,414	-46%
Provision (credit) for loss reserves	3,224,915	1,000,308	222%
Litigation management services	29,542	1,260	2245%
Risk management services	218,886	216,190	1%
Administration expenses	118,207	160,025	-26%
Dividends	275,395	482,930	-43%
Total Operating Expenses	<u>5,998,553</u>	<u>5,806,127</u>	3%
Operating Income (loss)	(1,920,634)	(630,533)	205%
Nonoperating Revenues:			
Investment earnings net of fees	<u>652,640</u>	<u>371,640</u>	76%
Increase (Decrease) in Net Position	(1,267,994)	(258,893)	390%
Net Position, Beginning of Year	<u>17,820,288</u>	<u>18,079,181</u>	-1%
Net Position, End of Year	<u>\$ 16,552,294</u>	<u>\$ 17,820,288</u>	-7%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

FINANCIAL INFORMATION BY FUND

Statement of Net Position
June 30, 2016 and 2015

LIABILITY

	<u>2016</u>	<u>2015</u>	<u>2015-2016</u> <u>% Change</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 846,226	\$ 231,593	265%
Receivables	275,177	248,717	11%
Short-term investments	3,065,486	3,080,997	-1%
Total Current Assets	<u>4,186,889</u>	<u>3,561,307</u>	18%
Noncurrent Assets			
Receivables	1,145,571	1,079,332	6%
Investments	16,175,846	15,789,040	2%
Total Non-Current Assets	<u>17,321,417</u>	<u>16,868,372</u>	
Total Assets	<u>21,508,306</u>	<u>20,429,679</u>	5%
LIABILITIES			
Current Liabilities			
Accounts payable	3,325	6,265	-47%
Dividends payable	275,396	482,930	-43%
Current portion of unpaid claims and claim adjustment expenses	2,038,835	1,456,311	40%
Total Current Liabilities	<u>2,317,556</u>	<u>1,945,506</u>	19%
Unpaid claims and claim adjustment expenses, noncurrent portion	8,465,781	6,020,865	41%
Total Liabilities	<u>10,783,337</u>	<u>7,966,371</u>	35%
NET POSITION			
Net Position-unrestricted	10,724,969	12,463,308	-14%
Total Net Position	<u>\$ 10,724,969</u>	<u>\$ 12,463,308</u>	-14%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Statement of Net Position
June 30, 2016 and 2015

WORKERS' COMPENSATION

	<u>2016</u>	<u>2015</u>	2015-2016 % Change
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,285,740	\$ 1,874,289	22%
Receivables	150,438	164,507	-9%
Short-term investments	<u>2,107,457</u>	<u>1,955,124</u>	8%
Total Current Assets	<u>4,543,635</u>	<u>3,993,920</u>	14%
Noncurrent Assets			
Receivables	489,463	1,700,439	-71%
Investments	<u>11,118,214</u>	<u>10,019,324</u>	11%
Total Non-current Assets	<u>11,607,677</u>	<u>11,719,763</u>	
Total Assets	<u>16,151,312</u>	<u>15,713,683</u>	3%
LIABILITIES			
Current Liabilities			
Accounts payable	1,300	1,125	16%
Due members	21,784	252,150	-91%
Current portion of unpaid claims and claim adjustment expenses	<u>1,067,961</u>	<u>1,067,961</u>	0%
Total Current Liabilities	<u>1,091,045</u>	<u>1,321,236</u>	-17%
Unpaid claims and claim adjustment expenses, noncurrent portion	<u>9,232,942</u>	<u>9,035,467</u>	2%
Total Liabilities	<u>10,323,987</u>	<u>10,356,703</u>	0%
NET POSITION			
Net Position-unrestricted	<u>5,827,325</u>	<u>5,356,980</u>	9%
Total Net Position	<u>\$ 5,827,325</u>	<u>\$ 5,356,980</u>	9%

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

LIABILITY

	<u>2016</u>	<u>2015</u>	2015-2016 % Change
Operating Revenues:			
Contributions	\$ 5,903,986	\$ 5,272,750	12%
Contributions-prior year assessments	339,311	-	100%
Excess insurance	(1,260,297)	(1,290,585)	2%
Joint purchase insurance	(2,037,861)	(2,010,600)	-1%
Other	125	125	0%
Total Operating Revenues	<u>2,945,264</u>	<u>1,971,690</u>	49%
Operating Expenses:			
Claims paid	1,552,113	2,942,205	-47%
Provision (credit) for loss reserves	3,027,440	806,529	-275%
Litigation management services	29,542	1,260	2245%
Risk management services	109,443	108,095	1%
Administration expenses	74,642	116,345	-36%
Dividends	275,395	482,930	-43%
Total Operating Expenses	<u>5,068,575</u>	<u>4,457,364</u>	14%
Operating Income (loss)	(2,123,311)	(2,485,674)	-15%
Nonoperating Revenues:			
Investment earnings net of fees	<u>384,972</u>	<u>232,329</u>	66%
Increase (Decrease) in Net Position	(1,738,339)	(2,253,345)	-23%
Net Position, Beginning of Year	<u>12,463,308</u>	<u>14,716,653</u>	-15%
Net Position, End of Year	<u>\$ 10,724,969</u>	<u>\$ 12,463,308</u>	-14%

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years Ended June 30, 2016 and 2015

WORKERS' COMPENSATION

	<u>2016</u>	<u>2015</u>	2015-2016 % Change
Operating Revenues:			
Contributions	\$ 2,522,645	\$ 2,450,887	3%
Contributions-prior year assessments	(1,097,002)	1,211,255	-191%
Excess insurance	(293,113)	(458,363)	36%
Other	125	125	0%
Total Operating Revenues	<u>1,132,655</u>	<u>3,203,904</u>	-65%
Operating Expenses:			
Claims paid	579,495	1,003,209	-42%
Provision (credit) for loss reserves	197,475	193,779	-2%
Risk management services	109,443	108,095	1%
Administration expenses	43,565	43,680	0%
Total Operating Expenses	<u>929,978</u>	<u>1,348,763</u>	-31%
Operating Income (loss)	202,677	1,855,141	-89%
Nonoperating Revenues:			
Investment earnings net of fees	<u>267,668</u>	<u>139,311</u>	92%
Increase (Decrease) in Net Position	470,345	1,994,452	-76%
Net Position, Beginning of Year	<u>5,356,980</u>	<u>3,362,528</u>	59%
Net Position, End of Year	<u>\$ 5,827,325</u>	<u>\$ 5,356,980</u>	9%

CALIFORNIA INSURANCE POOL AUTHORITY
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STATEMENT OF NET POSITION
(With Comparative Totals for the Year Ended June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,131,966	\$ 2,105,882
Receivables	425,615	413,224
Short-term investments	5,172,943	5,036,121
Total Current Assets	<u>8,730,524</u>	<u>7,555,227</u>
Noncurrent Assets		
Receivables	1,635,034	2,779,771
Investments	27,294,060	25,808,364
Total Noncurrent Assets	<u>28,929,094</u>	<u>28,588,135</u>
Total Assets	<u>37,659,618</u>	<u>36,143,362</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	4,625	7,390
Due members	21,784	252,150
Dividends payable	275,396	482,930
Current portion of unpaid claims and claim adjustment expenses	3,106,796	2,524,272
Total Current Liabilities	<u>3,408,601</u>	<u>3,266,742</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	17,698,723	15,056,332
Total Liabilities	<u>21,107,324</u>	<u>18,323,074</u>
 NET POSITION		
Unrestricted	16,552,294	17,820,288
Total Net Position	<u>\$ 16,552,294</u>	<u>\$ 17,820,288</u>

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

CALIFORNIA INSURANCE POOL AUTHORITY
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STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
(With Comparative Totals for the Year Ended June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Contributions	\$ 8,426,631	\$ 7,533,691
Contributions-prior year assessments	(757,691)	1,211,255
Excess insurance	(1,553,410)	(1,559,002)
Joint purchase insurance	<u>(2,037,861)</u>	<u>(2,010,600)</u>
	4,077,669	5,175,344
Other	250	250
Total Operating Revenues	<u>4,077,919</u>	<u>5,175,594</u>
OPERATING EXPENSES		
Claims paid	2,131,608	3,945,414
Provision for loss reserves	3,224,915	1,000,308
Litigation management	29,542	1,260
Risk management services	218,886	216,190
Administration expenses	118,207	160,025
Dividends	<u>275,395</u>	<u>482,930</u>
Total Operating Expenses	<u>5,998,553</u>	<u>5,806,127</u>
Operating Income (loss)	(1,920,634)	(630,533)
NONOPERATING REVENUES		
Investment earnings net of fees	<u>652,640</u>	<u>371,640</u>
(DECREASE) IN NET POSITION	(1,267,994)	(258,893)
NET POSITION, BEGINNING OF YEAR	<u>17,820,288</u>	<u>18,079,181</u>
NET POSITION, END OF YEAR	<u>\$ 16,552,294</u>	<u>\$ 17,820,288</u>

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

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

STATEMENT OF CASH FLOWS
(With Comparative Totals for the Year Ended June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 8,801,536	\$ 8,011,973
Cash paid for claims and settlements	(2,131,608)	(3,954,039)
Cash paid for insurance	(3,591,271)	(3,759,548)
Cash paid to suppliers for goods and services	(369,400)	(410,649)
Cash paid to members	(713,295)	(365,871)
Net Cash Provided (Used) by Operating Activities	<u>1,995,962</u>	<u>(478,134)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(20,735,042)	(24,223,249)
Proceeds from maturities and sales of investment securities	19,112,524	21,902,869
Interest income	652,640	371,640
Net Cash Used by Investing Activities	<u>(969,878)</u>	<u>(1,948,740)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,026,084	(2,426,874)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,105,882</u>	<u>4,532,756</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,131,966</u>	<u>\$ 2,105,882</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating (loss)	<u>\$ (1,920,634)</u>	<u>\$ (630,533)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in receivables	1,132,346	(923,169)
(Decrease) in accounts payable	(2,765)	(33,174)
Increase in claims liabilities	3,224,915	1,000,308
Decrease in claims deposits	-	(8,625)
(Decrease)/Increase in due members/dividends	(437,900)	117,059
Total Adjustments	<u>3,916,596</u>	<u>152,399</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,995,962</u>	<u>\$ (478,134)</u>

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

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description

The California Insurance Pool Authority (CIPA) was formed in 1978, under a Joint Powers Agreement pursuant to the provisions of Chapter 5 (beginning with Section 6500) of Division 7 of Title I of the State of California Government Code. CIPA is to provide risk management by arranging and administering programs for the pooling of self-insured losses and to purchase excess insurance coverage for its members. At June 30, 2016, the membership included thirteen cities.

The municipal liability self-insurance coverage, including automobile liability, arranged by CIPA for the members, includes protection for personal injury, property damage, and errors and omissions. The annual premium paid by each member for the liability program is determined by the actuary for CIPA and approved by the Board of Directors. The liability program is comprised of:

1. Risk-sharing pool - covers members' losses for the difference between the members' self-insured retention (SIR) and \$3,000,000.
2. Insurance-purchasing pool - obtains excess insurance coverage from \$3,000,000 to \$33,000,000.
3. Costs of operations - includes administrative costs.

CIPA offers workers' compensation pooling with SIRs ranging between \$300,000 and \$750,000. CIPA pools members' losses for the difference between each city's SIR and \$3,000,000. The pooled premium is recommended by an actuary and approved by the Board. Effective July 1, 2003, the Board voted not to group purchase Excess Workers' Compensation. Group self-insurance was again approved by the Board effective July 1, 2004.

CIPA also provides a non-risk sharing insurance-purchasing pool for property, employee bonds, and boiler/machinery coverage.

As of June 30, 2016, membership in CIPA was as follows:

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

Admission

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

**CALIFORNIA INSURANCE POOL AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
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Withdrawal/Termination

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

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

B. Description of Fund

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

C. Reporting Entity

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

CIPA has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The criteria include, but are not limited to, whether the entity exercises fiscal accountability (which includes whether CIPA's governing body is substantially the same as a component unit's governing body, or if there is a financial benefit or burden relationship between CIPA and the component unit). CIPA has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in these financial statements.

D. Basis of Accounting

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

**CALIFORNIA INSURANCE POOL AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

E. New GASB Pronouncements

Effective in Current Year

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to clarify the definition of fair value, establish general principles for measuring fair value, and enhancing disclosures about fair value measurements. The Statement is effective for periods beginning after June 15, 2015, or the 2015-2016 fiscal year. This pronouncement was implemented effective July 1, 2015.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The Statement is effective for the periods beginning after June 15, 2015, or the 2015-2016 fiscal year. This pronouncement was implemented effective July 1, 2015.

F. Cash and Cash Equivalents

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

G. Allowance for Doubtful Accounts

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

H. Investment Valuation

CIPA recognizes the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. CIPA reported an unrealized gain in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, during the year ended June 30, 2016 in the amount of \$317,044. The unrealized gain is reported with other investment earnings as part of nonoperating revenues.

I. Claims Liabilities

CIPA establishes claim liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled. Up until June 30, 2000, CIPA provided a claims-made policy whereby coverage is triggered by the reporting of the loss to CIPA, irrespective of the date the loss was actually incurred. Subsequent to June 30, 2000, CIPA provides coverage on an occurrence basis. The estimated amount of aggregate excess insurance recoverable on unpaid claims is deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

J. Unallocated Loss Adjustment Expenses

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

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

K. Operating Revenues

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

L. Contribution Income

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

M. Excess Insurance

Excess liability insurance is purchased above CIPA's self-insured retention of \$2,000,000. For claims that would be covered under CIPA's liability memorandum of coverage, but not covered by an excess carrier, CIPA remains responsible for an uncovered claim up to \$5,000,000.

N. Income Taxes

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

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

O. Use of Estimates

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

P. Comparative Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in CIPA's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CIPA's financial statements for the year ended June 30, 2015, from which this selected financial data was derived. Further, certain minor reclassifications of prior year data have been made in order to enhance its comparability with current year figures.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Balance per bank	\$ 10,049	\$ 151,438
Less: Outstanding checks	<u>(3,395)</u>	<u>(46,856)</u>
Balance per books	6,654	104,582
Cash on hand	<u>1,000</u>	<u>1,000</u>
Cash on hand and in bank	7,654	105,582
Pooled funds:		
Cash in Local Agency Investment Fund	3,102,964	1,956,652
Money Market Funds	<u>21,348</u>	<u>43,648</u>
Total Cash and Equivalents	<u>3,131,966</u>	<u>2,105,882</u>
Investments	<u>32,467,003</u>	<u>30,844,485</u>
Total Cash and Investments	<u><u>\$ 35,598,969</u></u>	<u><u>\$ 32,950,367</u></u>

A. Cash and Equivalents

Cash in Bank

The carrying amount of CIPA's cash is covered by Federal depository insurance up to \$250,000. As of June 30, 2016, CIPA's deposits were not exposed to custodial credit risks.

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Custodial Credit Risk

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

Local Agency Investment Fund

CIPA is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of CIPA's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon CIPA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and reported as cash equivalents in the statement of net position. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. Deposits and withdrawals to and from LAIF are made on the basis of \$1 and not at fair value. Accordingly, under the fair value hierarchy, the investment with LAIF is uncategorized.

The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. The value of the LAIF deposits as of June 30, 2016, was \$3,102,964 and had a weighted average maturity of 167 days. LAIF is not rated as to credit risk by a nationally recognized statistical rating organization.

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

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

B. Investments

Authorized Deposits/Investments

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

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

*LAIF has a \$50 million maximum investment limit per account

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. CIPA's investment policy contains policy requirements that would limit the exposure to custodial credit risk for investments. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of CIPA's bank or other trustee. Securities are to be held in the name of CIPA, and are to be purchased on a delivery vs. payment (DVP) basis only. Investments with various federal agencies, commercial paper, mortgage obligations, asset backed securities, and corporate notes with a fair value of \$32,467,003 at June 30, 2016, are held by CIPA's custodian bank.

Disclosures Relating to Interest Rate Risk

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

**CALIFORNIA INSURANCE POOL AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

As of June 30, 2016, CIPA had the following investments:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasury Obligations	\$ 7,470,795	\$ 1,247,677	\$ 1,063,979	\$ 5,159,139
U.S. Agency Securities	15,354,134	2,813,937	5,075,642	7,464,555
Mortgage Obligations/Asset Backed Securities	2,168,530	-	565,345	1,603,185
Corporate Notes	7,473,544	1,111,329	4,151,193	2,211,022
Total	\$ 32,467,003	\$ 5,172,943	\$ 10,856,159	\$ 16,437,901

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

	2016	2015
Short-Term Investments	\$ 5,172,943	\$ 5,036,121
Long-Term Investments	27,294,060	25,808,364
Total Investments	\$ 32,467,003	\$ 30,844,485

Disclosures Relating to Credit Risk

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

Investment Type	Fair Value	S&P/Moody's Minimum Legal Rating	Exempt from Disclosure	Ratings as of June 30:			
				Aaa*	Aa1-Aa3	A1	A2
U.S. Treasury Obligations	\$ 7,470,795	N/A	\$ 7,470,795	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	15,354,134	N/A	-	15,354,134	-	-	-
Mortgage Obligations/Asset Backed Securities*	2,168,530	AA/Aa2	-	2,168,530	-	-	-
Corporate Notes	7,473,544	A/A2	-	399,691	2,022,986	3,435,391	1,615,476
Total	\$ 32,467,003		\$ 7,470,795	\$ 17,922,355	\$ 2,022,986	\$ 3,435,391	\$ 1,615,476

*\$524,556 of securities rated as AAA by S&P, but not rated by Moody's

Concentration of Credit Risk

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

Issuer	Investment Type	Fair Value
Federal Farm Credit Banks	U.S. Agency Securities	\$ 1,821,734
Federal Home Loan Banks	U.S. Agency Securities	3,801,274
Federal National Mortgage Association	U.S. Agency Securities	4,897,592
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	4,542,624

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Fair Value Measurements

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

Investments' fair value measurements as of June 30, 2016 are as follows:

Investment Type	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Obligations	\$ 7,470,795	\$ -	\$ 7,470,795	\$ -
U.S. Agency Securities	15,354,134	-	15,354,134	-
Mortgage Obligations/Asset Backed Securities	2,168,530	-	2,168,530	-
Corporate Notes	7,473,544	-	7,473,544	-
Total	<u>\$ 32,467,003</u>	<u>\$ -</u>	<u>\$ 32,467,003</u>	<u>\$ -</u>

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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, consisted of the following:

Interest receivable	\$ 5,097
Member assessments	2,055,552
Total Accounts Receivable	<u>2,060,649</u>
Member assessments considered long-term receivables	(1,635,034)
Short-term Accounts Receivable	<u>\$ 425,615</u>

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

Claims	\$ 4,625
Total Accounts Payable	<u>\$ 4,625</u>

NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY

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

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	<u>\$ 17,580,604</u>	<u>\$ 16,580,296</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	4,569,058	3,754,762
Increase in provision for insured events of prior fiscal years	<u>787,465</u>	<u>1,190,960</u>
Total incurred claims and claim adjustment expenses	<u>5,356,523</u>	<u>4,945,722</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>2,131,608</u>	<u>3,945,414</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 20,805,519</u>	<u>\$ 17,580,604</u>

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

	<u>2016</u>	<u>2015</u>
Claims liability	\$ 20,805,519	\$ 17,580,604
Current portion	<u>(3,106,796)</u>	<u>(2,524,272)</u>
Total	<u>\$ 17,698,723</u>	<u>\$ 15,056,332</u>

At June 30, 2016 and 2015, estimated unpaid losses of \$22,772,935 and \$19,348,122, respectively, are reflected at their net present values of \$20,805,519 and \$17,580,604, respectively. At June 30, 2016 and 2015, unpaid losses are discounted at three percent.

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Litigation

CIPA is involved in various litigation from time to time arising from the normal course of business. In the opinion of management and legal counsel, CIPA is not involved in any litigation that is expected to have a material adverse effect on the overall financial position of CIPA at June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA INSURANCE POOL AUTHORITY
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RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE
JUNE 30, 2016

	Liability	
	Current Year	Prior Year
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 7,477,176	\$ 6,670,647
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,586,954	2,124,337
Increase (decrease) in provision for insured events of prior fiscal years	1,992,599	1,624,397
Total incurred claims and claim adjustment expenses	<u>4,579,553</u>	<u>3,748,734</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,552,113</u>	<u>2,942,205</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 10,504,616</u>	<u>\$ 7,477,176</u>

Workers' Compensation		Total	
Current Year	Prior Year	Current Year	Prior Year
<u>\$ 10,103,428</u>	<u>\$ 9,909,649</u>	<u>\$ 17,580,604</u>	<u>\$ 16,580,296</u>
1,982,104	1,630,425	4,569,058	3,754,762
(1,205,134)	(433,437)	787,465	1,190,960
<u>776,970</u>	<u>1,196,988</u>	<u>5,356,523</u>	<u>4,945,722</u>
<u>579,495</u>	<u>1,003,209</u>	<u>2,131,608</u>	<u>3,945,414</u>
<u><u>\$ 10,300,903</u></u>	<u><u>\$ 10,103,428</u></u>	<u><u>\$ 20,805,519</u></u>	<u><u>\$ 17,580,604</u></u>

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CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2016

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

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TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –
LIABILITY PROGRAM
JUNE 30, 2016

	June 30, 2007	2008	2009	2010	2011
(1) Required Contribution and Investment Revenue:					
Earned	\$ 6,443,763	\$ 6,031,019	\$ 5,284,065	\$ 5,300,698	\$ 6,233,743
Dividends	(1,909,032)	(1,537,535)	-	(482,930)	(421,547)
Ceded	(3,775,356)	(3,474,613)	(2,610,367)	(2,872,267)	(2,653,752)
Net earned	<u>759,375</u>	<u>1,018,871</u>	<u>2,673,698</u>	<u>1,945,501</u>	<u>3,158,444</u>
(2) Unallocated Expenses	<u>167,163</u>	<u>210,669</u>	<u>160,750</u>	<u>184,739</u>	<u>184,975</u>
(3) Estimated Claims and Expenses, End of Policy Year:					
Incurred	1,634,326	1,300,643	2,491,264	1,313,205	2,647,225
Ceded					
Net incurred	<u>1,634,326</u>	<u>1,300,643</u>	<u>2,491,264</u>	<u>1,313,205</u>	<u>2,647,225</u>
(4) Net Paid (cumulative as of):					
June 30, 2007	-	-	-	-	-
June 30, 2008	-	-	-	-	-
June 30, 2009	863,152	-	-	-	-
June 30, 2010	863,152	-	-	-	-
June 30, 2011	2,043,518	-	167,530	-	-
June 30, 2012	2,043,518	-	167,530	-	433,532
June 30, 2013	2,043,518	-	167,530	184,698	433,532
June 30, 2014	2,043,518	86,078	167,530	358,147	2,156,064
June 30, 2015	2,046,268	86,337	311,728	467,934	3,076,502
June 30, 2016	2,046,268	86,337	325,880	1,207,476	3,089,344
(5) Re-Estimated Ceded Claims and Expenses					
(6) Re-Estimated Net Incurred Claims and Expenses:					
June 30, 2007	1,634,326	-	-	-	-
June 30, 2008	2,338,484	1,300,643	-	-	-
June 30, 2009	1,576,230	1,324,884	2,491,264	-	-
June 30, 2010	2,752,648	895,025	1,842,185	1,313,205	-
June 30, 2011	2,043,518	481,879	2,005,301	610,869	2,647,225
June 30, 2012	2,043,518	174,234	803,316	1,078,417	3,651,306
June 30, 2013	2,043,518	-	167,530	1,123,251	3,407,276
June 30, 2014	2,043,518	86,078	251,125	847,006	3,761,321
June 30, 2015	2,046,268	97,547	492,433	1,219,669	3,408,348
June 30, 2016	2,046,268	86,912	505,633	1,459,923	3,478,013
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (411,942)</u>	<u>\$ 1,213,731</u>	<u>\$ 1,985,631</u>	<u>\$ (146,718)</u>	<u>\$ (830,788)</u>

2012	2013	2014	2015	2016
\$ 5,002,193	\$ 4,773,505	\$ 5,934,271	\$ 5,505,079	\$ 6,628,269
(421,548)	(421,549)	(482,930)	(482,930)	(275,395)
(3,026,555)	(2,989,114)	(3,281,099)	(3,301,185)	(3,298,158)
1,554,090	1,362,842	2,170,242	1,720,964	3,054,716
231,102	232,446	195,955	225,700	213,627
1,654,749	1,990,342	2,039,108	2,124,337	2,586,954
1,654,749	1,990,342	2,039,108	2,124,337	2,586,954
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
21,799	-	-	-	-
1,847,035	21,799	-	-	-
1,860,032	112,359	-	47,177	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,654,749	-	-	-	-
1,317,569	1,990,342	-	-	-
1,553,266	1,309,025	2,039,108	-	-
2,514,214	1,599,713	2,277,242	2,124,337	-
2,287,385	3,451,186	1,503,056	2,505,722	2,586,954
\$ (632,636)	\$ (1,460,844)	\$ 536,052	\$ (381,385)	\$ -

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –
WORKERS' COMPENSATION PROGRAM
JUNE 30, 2016

	June 30, 2007	2008	2009	2010	2011
(1) Required Contribution and Investment Revenue:					
Earned	\$ 2,074,549	\$ 2,044,712	\$ 1,848,379	\$ 1,637,996	\$ 2,456,590
Dividends					
Ceded	(423,481)	(368,016)	(333,662)	(342,476)	(242,957)
Net earned	<u>1,651,068</u>	<u>1,676,696</u>	<u>1,514,717</u>	<u>1,295,520</u>	<u>2,213,633</u>
(2) Unallocated Expenses	<u>145,339</u>	<u>276,754</u>	<u>164,922</u>	<u>145,681</u>	<u>147,301</u>
(3) Estimated Claims and Expenses, End of Policy Year:					
Incurred	939,804	793,412	611,268	620,509	2,694,249
Ceded	-	-	-	-	-
Net incurred	<u>939,804</u>	<u>793,412</u>	<u>611,268</u>	<u>620,509</u>	<u>2,694,249</u>
(4) Net Paid (cumulative as of):					
June 30, 2007	-	-	-	-	-
June 30, 2008	18,207	-	-	-	-
June 30, 2009	191,328	-	-	-	-
June 30, 2010	296,144	-	-	-	-
June 30, 2011	453,138	10,867	-	-	-
June 30, 2012	562,696	42,691	-	-	-
June 30, 2013	656,496	84,261	17,434	-	-
June 30, 2014	978,807	116,266	311,071	-	-
June 30, 2015	1,257,541	190,010	705,413	-	43,333
June 30, 2016	1,461,903	236,511	766,342	-	94,429
(5) Re-Estimated Ceded Claims and Expenses					
(6) Re-Estimated Net Incurred Claims and Expenses:					
June 30, 2007	939,804	-	-	-	-
June 30, 2008	1,306,876	793,412	-	-	-
June 30, 2009	1,181,824	482,925	611,268	-	-
June 30, 2010	1,381,160	173,200	382,870	620,509	-
June 30, 2011	1,353,055	454,861	1,563,216	1,117,853	2,694,249
June 30, 2012	1,165,912	542,909	3,334,101	1,016,334	1,019,759
June 30, 2013	1,280,003	398,828	2,810,023	669,442	880,057
June 30, 2014	1,286,919	488,006	2,151,159	637,175	732,173
June 30, 2015	1,952,630	581,452	1,862,782	655,103	766,770
June 30, 2016	2,368,448	769,135	1,448,781	619,998	668,416
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (1,428,644)</u>	<u>\$ 24,277</u>	<u>\$ (837,513)</u>	<u>\$ 511</u>	<u>\$ 2,025,833</u>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 2,300,450	\$ 1,696,012	\$ 2,057,613	\$ 3,801,453	\$ 1,693,311
<u>(203,397)</u>	<u>(426,307)</u>	<u>(406,157)</u>	<u>(458,363)</u>	<u>(293,113)</u>
<u>2,097,053</u>	<u>1,269,705</u>	<u>1,651,456</u>	<u>3,343,090</u>	<u>1,400,198</u>
<u>156,249</u>	<u>135,295</u>	<u>139,883</u>	<u>151,775</u>	<u>153,008</u>
1,306,328	862,234	1,367,907	1,630,425	1,982,104
-	-	-	-	-
<u>1,306,328</u>	<u>862,234</u>	<u>1,367,907</u>	<u>1,630,425</u>	<u>1,982,104</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,692	-	258,457	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,306,328	-	-	-	-
871,245	862,234	-	-	-
1,207,638	1,162,429	1,367,907	-	-
984,359	876,466	921,243	1,630,425	-
1,120,076	779,083	919,974	1,219,075	1,982,104
<u>\$ 186,252</u>	<u>\$ 83,151</u>	<u>\$ 447,933</u>	<u>\$ 411,350</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016

	Liability	Workers' Compensation	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 846,226	\$ 2,285,740	\$ 3,131,966
Receivables	275,177	150,438	425,615
Short-term investments	3,065,486	2,107,457	5,172,943
Total Current Assets	<u>4,186,889</u>	<u>4,543,635</u>	<u>8,730,524</u>
Noncurrent Assets			
Receivables	1,145,571	489,463	1,635,034
Investments	16,175,846	11,118,214	27,294,060
Total Noncurrent Assets	<u>17,321,417</u>	<u>11,607,677</u>	<u>28,929,094</u>
Total Assets	<u>21,508,306</u>	<u>16,151,312</u>	<u>37,659,618</u>
LIABILITIES			
Current Liabilities			
Accounts payable	3,325	1,300	4,625
Due members	-	21,784	21,784
Dividends payable	275,396	-	275,396
Current portion of unpaid claims and claim adjustment expenses	2,038,835	1,067,961	3,106,796
Total Current Liabilities	<u>2,317,556</u>	<u>1,091,045</u>	<u>3,408,601</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	8,465,781	9,232,942	17,698,723
Total Liabilities	<u>10,783,337</u>	<u>10,323,987</u>	<u>21,107,324</u>
NET POSITION			
Unrestricted	<u>10,724,969</u>	<u>5,827,325</u>	<u>16,552,294</u>
Total Net Position	<u>\$ 10,724,969</u>	<u>\$ 5,827,325</u>	<u>\$ 16,552,294</u>

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Liability	Workers' Compensation	Total
OPERATING REVENUES			
Contributions	\$ 5,903,986	\$ 2,522,645	\$ 8,426,631
Contributions-prior year assessments	339,311	(1,097,002)	(757,691)
Excess insurance	(1,260,297)	(293,113)	(1,553,410)
Joint purchase insurance	(2,037,861)	-	(2,037,861)
	2,945,139	1,132,530	4,077,669
Other	125	125	250
Total Operating Revenues	<u>2,945,264</u>	<u>1,132,655</u>	<u>4,077,919</u>
OPERATING EXPENSES			
Claims paid	1,552,113	579,495	2,131,608
Provision for loss reserves	3,027,440	197,475	3,224,915
Litigation management	29,542	-	29,542
Risk management services	109,443	109,443	218,886
Administration expenses	74,642	43,565	118,207
Dividends	275,395	-	275,395
Total Operating Expenses	<u>5,068,575</u>	<u>929,978</u>	<u>5,998,553</u>
Operating Income (loss)	(2,123,311)	202,677	(1,920,634)
NONOPERATING REVENUES			
Investment earnings net of fees	384,972	267,668	652,640
INCREASE (DECREASE) IN NET POSITION	(1,738,339)	470,345	(1,267,994)
NET POSITION, BEGINNING OF YEAR	<u>12,463,308</u>	<u>5,356,980</u>	<u>17,820,288</u>
NET POSITION, END OF YEAR	<u>\$ 10,724,969</u>	<u>\$ 5,827,325</u>	<u>\$ 16,552,294</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Insurance Pool Authority (CIPA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise CIPA's basic financial statements, and have issued our report thereon dated September 30, 2016. Our report included an emphasis of matter related to CIPA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of July 1, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Laguna Hills, California
September 30, 2016

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

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2016**

None reported.

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

None reported.