

**CALIFORNIA JOINT POWERS  
INSURANCE AUTHORITY**

**Financial Statements**

Year Ended June 30, 2010  
(With Independent Auditors' Report Thereon)

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**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Financial Statements**

Year Ended June 30, 2010

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Board of Directors  
California Joint Powers Insurance Authority  
La Palma, California

### Independent Auditors' Report

We have audited the accompanying financial statements of the California Joint Powers Insurance Authority, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the California Joint Powers Insurance Authority. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Authority for the year ended June 30, 2009 and, in our report dated January 7, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Joint Powers Insurance Authority, as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In order to comply with GASB 51, the Authority changed its method of accounting for intangible assets relating to software development projects. This change began with the fiscal year ended June 30, 2010 and is described further in note 3 to the basic financial statements.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors  
California Joint Powers Insurance Authority  
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In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2011 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McLean P.C.*

Irvine, California  
January 26, 2011

## Management's Discussion and Analysis

As management of the California Joint Powers Insurance Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2010. This report is provided in order to enhance the information in the financial statements, and should be reviewed in concert with them, as well as the accompanying notes and supplementary information.

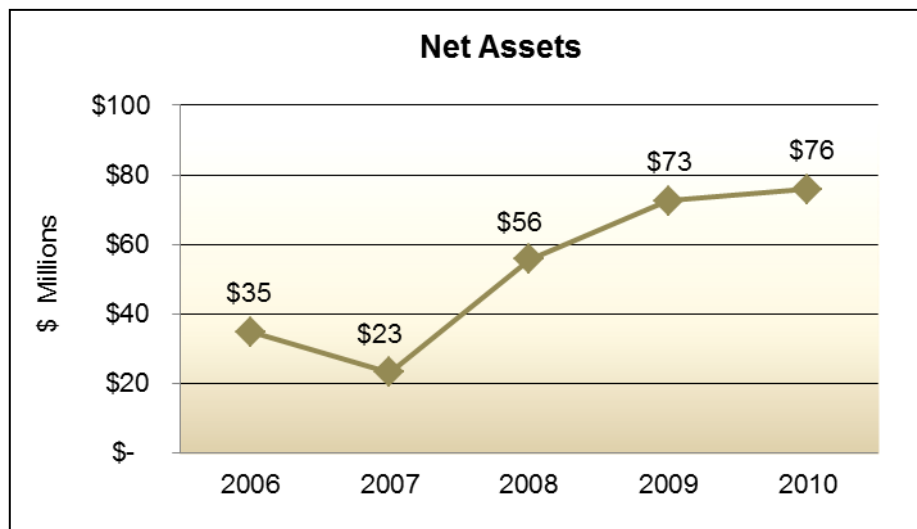
### Background and Governance

The Authority was created in 1977 under a joint exercise of powers agreement with thirty-three members in accordance with the California Government Code Section 6500, et seq. As of June 30, 2010 the Authority consisted of one hundred twenty-two participating member agencies including ninety-eight cities, sixteen joint powers authorities, and eight special districts. The Authority was created to provide programs to protect its members, their officers, employees, and property against unavoidable losses through pooling of losses, self-insurance, and purchasing insurance. The Authority is governed by a Board of Directors, consisting of one elected official appointed by each member agency, and by an Executive Committee of the Board of Directors.

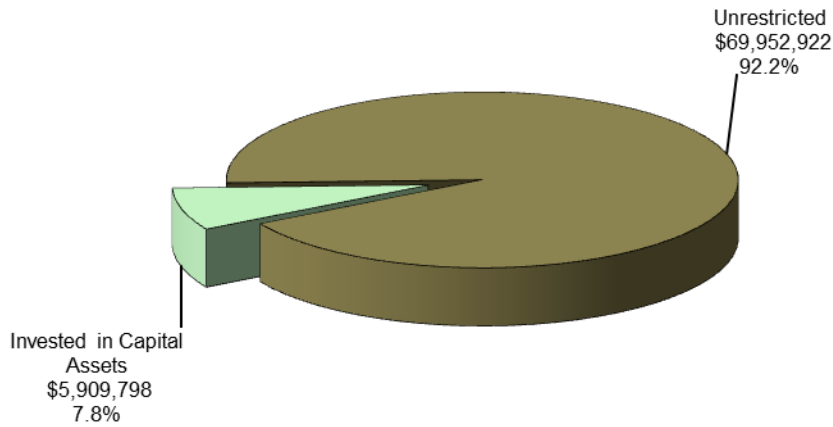
### Financial Highlights, Fiscal Year 2010

#### *Net Assets*

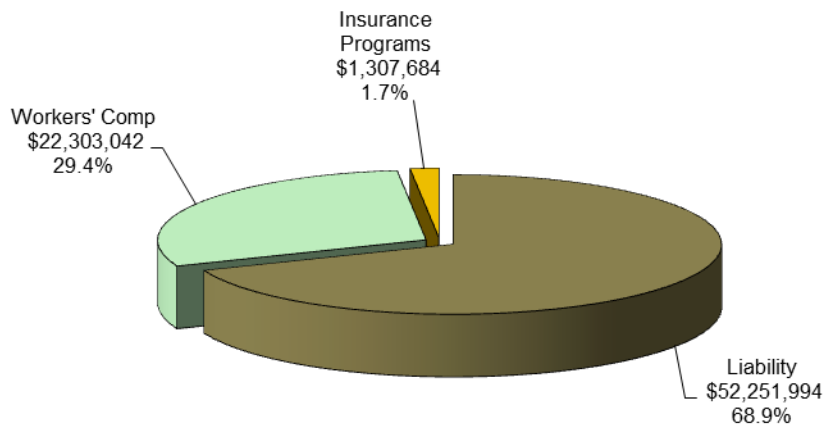
During the 2010 fiscal year, the Authority's net assets increased \$3 million from a beginning balance of \$73 million to an ending balance of \$76 million, an increase of 4.5 percent. This increase is the result of operations including all financial activity during 2010. The following charts display: (1) a five-year history of the Authority's net asset position, (2) net assets by type, and (3) net assets by fund.



### Net Assets by Type at June 30, 2010



### Net Assets by Fund at June 30, 2010

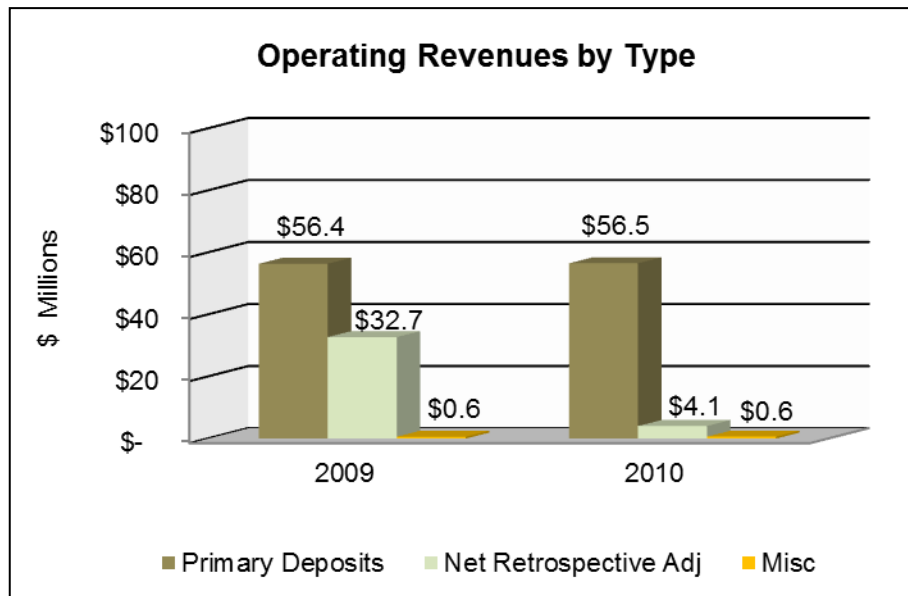


### Revenues

Total operating revenues for 2010 were \$61 million compared to \$90 million in 2009. Operating revenues include primary deposits, net retrospective adjustments, and miscellaneous revenues. Primary deposits earned for 2010 were \$57 million, which represents no material change from the primary deposits received in the preceding year. However, retrospective adjustments were considerably lower year over year. On a consolidated basis, retrospective adjustments for 2010 totaled \$4 million. This is a reduction of 88 percent when compared to retrospective adjustments totaling \$33 million in 2009.

When there is a change to the Authority's loss development reserve for incurred claims, this change is reflected within the net retrospective adjustment. Generally, when claims development is favorable, net retrospective adjustments yield refunds to members. On the Authority's Statement of Revenues, Expenses, and Changes in Net Assets, refunds are shown as negative net retrospective adjustments. Refunds decrease operating revenues.

In contrast, when claims development is adverse, net retrospective adjustments yield additional deposits from members. Deposits are shown as positive net retrospective adjustments, which increase the Authority's operating revenues. Retrospective adjustments for the past two years are displayed in the following chart, along with other operating revenues by type.



### Expenses

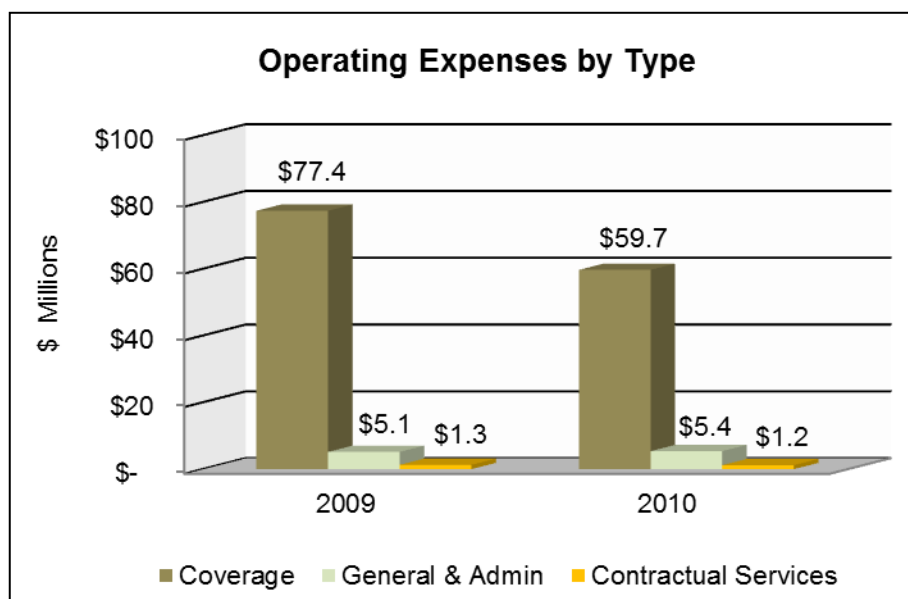
Total operating expenses were \$66.2 million in 2010. This was a 21 percent decrease year over year. Operating expenses are divided into three categories: (1) coverage, (2) general and administrative, and (3) contractual services. The most significant contributing factor to the decrease in operating expenses in 2010 was the reduction in claim reserves. Claim reserves are a sub-category under coverage expenses, and are determined by an actuarial study.

Claim reserves are shown on the Statement of Net Assets as claims payable and represent the Authority's largest financial obligation. On a consolidated basis claim reserves were \$158.5 million at the beginning of the 2010 fiscal year, and \$149.8 million at year end. This reduction in claim reserves drove down the cost of coverage by \$8.8 million which is reported as a credit to incurred claims and claim adjustment expenses on the Statement of Revenues, Expenses and Changes in Net Assets.

Excess and re-insurance premiums are also a significant part of the cost of coverage. In 2010 the Authority paid \$7.9 million in excess and re-insurance premiums, compared to \$6.7 million in the prior year. This is a 19 percent increase year over year. While insurance market conditions impact the cost of excess and re-insurance, in 2010 the increase was primarily attributable to the Authority's loss history at the time of the policy renewal.

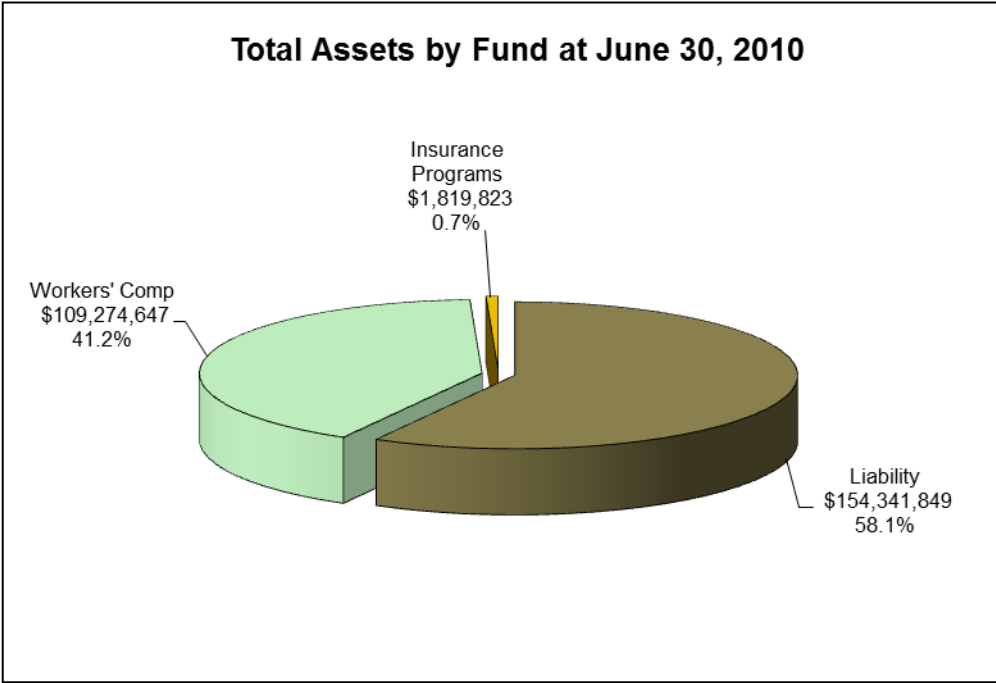
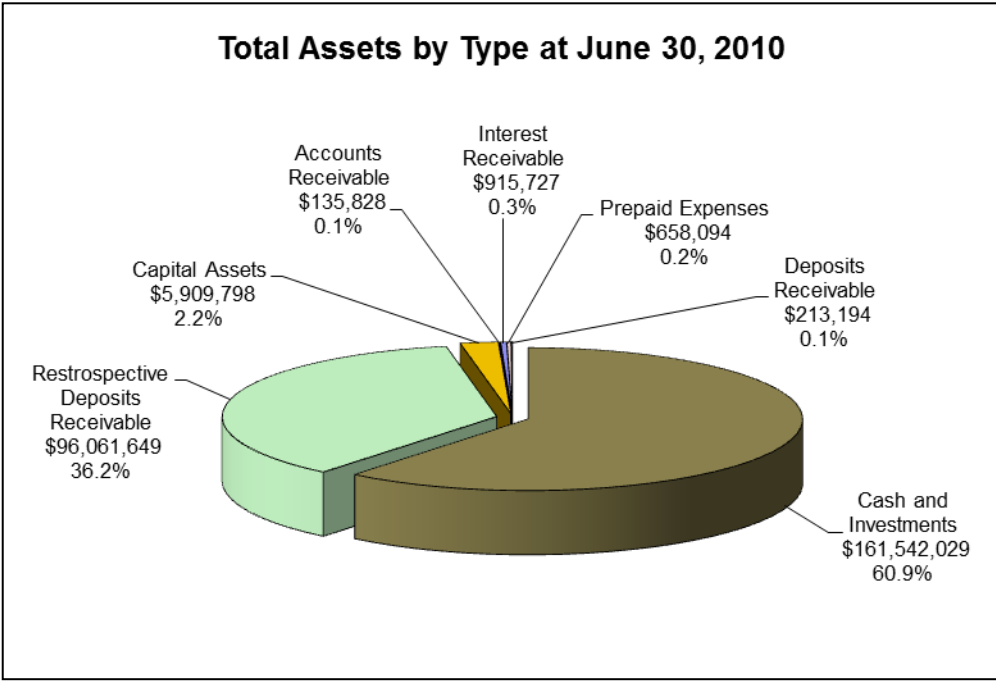
Excess and re-insurance premiums are related to policy periods which may have different contractual terms and conditions; therefore conclusions regarding the relative value of each contract require a comprehensive analysis of self-insured retention levels, annual aggregate deductibles, quota sharing agreements, exclusions, and other elements of the risk transfer agreements being compared from year to year. This reference to excess and re-insurance premiums is simply intended to state the amounts paid to third parties without consideration of the comparability of coverage terms and conditions.

Overall, the coverage category of expenses totaled \$59.7 million in 2010, which was 23 percent lower than the prior year's total coverage expenses of \$77.4 million. In 2010 general and administrative expenses totaled \$5.4 million, an increase of 4 percent from 2009, which had general and administrative expenses of \$5.1 million. In 2010 the cost of contractual services totaled \$1.2 million. This was a decrease of 8 percent from the previous year, which had contractual services totaling \$1.3 million. The following chart shows operating expenses by type, along with a prior year comparison.



### Assets

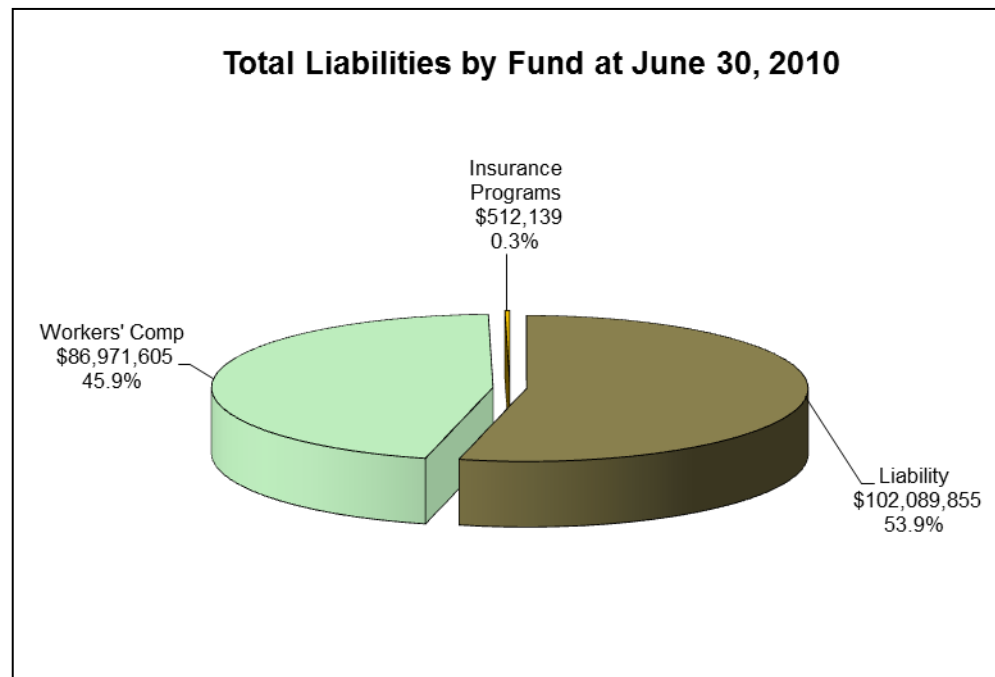
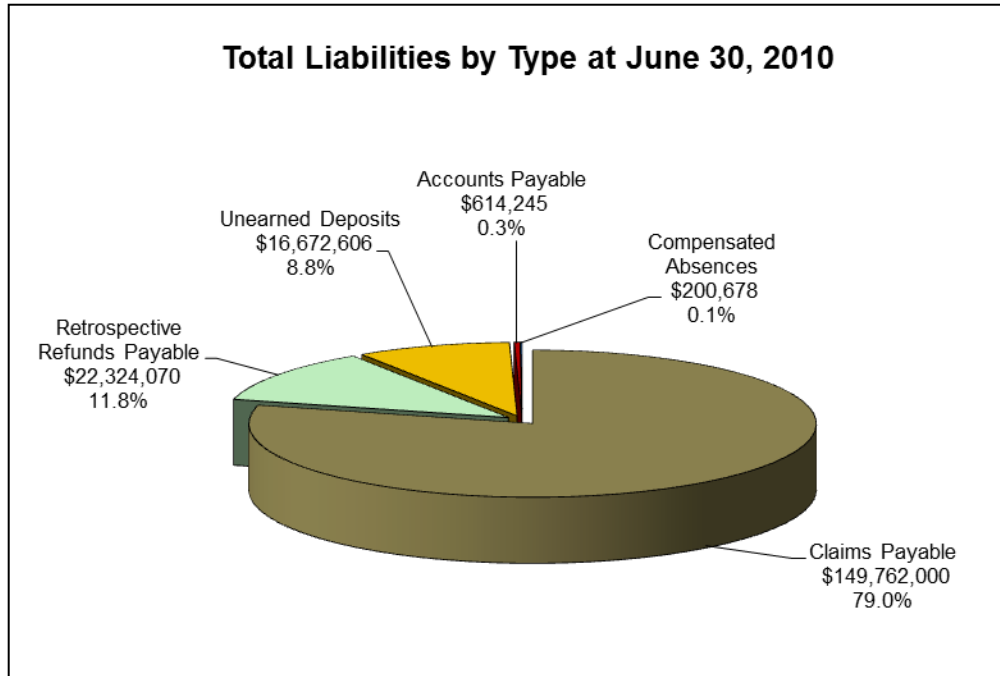
Total assets as of June 30, 2010 were \$265 million. This represents a 6 percent decrease from the previous year, which had total assets of \$283 million. Current and non-current net retrospective deposits receivable from members totaled \$96 million. When this amount is combined with the retrospective refunds payable to members of \$22 million, the resulting overall net receivable due to the Authority for all retrospective deposit activity is \$74 million as of June 30, 2010. Footnote 5 provides a schedule showing this information for each program individually. The charts below show total assets by type, and by fund, both of which include retrospective deposits receivable.



**Liabilities**

Total liabilities as of June 30, 2010 were \$190 million. This was a 10 percent decrease from the previous year, which had total liabilities of \$211 million. The liability for claims payable was \$150 million as of June 30, 2010. This was a 6 percent decrease from the previous year. The estimate for claims payable was determined through an actuarial study conducted by a qualified independent consultant.

The actuarial study was based on an analysis of claims activity through June 30, 2010. Additional information regarding claims payable is available in note 4 to the basic financial statements. The first chart below shows this liability type along with all other liability types, and the second chart shows total liabilities by fund.



## **Financial Highlights by Fund**

All of the operating funds of the Authority are considered enterprise funds for the reporting of financial statements, and are presented on an accrual basis of accounting.

### *Liability*

The liability fund accounts for all the revenues and expenses related to the liability program. During 2010, its net assets increased by \$887,300 from a beginning balance of \$51.4 million to an ending balance of \$52.3 million.

The total cost of coverage for the liability program was \$41.8 million in 2010 compared to \$55.1 million in 2009. The primary factor driving the decrease was the change in claim reserves. Liability program claim reserves decreased by \$8.6 million in 2010. This change is reported as part of incurred claims and claims adjustment expense.

During 2010, net retrospective adjustments were \$9.2 million in additional deposits due from members. Two of the most significant contributing factors were: (1) adverse claims development among police claims incurred during the 2007 coverage year, and (2) pass through costs of excess and re-insurance premiums incurred during 2010. These retrospective expenses were partially off-set by \$8.7 million in favorable claims development on claims incurred in 2005, 2008, and 2009. Police and non-police claims are pooled separately.

### *Workers' Compensation*

The workers' compensation fund accounts for all the revenues and expenses related to the workers' compensation program. During 2010, its net assets increased by \$1.2 million from a beginning balance of \$21.1 million to an ending balance of \$22.3 million.

The total cost of coverage for the workers' compensation program was \$17.9 million in 2010 compared to \$22.3 million in 2009. The primary factor driving the decrease was the change in claim reserves. Workers' compensation program claim reserves decreased by \$144,000 in 2010 while the preceding fiscal year experienced a \$4.1 million increase in claim reserves.

During 2010, net retrospective adjustments were \$5.1 million in refunds due to members. This can be attributed to claims development trending better than expected, particularly in the 2006 and 2007 coverage years. Favorable severity development of indemnity costs and medical costs, are primarily responsible for driving this decrease in the program's actuarial estimate of ultimate losses.

### *Insurance Programs*

The fund for insurance programs accounts for all the revenues and expenses related to the all-risk property protection program, and the pollution legal liability program (formerly called the environmental liability program). Net assets for insurance programs increased in 2010 by \$1.1 million from a beginning balance of \$175,081 to an ending balance of \$1.3 million.

This increase was caused by reimbursements received from commercial insurers for property claim payments made by the Authority in excess of the contractual annual aggregate deductible on policies held over several years. These reimbursements were not estimated or recognized as a receivable in the prior year's financial statements due to a lack of available data at the time those financial statements were prepared.

## Agency Funds

The Agency Fund accounts for all the assets and liabilities related to the Central Coast Cities Self Insurance Fund for Workers' Compensation, which was established for tail claims occurring before July 1, 2004.

The Authority provides administrative consulting services to the Liability Trust Fund (LTF); however the Authority is compensated on a fee for service basis and does not maintain custody of LTF assets. As such, Agency Funds do not include assets or liabilities owned by LTF.

### A Summary of the Authority's Statement of Net Assets

	Consolidated			
	2010	2009	Increase/ (Decrease)	% Change
<b>Assets</b>				
Current Assets	\$ 163,464,872	\$ 179,266,737	\$ (15,801,865)	-9%
Non-Current Assets	101,971,447	104,048,036	(2,076,589)	-2%
Total Assets	265,436,319	283,314,773	(17,878,454)	-6%
<b>Liabilities</b>				
Current Liabilities	20,548,730	22,778,444	(2,229,714)	-10%
Non-Current Liabilities	169,024,869	187,912,416	(18,887,547)	-10%
Total Liabilities	189,573,599	210,690,860	(21,117,261)	-10%
<b>Net Assets</b>				
Invested in Capital Assets	5,909,798	5,837,783	72,015	1%
Unrestricted	69,952,922	66,786,130	3,166,792	5%
Total Net Assets	\$ 75,862,720	\$ 72,623,913	\$ 3,238,807	4%

**A Summary of the Authority's  
Statement of Revenues, Expenses, and Changes in Net Assets**

	<b>Consolidated</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>% Change</b>
<b>Operating revenues</b>				
Deposits earned	\$56,538,342	\$56,372,124	\$ 166,218	0%
Retrospective adjustments, net	4,063,899	32,744,860	(28,680,961)	-88%
Miscellaneous	619,988	608,558	11,430	2%
<b>Total operating revenues</b>	<b>61,222,229</b>	<b>89,725,542</b>	<b>(28,503,313)</b>	<b>-32%</b>
<b>Operating expenses</b>				
Coverage	59,670,088	77,370,242	(17,700,154)	-23%
Contractual services	1,173,973	1,272,306	(98,333)	-8%
General and administrative	5,375,516	5,147,893	227,623	4%
<b>Total operating expenses</b>	<b>66,219,577</b>	<b>83,790,441</b>	<b>(17,570,864)</b>	<b>-21%</b>
<b>Operating income (loss)</b>	<b>(4,997,348)</b>	<b>5,935,101</b>	<b>(10,932,449)</b>	<b>-184%</b>
<b>Non-operating revenues &amp; (expenses)</b>				
Investment income	5,256,597	7,746,236	(2,489,639)	-32%
Unrealized gain (loss) on investments	1,935,836	3,281,785	(1,345,949)	-41%
Insurance programs-revenues	9,194,267	8,221,142	973,125	12%
Insurance programs-premiums paid	(8,799,608)	(7,820,767)	(978,841)	13%
Insurance programs-property claim payments	649,063	(439,051)	1,088,114	-248%
Insurance programs-broker fees	-	(50,000)	50,000	-100%
<b>Total non-operating revenues &amp; (expenses)</b>	<b>8,236,155</b>	<b>10,939,345</b>	<b>(2,703,190)</b>	<b>-25%</b>
<b>Change in net assets</b>	<b>3,238,807</b>	<b>16,874,446</b>	<b>(13,635,639)</b>	<b>-81%</b>
<b>Beginning net assets</b>	<b>72,623,913</b>	<b>55,749,467</b>	<b>16,874,446</b>	<b>30%</b>
<b>Ending net assets</b>	<b>\$75,862,720</b>	<b>\$72,623,913</b>	<b>\$ 3,238,807</b>	<b>4%</b>

**Net Asset Designations**

*Invested in Capital Assets*

“Invested in capital assets” is the net asset designation for fixed assets including land, buildings, office equipment, and software qualified under GASB 51 guidelines. Items subject to depreciation are reported net of depreciation on the Statement of Net Assets.

## *Unrestricted*

“Unrestricted” is the net asset designation for the liability of incurred claims in excess of the 50 percent (expected) probability level. Unrestricted net assets may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

## **Description of the Basic Financial Statements**

The Authority’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, using the accrual basis of accounting, which necessarily include amounts based upon reliable estimates and judgments. The basic financial statements are designed to provide readers with a broad overview of the Authority’s finances, in a manner similar to a private-sector business.

The Basic Financial Statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Statement of Fiduciary Assets and Liabilities, are included along with Notes to the Basic Financial Statements and Required Supplementary Information to clarify unique accounting policies and financial information. Both the Notes to the Basic Financial Statements and the Required Supplementary Information are essential to a comprehensive understanding of this report.

### Statement of Net Assets

The Statement of Net Assets presents information on all of the Authority’s assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the pool’s financial condition.

### Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing revenues versus expenses during the fiscal year, and the resulting effect on net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Some revenues and expenses are reported in this statement with related cash flows that will take place in future fiscal periods.

### Statement of Cash Flows

The Statement of Cash Flows presents information showing how the Authority’s cash was provided and how it was used. The statement distinguishes between cash flows from: operating activities, capital and related financing activities, and investing activities. The statement also reconciles the operating income to net cash provided by operating activities during the fiscal year.

### Statement of Fiduciary Assets and Liabilities

The Statement of Fiduciary Assets and Liabilities presents information on all the assets and liabilities of the Authority’s agency funds. Agency funds are used to account for situations where the Authority’s role is purely custodial. All assets reported in agency funds are offset by a liability, accordingly there are no net assets reported in agency funds.

## **Cost Containment Strategies**

The Authority considers cost containment to be a high priority, as evidenced by the implementation of innovative cost containment programs designed to assist member agencies in preventing claims, and minimizing the cost of claims when they do occur.

The Authority regards training as an integral component of loss prevention and offers a robust training program to its members including academies and workshops. Academies are multi-day training opportunities that focus on a particular public sector discipline. They present essential theories and techniques, and provide practical risk management solutions to public agency managers and elected officials. Workshops generally offer single-day training events which meet Cal-OSHA requirements and teach best risk management practices on a wide variety of topics.

The Loss Control Action Plan (LossCAP) is another tool that is central to our cost containment efforts. LossCAP is a comprehensive, customized risk management action plan developed in collaboration with each member agency's staff. It is based on an analysis of historical loss data as well as physical on-site inspections. The LossCAP program identifies the most critical loss exposures unique to each member, and presents a strategy to assist them in effectively addressing those exposures. This includes guidelines for step-by-step implementation of the strategy, as well as project management tools.

To encourage the development and implementation of law enforcement policies conducive to loss prevention and positive litigation outcomes, the Authority provides for member participation in law enforcement policy manual subscription services. These services monitor and update policy language based on recent legislation, best practices, field incidents, regulatory agencies, consent decrees, court rulings and other influences that impact law enforcement operations.

The workers' compensation program contains a series of cost containment mechanisms including a process for screening high risk cases (nurse case management), pharmacy benefit management, utilization review, and bill review. Subrogation and opportunities for cost recoveries are also regularly evaluated and pursued when appropriate.

Annual claims audits are conducted to ensure that third party administrators are in compliance with performance standards and actively utilize best practices as they manage claims.

In addition to the aforementioned items, the Authority provides on-going consulting support in a variety of ways to help members minimize risk exposures. Some examples of this support include developing litigation management plans for large claims, providing employment practice assistance, and monitoring critical incidents in advance of claim filings to help members position themselves for a strong defense.

## **Financial Management and Control**

Authority management is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, and misuse, and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with accounting principles generally accepted in the United States.

The Authority's Finance Division consists of a Finance Director, a Financial Analyst and an Accounting Specialist who are responsible for the primary functions of accounting for the Authority. Oversight is provided by the Treasurer, the Chief Executive Officer, and the Assistant Executive Officer.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Statement of Net Assets**

June 30, 2010

(with prior year data for comparison purposes only)

	<b>Liability</b>	<b>Workers' Compensation</b>	<b>Insurance Programs</b>	<b>Totals 2010</b>	<b>2009</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and investments (Note 2)	\$ 63,659,477	\$ 96,811,349	\$ 1,071,203	\$ 161,542,029	\$ 166,220,048
Interest receivable	352,979	552,086	10,662	915,727	1,387,593
Retrospective deposits receivable (Note 5)	-	-	-	-	9,244,987
Accounts receivable	73,668	38,098	24,062	135,828	503,719
Deposits receivable	-	-	213,194	213,194	495,199
Due from other funds	-	-	-	-	333,220
Prepaid expenses	95,611	64,524	497,959	658,094	1,081,971
<b>TOTAL CURRENT ASSETS</b>	<b>64,181,735</b>	<b>97,466,057</b>	<b>1,817,080</b>	<b>163,464,872</b>	<b>179,266,737</b>
<b>NONCURRENT ASSETS:</b>					
Retrospective deposits receivable (Note 5)	86,613,175	9,448,474	-	96,061,649	98,210,253
Capital assets, not being depreciated (Note 3)	1,270,407	837,958	-	2,108,365	2,031,395
Capital assets, net of depreciation (Note 3)	2,276,532	1,522,158	2,743	3,801,433	3,806,388
<b>TOTAL NONCURRENT ASSETS</b>	<b>90,160,114</b>	<b>11,808,590</b>	<b>2,743</b>	<b>101,971,447</b>	<b>104,048,036</b>
<b>TOTAL ASSETS</b>	<b>154,341,849</b>	<b>109,274,647</b>	<b>1,819,823</b>	<b>265,436,319</b>	<b>283,314,773</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	374,930	237,551	1,764	614,245	496,403
Compensated absences	98,332	90,305	12,041	200,678	-
Unearned deposits	11,170,970	5,003,302	498,334	16,672,606	14,726,234
Retrospective refunds payable (Note 5)	25,855	3,035,346	-	3,061,201	7,222,587
Due to other funds	-	-	-	-	333,220
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,670,087</b>	<b>8,366,504</b>	<b>512,139</b>	<b>20,548,730</b>	<b>22,778,444</b>
<b>NONCURRENT LIABILITIES:</b>					
Net OPEB obligation (Note 9)	-	-	-	-	272,065
Retrospective refunds payable (Note 5)	2,288,768	16,974,101	-	19,262,869	29,107,351
Claims payable (Note 4)	88,131,000	61,631,000	-	149,762,000	158,533,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>90,419,768</b>	<b>78,605,101</b>	<b>-</b>	<b>169,024,869</b>	<b>187,912,416</b>
<b>TOTAL LIABILITIES</b>	<b>102,089,855</b>	<b>86,971,605</b>	<b>512,139</b>	<b>189,573,599</b>	<b>210,690,860</b>
<b>NET ASSETS</b>					
<b>NET ASSETS</b>					
Invested in capital assets	3,546,939	2,360,116	2,743	5,909,798	5,837,783
Unrestricted	48,705,055	19,942,926	1,304,941	69,952,922	66,786,130
<b>TOTAL NET ASSETS</b>	<b>\$ 52,251,994</b>	<b>\$ 22,303,042</b>	<b>\$ 1,307,684</b>	<b>\$ 75,862,720</b>	<b>\$ 72,623,913</b>

See accompanying notes to the basic financial statements.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
Year Ended June 30, 2010  
(with prior year data for comparison purposes only)

	Liability	Workers' Compensation	Insurance Programs	Totals	
				2010	2009
<b>OPERATING REVENUES:</b>					
Deposits earned	\$ 33,970,600	\$ 22,567,742	\$ -	\$ 56,538,342	\$ 56,372,124
Retrospective adjustments, net (Note 5)	9,170,719	(5,106,820)	-	4,063,899	32,744,860
Miscellaneous	176,558	118,997	324,433	619,988	608,558
<b>TOTAL OPERATING REVENUES</b>	<b>43,317,877</b>	<b>17,579,919</b>	<b>324,433</b>	<b>61,222,229</b>	<b>89,725,542</b>
<b>OPERATING EXPENSES:</b>					
Coverages:					
Incurring claims and claim adjustment expenses	32,020,821	15,241,335	-	47,262,156	66,530,730
Claims administration	2,428,983	1,792,091	-	4,221,074	3,796,224
Excess insurance and re-insurance premiums (Note 6)	7,240,319	696,539	-	7,936,858	6,668,288
Broker and other fees	125,000	125,000	-	250,000	375,000
Contractual services:					
Legal counsel	128,870	55,954	-	184,824	59,756
Investment management	70,270	92,610	-	162,880	191,027
Information technology support	75,762	50,508	-	126,270	-
Risk management evaluations	119,957	79,971	-	199,928	-
Loss control services	97,260	64,840	-	162,100	-
Audit services	14,311	20,790	-	35,101	76,101
Actuarial services	46,690	31,127	-	77,817	103,774
Other consultants	139,152	85,901	-	225,053	841,648
General and administrative:					
Salaries and employee benefits	1,951,245	1,686,030	242,170	3,879,445	3,513,554
Office expenses	82,970	54,656	-	137,626	265,901
Conference, training and meetings	611,766	411,905	562	1,024,233	926,827
Depreciation	68,744	46,753	2,004	117,501	235,554
Utilities	45,519	30,346	-	75,865	-
Miscellaneous	84,506	56,340	-	140,846	206,057
<b>TOTAL OPERATING EXPENSES</b>	<b>45,352,145</b>	<b>20,622,696</b>	<b>244,736</b>	<b>66,219,577</b>	<b>83,790,441</b>
<b>OPERATING INCOME</b>	<b>(2,034,268)</b>	<b>(3,042,777)</b>	<b>79,697</b>	<b>(4,997,348)</b>	<b>5,935,101</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income	2,196,213	3,051,200	9,184	5,256,597	7,746,236
Net increase (decrease) in investment fair values	725,355	1,210,481	-	1,935,836	3,281,785
Insurance programs - revenues (Note 7)	-	-	9,194,267	9,194,267	8,221,142
Insurance programs - premiums paid (Note 7)	-	-	(8,799,608)	(8,799,608)	(7,820,767)
Insurance programs - property claim payments, net (Note 7)	-	-	649,063	649,063	(439,051)
Insurance programs - broker fees (Note 7)	-	-	-	-	(50,000)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>2,921,568</b>	<b>4,261,681</b>	<b>1,052,906</b>	<b>8,236,155</b>	<b>10,939,345</b>
<b>CHANGE IN NET ASSETS</b>	<b>887,300</b>	<b>1,218,904</b>	<b>1,132,603</b>	<b>3,238,807</b>	<b>16,874,446</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>51,364,694</b>	<b>21,084,138</b>	<b>175,081</b>	<b>72,623,913</b>	<b>55,749,467</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 52,251,994</b>	<b>\$ 22,303,042</b>	<b>\$ 1,307,684</b>	<b>\$ 75,862,720</b>	<b>\$ 72,623,913</b>

See accompanying notes to the basic financial statements.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Statement of Cash Flows**

Year Ended June 30, 2010

(with prior year data for comparison purposes only)

	<b>Liability</b>	<b>Workers' Compensation</b>	<b>Insurance Programs</b>	<b>Totals 2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from members for deposits	\$ 36,255,123	\$ 22,727,926	\$ -	\$ 58,983,049	\$ 61,523,570
Cash received (paid) from members for retrospective adjustment	5,719,365	(4,267,743)	-	1,451,622	5,646,223
Cash received from other miscellaneous activities	176,558	84,278	324,433	585,269	942,283
Cash paid for other miscellaneous activities	-	-	(333,220)	(333,220)	-
Cash received from members for insurance programs	-	-	9,627,000	9,627,000	4,537,252
Cash paid to members for insurance programs	-	-	(8,301,648)	(8,301,648)	(5,467,619)
Cash payments relating to claims and claim administration	(50,015,451)	(17,998,965)	-	(68,014,416)	(68,871,308)
Cash payments to suppliers for goods and services	(1,559,113)	(611,385)	(29,128)	(2,199,626)	(2,904,352)
Cash payments to employees for services	(2,007,990)	(1,712,713)	(230,129)	(3,950,832)	(3,241,489)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(11,431,508)</b>	<b>(1,778,602)</b>	<b>1,057,308</b>	<b>(12,152,802)</b>	<b>(7,835,440)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Cash paid for acquisition of capital assets	(119,098)	(70,418)	-	(189,516)	(31,822)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(119,098)</b>	<b>(70,418)</b>	<b>-</b>	<b>(189,516)</b>	<b>(31,822)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received	2,428,006	3,286,562	13,895	5,728,463	8,256,321
Net increase (decrease) in investment fair values	725,355	1,210,481	-	1,935,836	3,281,785
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>3,153,361</b>	<b>4,497,043</b>	<b>13,895</b>	<b>7,664,299</b>	<b>11,538,106</b>
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>(8,397,245)</b>	<b>2,648,023</b>	<b>1,071,203</b>	<b>(4,678,019)</b>	<b>3,670,844</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>72,056,722</b>	<b>94,163,326</b>	<b>-</b>	<b>166,220,048</b>	<b>162,549,204</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1(f))</b>	<b>63,659,477</b>	<b>96,811,349</b>	<b>1,071,203</b>	<b>161,542,029</b>	<b>166,220,048</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>					
Operating income (loss)	(2,034,268)	(3,042,777)	79,697	(4,997,348)	5,935,101
Adjustment to net cash used by operating activities:					
Depreciation	68,744	46,753	2,004	117,501	235,554
Nonoperating insurance programs, net	-	-	1,043,722	1,043,722	(88,676)
(Increase) decrease in deposit receivable	-	-	282,005	282,005	(495,199)
(Increase) decrease in accounts receivable	426,672	(34,719)	(24,062)	367,891	(499,561)
(Increase) decrease in retrospective deposit receivable	4,212,722	7,180,869	-	11,393,591	(31,674,774)
(Increase) decrease in prepaids, excess insurance recovery receivable, and interfund receivable	(46,237)	305,374	497,960	757,097	2,628,015
Increase (decrease) in accounts payable	4,157	118,189	(4,504)	117,842	(19,077)
Increase (decrease) in compensated absences	98,332	90,305	12,041	200,678	-
Increase (decrease) in interfund payable	-	-	(333,220)	(333,220)	333,220
Increase (decrease) in unearned deposits	2,284,523	160,184	(498,335)	1,946,372	1,962,755
Increase (decrease) in retrospective refunds payable	(7,664,076)	(6,341,792)	-	(14,005,868)	4,576,137
Increase (decrease) in net OPEB obligation	(155,077)	(116,988)	-	(272,065)	272,065
Increase (decrease) in claims payable	(8,627,000)	(144,000)	-	(8,771,000)	8,999,000
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$(11,431,508)</b>	<b>\$(1,778,602)</b>	<b>\$ 1,057,308</b>	<b>\$(12,152,802)</b>	<b>\$(7,835,440)</b>

**NONCASH CAPITAL, FINANCING AND INVESTING TRANSACTIONS:**

For the fiscal year ended June 30, 2010, there were no significant noncash capital, financing or investing activities.

See accompanying notes to the basic financial statements.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Statement of Fiduciary Assets and Liabilities**  
June 30, 2010  
(with prior year data for comparison purposes only)

	<b>Totals</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and investments (Note 2)	\$ 5,569,877	\$ 5,955,715
Interest receivable	6,847	22,090
Accounts receivable	668,627	740,905
<b>TOTAL ASSETS</b>	<b>6,245,351</b>	<b>6,718,710</b>
<b>LIABILITIES</b>		
Accounts payable	16	3,183
Other deposits payable (Note 10)	6,245,335	6,715,527
<b>TOTAL LIABILITIES</b>	<b>\$ 6,245,351</b>	<b>\$ 6,718,710</b>

See accompanying notes to the basic financial statements.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

Year Ended June 30, 2010

### (1) Summary of Significant Accounting Policies

#### (a) History and Organization

The California Joint Powers Insurance Authority (Authority) was formed in 1977 under a joint exercise of powers agreement with thirty-three members in accordance with the provisions of California Government Code Section 6500, et seq. As of June 30, 2010 the Authority consisted of 122 participating member agencies: 98 cities, 16 joint powers authorities, and 8 special districts. The Authority was created to provide programs to protect its members, their officers and employees, and property against unavoidable losses through pooling of losses, self-insurance and purchasing insurance. The Authority is governed by a Board of Directors, consisting of one elected official appointed by each member agency, and by an Executive Committee of the Board of Directors.

All members must participate in the liability protection program and may elect to participate in the other programs that are offered by the Authority for workers' compensation and all risk property protection. Provisions of the joint powers agreement prohibit any member from withdrawing for a period of one year from its admission date. After completing one year as a participating member and upon proper notice, a governmental agency may elect to withdraw from its status as a member at the end of a given fiscal year. Such withdrawal, however, will not terminate the member's responsibility for its share of claims and losses incurred prior to its withdrawal. In addition, the Authority has the right to cancel a member's participation with the approval of three-quarters of the Board of Directors.

#### (b) Programs

*Liability Protection Program* – The liability self-insurance coverage administered by the Authority for its members includes protection for personal injury, property damage, and bodily injury. The annual deposit paid by each member for the Liability Protection Program is subject to retrospective adjustment to produce a cost for each coverage year equal to the sum of each member's retained losses, its share of pooled losses allocated based on experience, its share of pooled losses allocated based on exposure, and its share of loss development reserves. Since the program's inception, modifications have been made to the allocation formula to reflect changes in inflation, types of exposures covered, and organizational policy. The allocation formulas in effect for periods since July 1, 1986 are summarized as follows:

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
(Continued)

**(b) Programs (Continued)**

**Cost of Coverage - Liability Program: Exhibit A-1**

	Losses up to ___ for each occurrence.	Share of pooled losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total losses under ___,	excluding occurrences for "property damage only" with total value up to ___.	Share of pooled losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total payroll, with minimum imputed payroll of ___.	Share of loss related expenses and loss development reserves as determined by actuary, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___.	Share of other expenses, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___.	Share of overhead expenses, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.
July 1, 1986 - June 30, 1995	20,000	20,000	500,000	20,000	N/A	500,000	10,000,000	300,000	300,000	815,000	N/A
July 1, 1995 - June 30, 1996	20,000	20,000	500,000	20,000	2,000	500,000	10,000,000	300,000	300,000	815,000	N/A
July 1, 1996 - June 30, 1997	20,000	20,000	500,000	20,000	2,000	500,000	10,000,000	300,000	300,000	N/A	815,000
July 1, 1997 - June 30, 2001	20,000	20,000	500,000	20,000	2,000	500,000	5,000,000	300,000	300,000	N/A	815,000
July 1, 2001 - June 30, 2003	30,000	30,000	750,000	30,000	2,000	750,000	5,000,000	300,000	300,000	N/A	815,000
July 1, 2003 - June 30, 2004	30,000	30,000	750,000	30,000	2,000	750,000	15,000,000	300,000	300,000	N/A	815,000
	Non-police/police losses up to ___ for each occurrence.	Share of pooled non-police/police losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total non-police/police losses under ___,	excluding occurrences for "property damage only" with total value up to ___.	Share of loss dev. reserves associated with non-police/police occurrences up to ___,	as determined by actuary, prorated on basis of share of non-police/police losses under ___,	excluding occurrences for "property damage only" with total value up to ___.	Share of pooled non-police/police losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total non-police/police payroll, with minimum imputed payroll of ___.
*											
July 1, 2004 - June 30, 2005	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	750,000	15,000,000	309,862
July 1, 2005 - June 30, 2006	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	750,000	10,000,000	326,226
July 1, 2006 - June 30, 2007	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	N/A	N/A	N/A
July 1, 2007 - June 30, 2008	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	N/A	N/A	N/A
July 1, 2008 - June 30, 2009	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	N/A	N/A	N/A
July 1, 2009 - June 30, 2010	30,000	30,000	750,000	30,000	2,000	750,000	30,000	2,000	N/A	N/A	N/A

\* Beginning with fiscal year 2004-05 police losses are pooled separately from non-police losses.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
(Continued)

**(b) Programs (Continued)**

**Cost of Coverage - Liability Program: Exhibit A-2**

	Share of loss dev. reserves associated with non-police/police occurrences above ___, & up to ___ as determined by the actuary, prorated on basis of share of total non-police/police payroll, with minimum imputed payroll of ___.			Share of pooled non-police/police losses & loss dev. reserves, as determined by actuary, assoc. with non-police/police occurrences above ___, & up to ___ for each occurrence, prorated on basis of share of total non-police/police payroll, with minimum imputed payroll of ___.		Share of overhead related expenses, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.	Share of loss related expenses and loss development reserves as determined by actuary, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.				
July 1, 2004 - June 30, 2005	750,000	15,000,000	309,862	N/A	N/A	N/A	815,000	309,862			
July 1, 2005 - June 30, 2006	750,000	10,000,000	326,226	N/A	N/A	N/A	815,000	N/A			
July 1, 2006 - June 30, 2007	N/A	N/A	N/A	750,000	10,000,000	352,212	815,000	N/A			
July 1, 2007 - June 30, 2008	N/A	N/A	N/A	750,000	5,000,000	389,170	815,000	N/A			
July 1, 2008 - June 30, 2009	N/A	N/A	N/A	750,000	2,000,000	420,097	815,000	N/A			
July 1, 2009 - June 30, 2010	N/A	N/A	N/A	750,000	5,000,000	425,694	815,000	N/A			

	Share of pooled non-police/police losses between ___, and ___, and between		and ___ for each occurrence, prorated on basis of share of total non-police/police payroll, with minimum imputed payroll of ___.		Share of claims administration and loss development reserves as determined by actuary, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.	Share of excess insurance, prorated on basis of member's share of total payroll, with minimum imputed payroll of ___.	Share of claims administration allocated based on pooled non-police/police losses above ___, & up to ___ for each occurrence, prorated on basis of share of total non-police/police losses under ___, excluding occurrences for "property damage only" with total value up to ___.				
July 1, 2005 - June 30, 2006	N/A	N/A	N/A	N/A	N/A	326,226	326,226	N/A	N/A	N/A	N/A
July 1, 2006 - June 30, 2007	18,000,000	23,000,000	45,000,000	50,000,000	352,212	352,212	352,212	N/A	N/A	N/A	N/A
July 1, 2007 - June 30, 2008	N/A	N/A	N/A	N/A	N/A	N/A	389,504	30,000	750,000	30,000	2,000
July 1, 2008 - June 30, 2009	2,000,000	^ 10,000,000	N/A	N/A	420,097	N/A	420,097	30,000	750,000	30,000	2,000
July 1, 2009 - June 30, 2010	5,000,000	~ 10,000,000	N/A	N/A	425,694	N/A	425,694	30,000	750,000	30,000	2,000

\* Beginning with fiscal year 2004-05 police losses are pooled separately from non-police losses.

^ In 2008-09 cost allocation includes a \$3 million annual aggregate deductible, and quota sharing for 40% of losses occurring within the \$8 million excess of \$2 million layer.

~ In 2009-10 cost allocation includes a \$2.5 million annual aggregate deductible (with no quota sharing)

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (1) **Summary of Significant Accounting Policies (Continued)**

*Workers' Compensation Protection Program* - The workers' compensation self-insurance coverage administered by the Authority for its members includes provision of statutory benefits to member employees for work-related injury or illness. The annual deposit paid by each member for the Workers' Compensation Program is subject to retrospective adjustment to produce a cost for each coverage year equal to the sum of each member's retained losses, its share of pooled losses allocated based on experience, its share of pooled losses allocated based on exposure, and its share of loss development reserves. Since the program's inception, modifications have been made to the allocation formula to reflect changes in inflation, types of exposures covered, and organizational policy. The allocation formulas in effect for periods since July 1, 1986 are summarized as follows:

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
(Continued)

**(b) Programs (Continued)**

**Cost of Coverage - Workers' Compensation Program: Exhibit B-1**

	Losses up to the member's specific retention level ___ for each occurrence.	Share of pooled losses above member's retention level & up to ___ for each occurrence,	prorated on basis of share of total losses up to ___.	Share of pooled losses above ___,	& up to ___ for each occurrence, prorated on basis of share of total payroll.	Share of pooled losses above ___ for each occurrence, prorated on basis of member's share of total payroll.	Share of loss development reserves as determined by actuary, prorated on basis of member's share of total payroll.	Share of other expenses, prorated on basis of member's share of total payroll.	Share of other expenses, prorated on basis of member's share of total payroll. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.
July 1, 1986 - June 30, 1996	10,000 25,000 50,000	100,000	50,000	100,000	500,000	N/A	a	a	N/A
July 1, 1996 - June 30, 2002	10,000 25,000 50,000	100,000	50,000	100,000	500,000	N/A	a	N/A	a
July 1, 2002 - June 30, 2003	10,000 25,000 50,000	100,000	50,000	100,000	2,000,000	50,000,000	a	N/A	a

	Share of non-public safety/public safety losses up to ___ for each occurrence.	Share of pooled non-public safety/public safety losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total non-public safety/public safety losses up to ___.	Share of loss development reserves associated with non-public safety/public safety losses up to ___,	as determined by actuary, prorated on basis of share of non-public safety/public safety losses under ___.	Share of pooled non-public safety/public safety losses above ___,	& up to ___ for each occurrence, prorated on basis of share of total non-public safety/public safety payroll.
* July 1, 2003 - June 30, 2010	50,000	50,000	100,000	50,000	100,000	50,000	100,000	2,000,000

a = Applicable to this fiscal year.

\* Beginning with fiscal year 03-04 public safety losses are pooled separately from non-public safety losses.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
(Continued)

**(b) Programs (Continued)**

**Cost of Coverage - Workers' Compensation Program: Exhibit B-2**

	Share of loss development reserves associated with non-public safety/public safety losses above ___,	& up to ___ as determined by the actuary, prorated on basis of share of total non-public safety/public safety payroll.	Share of pooled non-public safety/public safety losses above ___ for each occurrence, prorated on basis of share of total non-public safety/public safety payroll.	Share of loss dev. reserves associated with non-public safety/public safety losses above ___ as determined by actuary, prorated on basis of share of total non-public safety/public safety payroll.	Share of other expenses, prorated on basis of member's share of total payroll. However, if there is sufficient investment income, expenses are paid from investment income and not charged to members.	Share of excess insurance, prorated on basis of member's share of total payroll.	Share of claims administration allocated based on pooled non-public safety/public safety losses above ___,	& up to ___ for each occurrence,	prorated on basis of share of total non-public safety/public safety losses up to ___.
* July 1, 2003 - June 30, 2005	100,000	2,000,000	100,000,000	100,000,000	a	N/A	N/A	N/A	N/A
July 1, 2005 - June 30, 2006	100,000	2,000,000	150,000,000	150,000,000	a	a	N/A	N/A	N/A
July 1, 2006 - June 30, 2007	100,000	2,000,000	200,000,000	200,000,000	a	a	N/A	N/A	N/A
July 1, 2007 - June 30, 2008	100,000	2,000,000	200,000,000	300,000,000	a	a	50,000	100,000	50,000
July 1, 2008 - June 30, 2010	100,000	2,000,000	Statutory	Statutory	a	a	50,000	100,000	50,000

a = Applicable to this fiscal year.

\* Beginning with fiscal year 03-04 public safety losses are pooled separately from non-public safety losses.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

*All Risk Property Protection Program* - The Authority has a fully-insured All Risk Property Protection Program underwritten by several casualty insurance companies.

*Pollution Legal Liability Insurance Program* – This program was formerly called “Environmental Liability Insurance Program.” Since July 1, 2000, the Authority has offered to its members coverage under a Pollution Legal Liability Program. This program provides coverage for sudden and gradual pollution of scheduled property, streets and storm drains owned by members. This coverage is on a claims made basis and has been underwritten by a private insurance company.

### (c) **Measurement Focus**

The accounts of the Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of this fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority’s resources are allocated and accounted for based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. Therefore, the Authority accounts for each insurance program as a separate fund in accordance with and as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 10. In addition, management has determined and elected that all funds of the Authority are classified as major funds as follows:

*Liability Fund* – The Liability Fund accounts for all the revenues and expenses related to the self-insurance (risk-sharing) liability protection program.

*Workers’ Compensation Fund* – The Workers’ Compensation Fund accounts for all the revenues and expenses related to the self-insurance (risk-sharing) workers’ compensation program.

*Insurance Programs Fund* – The Insurance Programs Fund accounts for all the revenues and expenses related to the purchased insurance (non-risk sharing) activities for all risk property protection program and the pollution legal liability program.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

#### (c) **Measurement Focus (Continued)**

All of the Authority's programs are enterprise funds, which fall under the proprietary fund type category, are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing services to members on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net assets. Their reported fund equity (total net assets) is segregated into restricted (invested in capital assets) and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Additionally, the Authority reports the following fund type:

*Agency Funds* – These funds are used to account for money held by the Authority as trustee or custodian. The Authority accounts for all assets and liabilities related to the Central Coast Cities Workers' Compensation Fund as agency funds which are disclosed in further detail in Note 10 to the basic financial statements.

#### (d) **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB). Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

#### (e) **Investments**

Investments are reported in the accompanying statement of net assets at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(1) Summary of Significant Accounting Policies (Continued)**

**(e) Investments (Continued)**

Changes in fair value that occur during a fiscal year and any gains or losses realized upon the liquidation, maturity, or sale of investments are recognized as *net increase (decrease) in investment fair values* reported for that fiscal year. *Investment income* consists primarily of interest earnings on investments held by the Authority.

The Authority maintains one investment portfolio and as a result, pools cash and investments of all the Authority's programs (funds), except for investments held by agency funds. Each fund's share in this pool is displayed in the accompanying statement of net assets as *cash and investments*. Investment income earned by the pooled investments and current year's net increase (decrease) in investment fair values are allocated to each program based upon each program's average investment balance.

**(f) Statement of Cash Flows**

For purposes of presentation in the statement of cash flows, the Authority considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they represent insignificant risk of changes in value because of changes in interest rates. The Authority follows the practice of pooling cash and investments of all programs (funds) and each program's cash and investments represents amounts that can be withdrawn at any time and therefore, are considered to be cash and cash equivalents for purposes of the statement of cash flows.

**(g) Capital Assets**

Capital assets in excess of \$5,000 individually that are acquired by the Authority are valued at historical cost or estimated historical cost (if historical cost is not available) or estimated fair value on the date donated (if the assets are donated). Capital assets are depreciated using the straight-line methodology over the asset's estimated useful life as follows:

Building and improvements	30 years
Furniture and equipment	5 years

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

#### (h) **Claims Payable**

The Authority establishes claims payable based on actuarial estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Claims payable are reported at the discounted present value of estimated future cash payments. Aggregate excess insurance coverage was obtained for the liability program for claim years 1980 through 1984, and as of July 1, 1997, liability program re-insurance has been obtained. For the worker's compensation program, excess insurance coverage has been obtained for all claim years. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims payable does not necessarily result in an exact amount. Claims payable are recomputed annually by an actuary to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. Inflation is implicit in the calculation because reliance is based on historical data that reflects past inflation and other modifiers considered appropriate. Adjustments to claims payable for changes in estimates are charged to expense in the period in which the changes in the estimates were determined.

#### (i) **Confidence Level Used by the Authority**

The liability for claims payable must be measured in terms of a *probability level* because the actual development and outcome of claims (and of losses incurred but not reported as claims) cannot be known with absolute certainty. Probability level measures the degree of certainty in estimating the liability for claims payable. For example, a 50% probability level means that 50% of the time, the methodology and assumptions used by the actuary will produce an estimate of the liability for claims payable that is equal to (or greater than) the actual amount that will be paid for those claims and losses. Effective July 1, 1999 to present, the Authority uses a 50% probability level. Unrestricted net assets have been designated for losses that might exceed the loss estimated by the probability level used by the Authority.

#### (j) **Unearned Deposits**

Revenues are recognized when earned. Unearned deposits represent remaining amounts which are billed periodically to each member, received by the Authority and then amortized over the related coverage period.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(1) Summary of Significant Accounting Policies (Continued)**

**(k) Use of 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(l) Prior Year Data**

Selected information regarding the prior year has been included in the accompanying financial statements. 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 the Authority's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

**(2) Cash and Investments**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 161,542,029
Statement of fiduciary assets and liabilities:	
Cash and investments	<u>5,569,877</u>
Total cash and investments	<u>\$ 167,111,906</u>

Cash and investments held by the Authority as of June 30, 2010 consist of the following:

Demand deposits	\$ 4,269,696
Investments	<u>162,842,210</u>
Total cash and investments	<u>\$ 167,111,906</u>

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(2) Cash and Investments (Continued)**

**Investments Authorized by the California Government Code and the Authority's Investment Policy**

The table below identifies the investment types that are authorized by the California Government Code and the Authority's investment policy. The table also identifies certain general provisions of the Authority's investment policy, which address interest rate risk and concentration of credit risk. A complete copy of the Authority's investment policy is available at the following web address:

[http://www.cjpia.org/4dcgi/about/general\\_info.shtml](http://www.cjpia.org/4dcgi/about/general_info.shtml)

Investment Types Authorized by State Law	Authorized by Investment Policy	General Provisions of Investment Policy		
		Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Banker's Acceptances	Yes	180 days	10%	2.5%
Commercial Paper	Yes	270 days	10%	2.5%
County Pooled Investment Funds	Yes	n/a	\$20 million	n/a
JPA Pools (other investment pools)	No	n/a	n/a	n/a
Local Agency Bonds	No	n/a	n/a	n/a
Local Agency Investment Fund (LAIF)	Yes	n/a	\$50 million	n/a
Medium-Term Notes	Yes	5 years	10%	2.5%
Money Market Mutual Funds	Yes	n/a	10%	none
Mortgage Pass-Through Securities	Yes	5 years	20%	none
Mutual Funds	No	n/a	n/a	n/a
Negotiable Certificates of Deposit	Yes	5 years	10%	2.5%
Repurchase Agreements	Yes	30 days	none	none
Reverse Repurchase Agreements	No	n/a	n/a	n/a
U.S. Agency Securities	Yes	10 years	none	none
U.S. Treasury Obligations	Yes	10 years	none	none

The Authority's investment policy also authorizes the following investment types:

(a) FDIC-Guaranteed Obligations, and (b) Demand Deposits, Passbook Savings Accounts and Non-negotiable Certificates of Deposits.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(2) Cash and Investments (Continued)**

*Disclosures Relating to Interest 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 the Authority 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.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
U.S. Treasury securities	\$ 30,129,127	\$12,093,516	\$ 5,335,692	\$ 7,726,295	\$ 4,973,624
Federal agency securities	96,143,371	11,932,255	42,515,418	29,235,081	12,460,617
FDIC guaranteed corporate notes	9,703,318	-	9,703,318	-	-
Medium term corporate notes	11,729,736	-	6,294,818	5,434,918	-
Money market mutual funds	4,380,856	4,380,856	-	-	-
Local Agency Investment Fund	<u>10,755,802</u>	<u>10,755,802</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$162,842,210</u>	<u>\$39,162,429</u>	<u>\$ 63,849,246</u>	<u>\$42,396,294</u>	<u>\$17,434,241</u>

The Authority's investment holdings include some investments with fair market values that are highly sensitive to interest rate fluctuations, to a greater degree than already indicated in the information provided above. As of June 30, 2010 these securities were all Callable Federal Agency Securities with a combined total fair market value of \$10,350,294, which was 6.4 percent of the portfolio. The Authority's investment policy states that no more than 30 percent of the portfolio may be invested in callable securities. The interest rates of these securities ranged between 0.825 percent and 4.875 percent.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(2) Cash and Investments (Continued)**

*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, the Authority’s investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year End</u>				
				<u>AAA</u>	<u>AA+/-</u>	<u>A</u>	<u>A-1</u>	<u>Not Rated</u>
U.S. Treasury notes	\$30,129,128	N/A	\$30,129,128	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency securities	96,143,370	N/A	-	91,307,071	-	-	4,836,299	-
FDIC guaranteed corporate notes	9,703,318	N/A	-	9,703,318	-	-	-	-
Medium term corporate notes	11,729,736	A	-	-	7,528,194	4,201,542	-	-
Money market mutual funds	4,380,856	A	-	4,380,856	-	-	-	-
Local Agency Investment Fund	<u>10,755,802</u>	N/A	-	-	-	-	-	<u>10,755,802</u>
<b>Total</b>	<b><u>\$162,842,210</u></b>		<b><u>\$30,129,128</u></b>	<b><u>\$105,391,245</u></b>	<b><u>\$7,528,194</u></b>	<b><u>\$4,201,542</u></b>	<b><u>\$4,836,299</u></b>	<b><u>\$10,755,802</u></b>

*Concentration of Credit Risk* - The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Authority investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Home Loan Banks	Federal agency securities	\$ 26,832,861
Federal Home Loan Mortgage Corporation	Federal agency securities	35,938,248
Federal National Mortgage Association	Federal agency securities	<u>20,933,484</u>
		<b><u>\$ 83,704,593</u></b>

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (2) Cash and Investments (Continued)

*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 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. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

*Investment in State Investment Pool* - The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts 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.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(3) Capital Assets**

A summary of capital assets of the Authority at June 30, 2010 is as follows:

	<u>Balance at July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$2,031,395	\$ -	\$ -	\$2,031,395
Assets under development *	<u>-</u>	<u>76,968</u>	<u>-</u>	<u>76,968</u>
Total capital assets, not being depreciated	<u>2,031,395</u>	<u>76,968</u>	<u>-</u>	<u>2,108,363</u>
Capital assets, being depreciated:				
Building and improvements	5,826,706	112,548	-	5,939,254
Furniture and equipment	<u>217,961</u>	<u>-</u>	<u>-</u>	<u>217,961</u>
Total capital assets, being depreciated	<u>6,044,667</u>	<u>112,548</u>	<u>-</u>	<u>6,157,215</u>
Less accumulated depreciation for:				
Building and improvements	(2,114,419)	(76,166)	-	(2,190,585)
Furniture and equipment	<u>(123,860)</u>	<u>(41,335)</u>	<u>-</u>	<u>(165,195)</u>
Total accumulated depreciation	<u>(2,238,279)</u>	<u>(117,501)</u>	<u>-</u>	<u>(2,355,780)</u>
Total capital assets, being depreciated, net	<u>3,806,388</u>	<u>(4,953)</u>	<u>-</u>	<u>3,801,435</u>
Total capital assets, net	<u>\$5,837,783</u>	<u>\$ 72,015</u>	<u>\$ -</u>	<u>\$5,909,798</u>

Depreciation expense was charged to programs for the year ended June 30, 2010 as follows:

Liability	\$ 68,744
Workers' Compensation	46,753
Insurance Programs	<u>2,004</u>
	<u>\$ 117,501</u>

\* During the year ended June 30, 2010, the Authority incurred programming, implementation, and implementation assistance costs related to the development of new on-line training software. As part of the implementation of GASB 51, these costs were capitalized and reported as "assets under development" since the software was still under development. Once the project is completed in November 2010, the balance of all related costs incurred will be closed to a "depreciable" item and amortized accordingly.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (4) Claims Payable

The Authority establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of losses, related claim adjustment expenses and unallocated loss adjustment expenses by program. To the extent the Authority experiences favorable claim development, refunds are returned to its members.

The following represents the changes in the claims payable for the year ended June 30, 2010 (by program detail is presented at page 48):

Claims payable, beginning of year	<u>\$158,533,000</u>
Incurred claims and claim adjustment expenses:	
Provision for covered events in the current year	47,019,000
Net increase (decrease) in provision for covered events in prior years	<u>428,000</u>
	<u>47,447,000</u>
Claims and claim adjustment payments:	
Attributable to covered events in the current year	(4,525,000)
Attributable to covered events in prior years	<u>(51,693,000)</u>
	<u>(56,218,000)</u>
Claims payable, end of year	<u>\$149,762,000</u>

As of June 30, 2010, total undiscounted claims payable were \$159,589,000. Undiscounted claims payable were \$91,430,000 for the liability program and \$68,159,000 for the workers' compensation program. These claims were discounted at 2.00% and at a probability level of 50% to arrive at the net liability as of June 30, 2010.

### (5) Retrospective Adjustments

The Executive Committee has approved net retrospective adjustments in accordance with the provisions of the joint powers agreement. Prior to the 2008 fiscal year, the retrospective adjustment was estimated based on claim valuations through December 31<sup>st</sup>, which was six months before the fiscal year end. From 2008 to the present, the retrospective adjustment has been calculated based on claim valuations as of June 30<sup>th</sup>. This change resulted in a refinement of the estimate, based on the most current available data.

Beginning with fiscal year 1997, the Executive Committee approved the "rolling" retrospective adjustment computation. Under this method of retrospective adjustment, a member was only assessed or returned a percentage of the adjustment in the current year, with the remaining amount to be paid in subsequent years.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(5) Retrospective Adjustments (Continued)**

For the period of July 1, 1996 through June 30, 2007 members were assessed or returned 25% of the adjustment in the current year, with the remaining amount paid over three years. For the period of July 1, 2007 through June 30, 2010 members were assessed or returned 12.5% of the adjustment in the current year, with the remaining amount to be paid over seven years.

In May of 2010, the Executive Committee approved significant changes to the Authority's cost allocation formula impacting the calculation methodology used in the initial funding of coverage periods, and in retrospective adjustments. Modifications to the Authority's policy regarding repayment of retrospective adjustments were also approved. These changes are effective July 1, 2010 and generally, are not applicable to the fiscal year ended June 30, 2010.

These changes include the establishment of an incentive program to encourage members to voluntarily accelerate payment of outstanding retrospective deposits owed to the Authority. Members choosing to participate in the incentive program receive a discount on the amount owed. For financial reporting purposes, these discounts are shown as part of the net retrospective adjustment because they have the impact of reducing retrospective deposit balances.

The allowance for discounts is recognized at the time incentive program payments are received. As of June 30, 2010 there were two incentive program payments received in the liability program and one in the workers' compensation program. Discounts were calculated at 6% in the liability program, and 10% in the workers' compensation program. This activity is detailed in the table below, along with the outcome of the October 2010 retrospective computation:

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
October 2010 Retro Computation	\$ 9,179,373	\$ (5,096,918)	\$ 4,082,455
Allowance for Discounts	<u>(8,654)</u>	<u>(9,902)</u>	<u>(18,556)</u>
Retrospective Adjustments, Net	<u>9,170,719</u>	<u>(5,106,820)</u>	<u>4,063,899</u>

The October 2010 date refers to the month and year in which the retrospective computation was published. It is included as part of the financial statements for the fiscal year ending June 30, 2010 because the computation was based on claims valued as of June 30, 2010.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(5) Retrospective Adjustments (Continued)**

The accompanying Statement of Net Assets reflects the remaining amounts payable or receivable as a result of all retrospective deposit activity through June 30, 2010. Due to the temporary suspension of required retrospective deposit payments from members effective July 1, 2010 all retrospective deposits receivable are classified as noncurrent. In the following table, the Authority's retrospective deposits receivable are shown as positive numbers, while retrospective deposits payable are shown as negative numbers:

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Retrospective deposits receivable			
Current	\$ -	\$ -	\$ -
Noncurrent	<u>86,613,175</u>	<u>9,448,474</u>	<u>96,061,649</u>
Subtotal	<u>86,613,175</u>	<u>9,448,474</u>	<u>96,061,649</u>
 Retrospective deposits payable			
Current	(25,855)	(3,035,346)	(3,061,201)
Noncurrent	<u>(2,288,768)</u>	<u>(16,974,101)</u>	<u>(19,262,869)</u>
Subtotal	<u>(2,314,623)</u>	<u>(20,009,447)</u>	<u>(22,324,070)</u>
 Overall Net retrospective balances	<u>\$84,298,552</u>	<u>\$(10,560,973)</u>	<u>\$73,737,579</u>

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(6) Excess and Reinsurance Coverage**

Premiums for excess and reinsurance coverage in the liability program were \$7,240,319 for the year ended June 30, 2010. The table below shows a history of the Authority's basic coverage terms for purchased insurance in the liability program.

Liability Program							
Excess and Reinsurance Coverage							
From	To	Self-Insured Retention	Coverage Limit Per Occurrence	AAD* Layer 1	AAD* Layer 2	Quota Share	Additional Retained Layers
Inception	6/30/1986	\$ 500k	\$ 10m	n/a	n/a	n/a	n/a
7/1/1986	6/30/1997	The Authority was fully self-insured during this time period					
7/1/1997	6/30/2003	\$ 5m	\$ 50m	n/a	n/a	n/a	n/a
7/1/2003	6/30/2005	\$ 15m	\$ 50m	n/a	n/a	n/a	n/a
7/1/2005	6/30/2006	\$ 10m	\$ 50m	n/a	n/a	n/a	n/a
7/1/2006	6/30/2007	\$ 10m	\$ 50m	n/a	n/a	n/a	\$5m x/s \$18m, and \$5m x/s \$45m
7/1/2007	6/30/2008	\$ 5m	\$ 50m	n/a	n/a	n/a	n/a
7/1/2008	6/30/2009	\$ 2m	\$ 50m	\$ 3.0m	n/a	40% of \$8m x/s \$2m	n/a
7/1/2009	6/30/2010	\$ 5m	\$ 50m	\$ 2.5m	n/a	n/a	n/a

\* AAD = Annual Aggregate Deductible

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(6) Excess and Reinsurance Coverage (Continued)**

Premiums for excess and reinsurance coverage in the workers' compensation program were \$696,539 for the year ended June 30, 2010. The table below shows a history of the Authority's basic coverage terms for purchased insurance in the workers' compensation program.

<b>Workers' Compensation Program</b>				
<b>Excess and Reinsurance Coverage</b>				
<b>From</b>	<b>To</b>	<b>Self-Insured Retention</b>	<b>Coverage Limit Per Occurrence</b>	<b>Coverage Type</b>
Inception	6/30/2002	\$ 500k	Statutory Limit	Commercial insurance
7/1/2002	6/30/2003	\$ 2m	\$ 50m	Excess insurance authority participation
7/1/2003	6/30/2005	\$ 2m	\$ 100m	Excess insurance authority participation
7/1/2005	6/30/2006	\$ 2m	\$ 150m	Excess insurance authority participation
7/1/2005	6/30/2007	\$ 2m	\$ 200m	Excess insurance authority participation
7/1/2007	6/30/2008	\$ 2m	\$ 300m	Excess insurance authority participation
7/1/2008	6/30/2010	\$ 2m	Statutory Limit	Commercial insurance

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(7) Non Risk Sharing Insurance Programs**

The Authority's Property and Pollution Legal Liability programs are fully insured programs underwritten by several commercial insurance companies and do not involve the sharing of risk. A summary of significant activities by individual program related to these non risk sharing insurance programs as of June 30, 2010 are as follows:

<u>Insurance programs:</u>	<u>Property</u>	<u>Pollution Legal Liability</u>	<u>Total</u>
Revenues from members	\$ 8,701,649	\$ 492,618	\$ 9,194,267
Premiums paid to insurers	(8,301,649)	(497,959)	(8,799,608)
Property			
Gross claim payments	(3,224,714)	-	(3,224,714)
Refunds and recoveries	<u>3,873,777</u>	<u>-</u>	<u>3,873,777</u>
Net claim payments	649,063	-	649,063
Total non risk sharing activity	<u>1,049,063</u>	<u>(5,341)</u>	<u>1,043,722</u>

Refunds and recoveries for property claim payments exceeded gross property claim payments in 2010, resulting in net claim payments (an expense account) with a credit balance at the end of the fiscal year. Gross claim payments as well as refunds and recoveries of the property program are based on claims incurred over multiple fiscal years. The property program had an annual aggregate deductible of \$400,000 from January 1, 2004 through June 30, 2010. Claim payments in excess of the annual aggregate deductible are initially made by the Authority, after which the Authority is reimbursed by the insurer. During the 2010 fiscal year, a significant back log of reimbursements were received by the Authority.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (8) Defined Benefit Pension Plan

#### (a) PERS

The Authority is part of the Miscellaneous 2% @ 55 Risk Pool, a cost-sharing multiple employer defined benefit plan with the California Public Employees Retirement System (CalPERS). CalPERS provides a defined benefit plan (normal service retirement benefit) and disability benefits (disability retirement benefit) to eligible members. Additionally, the Authority's contract with CalPERS provides a pre-retirement death benefit to eligible members.

CalPERS acts as a common investment and administrative agent for participating public entities with the State of California. CalPERS issues publicly available financial reports that include financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. Copies of the CalPERS annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

CalPERS retirement benefits are funded through contributions paid by contracting employers, member contributions, and earnings from CalPERS investments. Employer contribution rates are determined by periodic "actuarial valuations" under State law. The actuarial valuations are based on the benefit formulas the agency provides and the employee groups covered. These required contribution amounts are expressed as a percentage of active member payroll reported to CalPERS.

Member (employee) contributions, determined by State law, are currently 7% of the members salary. The EPMC (Employer Paid Member Contribution) is paid by the Authority.

Between July 1, 2007 and June 30, 2010 the Authority has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO).

The ARC for the period July 1, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2007. The Authority's covered payroll for PERS was \$2,140,132 for the year ended June 30, 2010, while the Authority's total payroll for all employees was \$2,267,591 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(8) Defined Benefit Pension Plan (Continued)**

**(a) PERS (Continued)**

*Three-Year Trend Information – Annual Pension Cost*

<u>Fiscal Year Ending</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	12.542%	\$ 237,050	100%	-
6/30/09	12.334%	248,435	100%	-
6/30/10	12.570%	269,013	100%	-

**(b) PARS**

The Authority approved the establishment of a Public Agency Retirement Services (PARS) Retirement Enhancement Plan (REP) for eligible California JPIA employees, effective March 1, 2005. The Plan provides a supplemental retirement benefit (0.5%) in addition to the current CalPERS retirement benefit for a combined retirement benefit of 2.5% @ 55. The Authority's contract with PARS provides a pre-retirement death benefit to eligible participants in the Plan.

PARS is a 401(a) tax-qualified multiple agency trust. PARS is the trust administrator for the PARS Trust. The trust administrator's functions include Plan accounting, coordinating benefit distributions with the trustee, and communicating plan provisions. Union Bank of California is the trustee for the PARS Trust. The duties of the trustee include receiving and investing Plan contributions, safeguarding Plan assets, and distributing benefits to eligible Plan participants or beneficiaries at the direction of the plan administrator (the Authority) and pursuant to the plan document.

The Authority makes all required contributions to fund the benefits available under this Plan; no employee contributions are required to participate in the Plan. The amount contributed by the Authority on behalf of the eligible employees was \$142,216 for the year ended June 30, 2010.

# CALIFORNIA JOINT POWERS INSURANCE AUTHORITY

## Notes to the Basic Financial Statements

(Continued)

### (9) **Other Post Employment Benefits, OPEB**

*Plan Description:* In response to the GASB 45 requirement, the Authority contracted with PARS to establish a Post-Retirement Health Care Plan Trust. The Trust is structured as a multiple-employer trust in accordance with Section 115 of the Internal Revenue Code. To comply with GASB 43 and 45, the Trust was established as an irrevocable exclusive benefit trust to fund retiree health care benefits. Consistent with other Authority benefit plans, the Chief Executive Officer (CEO) administers the PARS plan and has overall responsibility for the plan, including selection of the plan's asset investment approach.

PARS serves as the trust administrator. Union Bank of California serves as the trustee of the PARS GASB 45 Funding Program. Highmark Capital Management is a subsidiary of Union Bank of California and serves as the investment manager of trust assets.

*Funding Policy:* The contribution requirements to the Trust are established and may be amended by the Executive Committee. The contribution to be made each year to the Trust is determined by the Executive Committee as part of its budget process.

*Eligibility:* The Authority provides medical insurance benefits to its retirees who: (1) retire from the Authority; (2) receive a retirement from PERS based on an application to PERS dated the same date as the employee's retirement date from the Authority; and (3) have participated in the Authority's PERS Medical Plan for a minimum of 30 days prior to retirement, and their qualified dependents may be eligible for retiree medical insurance, at the Authority's cost (up to 80% of the PERSCare family rate).

*Annual OPEB Cost and Net OPEB Obligation.* The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As of June 30, 2009, the date of the latest actuarial valuation, there were 12 retirees receiving benefits and 20 active plan members.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(9) Other Post Employment Benefits, OPEB (Continued)**

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for these benefits:

Annual required contribution	\$ 380,682
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	380,682
Contributions made (including premiums paid)	<u>(652,747)</u>
Increase (decrease) in net OPEB obligation	(272,065)
Net OPEB obligation—beginning of year	<u>272,065</u>
Net OPEB obligation—end of year	<u>\$ -</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 and the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	n/a	n/a	n/a
6/30/09	\$ 380,682	29%	\$ 272,065
6/30/10	380,682	171%	-

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(9) Other Post Employment Benefits, OPEB (Continued)**

*Funded Status and Funding Progress.* The funded status of the plan as of June 30, 2009, which is the date of the latest actuarial valuation, is stated in the OPEB schedule of funding progress below.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

***The actuarial cost method used for determining the benefit obligations is the Entry Age Actuarial Cost Method. The actuarial assumptions included an annual healthcare cost trend rate of 8 percent initially, reduced by decrements of .5 percent per year to an ultimate rate of 5 percent after the sixth year. The UAAL is being amortized as a level dollar of projected payroll over 30 years. It is assumed the Authority's payroll will increase 3 percent per year.***

**OPEB SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a / b)	(c)	(b - a) / c
6/30/2008	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2009	\$ -	\$ 2,868,843	\$ 2,868,843	0.0%	\$ 2,014,227	142.43%

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(10) Contract Services Provided to Other Agencies**

During the fiscal year ending June 30, 2010 the Authority provided administrative consulting services to the Liability Trust Fund, and was compensated on a fee for service basis. Throughout that time, the Authority had no custody of LTF assets.

During the fiscal year ending June 30, 2010 the Authority also provided administrative consulting services to the Central Coast Cities Self Insurance Fund for Workers' Compensation (CCCSIF-WC). Throughout that time, the Authority maintained custody of CCCSIF-WC assets. The CCCSIF-WC administered by the Authority is considered to be an agency fund, and as such the activity for the year ended June 30, 2010 was as follows:

Other deposits payable as of 7/1/09	\$ 6,715,527
Amounts received	109,617
Amounts paid on behalf	<u>(579,809)</u>
Other deposits payable as of 6/30/10	<u>\$ 6,245,335</u>

As of June 30, 2010, the following provides further information regarding liabilities of the CCCSIF-WC:

Other deposits payable:	
Claims payable	\$ 4,956,400
Other	<u>1,288,935</u>
Total	<u>\$ 6,245,335</u>

It is expected that the Authority will continue to provide contract services until all of the CCCSIF's workers' compensation claims are closed.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Notes to the Basic Financial Statements**

(Continued)

**(11) Contingencies**

Various claims and suits have been filed against the members of the Authority in the normal course of its operations. The probable amounts of loss associated with these cases have been estimated by contracted actuarial consultants and reflected in the accompanying financial statements as claims payable. Although the outcome of these claims and lawsuits is uncertain, management does not expect that the resolution of these cases will have a material adverse affect on the Authority beyond the provision for claims payable reflected in the accompanying financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

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**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Reconciliation of Claims Payable by Type of Contract**

Year Ended June 30, 2010

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Claims payable, beginning of year, as reported, net	\$ 96,758,000	\$ 61,775,000	\$158,533,000
Incurred claims and claim adjustment expenses:			
Provision for covered events in the current year	30,383,000	16,636,000	47,019,000
Net increase (decrease) in provision for covered events in prior years	<u>1,142,000</u>	<u>(714,000)</u>	<u>428,000</u>
	<u>31,525,000</u>	<u>15,922,000</u>	<u>47,447,000</u>
Claims and claim adjustment payments:			
Attributable to covered events in the current year	(1,138,000)	(3,387,000)	(4,525,000)
Attributable to covered events in prior years	<u>(39,014,000)</u>	<u>(12,679,000)</u>	<u>(51,693,000)</u>
	<u>(40,152,000)</u>	<u>(16,066,000)</u>	<u>(56,218,000)</u>
Claims payable, end of year	<u>\$ 88,131,000</u>	<u>\$ 61,631,000</u>	<u>\$ 149,762,000</u>

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Schedule of Claim Development Information - Liability**

For the Ten Years Ended June 30, 2010

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In thousands)									
Net earned deposits and investment income	29,333	25,432	20,065	13,028	31,515	31,975	44,742	92,929	65,611	46,063
Unallocated expenses	3,137	2,587	3,230	4,423	4,601	5,336	4,413	4,560	6,129	5,874
Estimated incurred losses and expenses, end of policy year	25,574	22,160	19,983	25,872	25,247	24,881	25,883	33,723	34,959	31,681
Paid (cumulative) as of:										
End of policy year	656	550	585	818	1,239	885	679	964	996	1,313
One year later	4,064	4,089	3,604	5,311	8,280	4,415	4,292	7,590	5,141	
Two years later	7,644	11,227	9,204	12,502	16,758	20,279	17,312	15,469		
Three years later	11,311	17,443	14,112	36,485	32,592	31,139	35,855			
Four years later	11,886	24,739	24,689	37,877	42,449	31,757				
Five years later	11,973	25,833	25,201	41,389	50,410					
Six years later	13,754	28,020	25,913	41,700						
Seven years later	13,780	28,047	26,060							
Eight years later	13,780	27,986								
Nine years later	13,985									
Reestimated incurred losses and expenses:										
End of policy year	25,574	22,160	19,983	25,872	25,247	24,881	25,883	33,723	34,959	31,681
One year later	20,120	19,407	18,448	21,477	30,023	33,209	30,947	36,011	31,238	
Two years later	15,158	20,861	16,850	38,012	42,335	41,767	39,415	31,757		
Three years later	15,357	26,870	21,130	40,308	45,668	36,546	47,723			
Four years later	13,418	27,823	27,340	41,159	54,884	35,293				
Five years later	12,461	28,946	26,532	42,582	56,854					
Six years later	13,846	28,196	27,877	42,554						
Seven years later	13,780	28,145	26,250							
Eight years later	13,780	28,069								
Nine years later	14,281									
Increase (decrease ) in estimated incurred losses and expenses from end of policy year	(11,293)	5,909	6,267	16,882	31,607	10,412	21,840	(1,966)	(3,721)	

The above data does not include contingency reserves as calculated by the Authority's actuary.

**CALIFORNIA JOINT POWERS INSURANCE AUTHORITY**

**Schedule of Claim Development Information - Workers' Compensation**

For the Ten Years Ended June 30, 2010

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In thousands)									
Net earned deposits and investment income	17,750	15,843	15,812	16,414	26,329	24,424	18,276	18,602	34,508	21,723
Unallocated expenses	1,384	1,391	1,786	2,312	3,100	5,391	4,282	4,706	5,463	4,322
Estimated incurred losses and expenses, end of policy year	14,413	14,259	16,324	15,863	19,181	17,511	16,611	17,819	19,489	19,103
Paid (cumulative) as of:										
End of policy year	1,980	2,216	2,577	2,332	2,904	2,402	2,362	2,593	3,050	3,386
One year later	4,761	5,166	6,472	4,953	6,785	5,011	5,706	8,139	7,638	
Two years later	6,511	7,543	8,809	6,646	9,284	6,693	7,701	11,148		
Three years later	7,968	8,884	10,287	7,513	11,099	7,950	8,773			
Four years later	9,189	9,915	11,400	8,065	12,455	8,882				
Five years later	9,812	10,571	11,941	8,581	13,434					
Six years later	10,327	11,377	12,437	8,892						
Seven years later	10,738	11,883	12,817							
Eight years later	11,333	12,096								
Nine years later	11,588									
Reestimated incurred losses and expenses:										
End of policy year	14,413	14,259	16,324	15,863	19,181	17,511	16,611	17,819	19,489	19,103
One year later	11,233	12,442	15,312	14,158	20,459	14,625	14,928	19,090	18,989	
Two years later	10,818	12,858	16,747	13,387	18,409	14,233	15,834	18,950		
Three years later	11,443	14,013	16,078	12,055	20,217	14,476	14,541			
Four years later	12,705	13,874	16,361	12,057	18,208	13,336				
Five years later	12,694	14,254	15,734	11,804	18,031					
Six years later	13,167	14,344	15,826	11,439						
Seven years later	12,929	14,818	15,500							
Eight years later	13,671	14,314								
Nine years later	13,683									
Increase (decrease ) in estimated incurred losses and expenses from end of policy year	(730)	55	(824)	(4,424)	(1,150)	(4,175)	(2,070)	1,131	500	

The above data does not include contingency reserves as calculated by the Authority's actuary.

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