

**MONTEREY BAY AREA
SELF INSURANCE AUTHORITY**
Monterey, California

FINANCIAL STATEMENTS
June 30, 2013 and 2012

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
Monterey, California

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Monterey Bay Area Self Insurance Authority
Scotts Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of Monterey Bay Area Self Insurance Authority, which are comprised of the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and change in net position, statements of cash flows for the years then ended and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Monterey Bay Area Self Insurance Authority, as of June 30, 2013 and 2012, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7, the Reconciliation of Claims Liability by Type of Contract on pages 17 and 18, and the Claims Development Information on pages 19 through 21 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Monterey Bay Area Self Insurance Authority's financial statements. The Combining Statements of Net Position and Combining Statements of Revenues, Expenses and Change in Net Position are presented on pages 22 through 25 for purposes of additional analysis and are not a required part of the financial statements.

The information has not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of Monterey Bay Area Self Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Monterey Bay Area Self Insurance Authority's internal control over financial reporting and compliance.


Crowe Horwath LLP

Sacramento, California
October 3, 2014

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

This section of *Monterey Bay Area Self Insurance Authority's* annual financial report presents our discussion and analysis of the Authority's financial performance during the years ended June 30, 2013 and 2012. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements. Comparisons to and analysis of the prior year are incorporated where appropriate.

FINANCIAL HIGHLIGHTS

- The Authority's net position (decreased) increased by \$(1,143,479) or -34.8%, \$(1,022,471) or -45.2%, and \$1,762,728 or 43.8%, during the years ended June 30, 2013, 2012 and 2011, respectively. Since the Authority engages only in business-type activities, the activity is all in the category of business-type net position. Net Position was \$(4,428,997), \$(3,285,518) and \$(2,263,047) for 2013, 2012, and 2011, respectively.
- Total costs of all of the Authority's programs were \$6,650,145 in 2013, \$6,021,536 in 2012, and \$3,221,851 in 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority has chosen to present its financial statements using the reporting model for special-purpose governments engaged in only business-type activities. This model allows all financial information for the organization to be reported in a single column in each of the financial statements. The effect of internal activity between funds and groups of funds has been eliminated from these financial statements.

The financial statements include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, Combining Statements of Net Position, Combining Statements of Revenues, Expenses and Changes in Net Position, Combining Statements of Cash Flows, Notes to the Financial Statements and this Management's Discussion and Analysis. Readers of these financial statements are encouraged to consider the report as a whole to obtain a complete understanding of the Authority's financial condition.

Statements of Net Position

The Statements of Net Position is a report of the Authority's assets, liabilities and net position. Assets and liabilities are reported at book value, on an accrual basis as of the statement date. Assets and liabilities have been segregated between Current (expected to be liquidated or paid within one year) and Noncurrent. Net position is reported in major categories reflecting any restriction thereon.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position presents the Authority's revenue earned and expense incurred during the period on an accrual basis. The Statements have been segregated into operating and non-operating sections.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statements of Cash Flows

The Statements of Cash Flows presents the source and uses of cash and is segregated into operating, capital and related financing, noncapital financing and investing activities. The direct method of cash flows reporting has been used and an indirect method of calculating cash provided (used) by operations is also presented.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds. The Fund consists exclusively of Enterprise Funds, but the focus now is on Major Funds, rather than fund types. In order to be selected as major fund, the fund's assets, liabilities, revenues, or expenses should be at least 10% or more of the fund type's total assets, liabilities, revenues or expenses and at least 5% or more of the Authority's total assets, liabilities, revenues or expenses. Since the Authority has only one fund type, the 10% threshold is appropriate to determine major funds. The Enterprise method of accounting is similar to accounting utilized by the private sector.

FUNDS

Business Type Funds

Workers' Compensation Fund – Under the Workers' Compensation Fund, the Authority provides workers' compensation insurance to member municipalities. The principal operating revenue for the Workers' Compensation Fund is premiums collected from the members. Operating expenses for this fund include claims expense, contract risk management services expense, and administrative expenses.

Liability Fund – Under the Liability Fund, the Authority provides liability insurance to member municipalities. The principal operating revenue for the Liability Fund is premiums collected from the members. Operating expenses for this fund include claims expense, contract risk management services expense, administrative expenses and insurance expense for excess of loss coverage.

Other Non-major Funds – In addition to the major funds above, the Authority also maintains the following non-major funds:

E. A. P. Fund
Property Insurance Fund

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

COMPARATIVE ANALYSIS

Statements of Net Position

A comparative summary of the Authority's Statements of Net Position as of June 30, 2013, 2012 and 2011, which generally reflects its financial condition is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 13,730,020	\$ 14,087,745	\$ 14,198,125
Capital and other assets	241,289	329,022	157,173
Total assets	<u>13,971,309</u>	<u>14,416,767</u>	<u>14,355,298</u>
Current liabilities	3,241,436	2,829,285	2,632,576
Long-term liabilities	15,158,870	14,873,000	13,985,769
Total liabilities	<u>18,400,306</u>	<u>17,702,285</u>	<u>16,618,345</u>
Net position -			
Unrestricted	<u>(4,428,997)</u>	<u>(3,285,518)</u>	<u>(2,263,047)</u>
Total net position	<u>\$ (4,428,997)</u>	<u>\$ (3,285,518)</u>	<u>(2,263,047)</u>

Major Factors Affecting the Statements of Net Position

Net position (decreased) increased by \$(1,143,479), \$(1,022,471), and \$1,762,728 during the years ending June 30, 2013, 2012 and 2011, respectively, resulting mainly from the change in claims payable based on the actuarial studies.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

COMPARATIVE ANALYSIS (Continued)

Statements of Revenues, Expenses and Change in Net Position

A comparative summary of the Authority's Statements of Revenues, Expenses and Change in Net Position for the years ended June 30, 2013, 2012 and 2011, which generally reflects its results of operations, is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue:			
Contributions from members	\$ 4,939,825	\$ 4,738,785	\$ 4,529,833
Excess insurance recovery and reimbursements	556,827	241,088	423,382
Interest income	<u>41,867</u>	<u>53,388</u>	<u>69,039</u>
Total revenue	<u>5,538,519</u>	<u>5,033,261</u>	<u>5,022,254</u>
Expenses:			
Claims expense	3,952,438	3,158,727	1,362,837
Unpaid claims liability adjustment expense	915,870	1,285,571	536,695
Contract risk management services	357,783	347,140	258,139
Other risk management services	80,560	74,011	25,727
Other contract services - administration	193,228	188,516	269,351
General and administrative	122,600	141,966	124,821
Insurance expense	1,027,666	825,605	644,281
Interest expense	<u>31,853</u>	<u>34,196</u>	<u>37,675</u>
Total expenses	<u>6,681,998</u>	<u>6,055,732</u>	<u>3,259,526</u>
Change in net position	<u>\$ (1,143,479)</u>	<u>\$ (1,022,471)</u>	<u>1,762,728</u>

Major Factors Affecting the Statements of Revenues, Expenses and Change in Net Position

Main reason for decrease in change in net position is claims expense and increase in provision for claims and allocated claims adjustment expenses. Change in both areas came from liability fund.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Reserves for Claims and Allocated Claims Adjustment Expenses

Reserves for Claims and Allocated Claims Adjustment Expenses for the years ended June 30, 2013, 2012 and 2011 are calculated as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Claim and claim adjustment expense reserves, beginning of year	\$ 13,764,000	\$ 12,478,429	13,770,681
Incurred claim and claim adjustment expenses, current and prior years	4,868,308	4,444,298	1,899,532
Payments, current and prior years	<u>(3,952,438)</u>	<u>(3,158,727)</u>	<u>(3,191,784)</u>
Claim and claim adjustment expense reserves, end of year	<u>\$ 14,679,870</u>	<u>\$ 13,764,000</u>	<u>12,478,429</u>

Further detail on the above amounts is provided in Footnote 3 and the Required Supplementary Information section.

FACTORS AFFECTING FUTURE PERIODS

There are no material factors affecting near future periods.

REQUESTS FOR INFORMATION

This financial report has been designed to provide a general overview of the Authority's accounting for anyone interested in its finances. Questions concerning any of the information should be addressed to the attention of the City Manager, City of Scotts Valley, 1 Civic Center Drive, Scotts Valley, CA 90566.

FINANCIAL STATEMENTS

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 STATEMENTS OF NET POSITION
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 3,051,927	\$ 1,515,192
Investments (Note 2)	10,503,466	12,452,179
Receivables:		
Member agencies	162,669	103,795
Interest	6,220	10,840
Note issuance costs, net (Note5)	<u>5,739</u>	<u>5,740</u>
Total current assets	<u>13,730,021</u>	<u>14,087,746</u>
Noncurrent assets:		
Note issuance costs, net (Note 5)	58,828	64,566
Note receivable	<u>182,462</u>	<u>264,455</u>
Total noncurrent assets	<u>241,290</u>	<u>329,021</u>
Total assets	<u>13,971,311</u>	<u>14,416,767</u>
LIABILITIES		
Current liabilities:		
Accounts payable	10,436	13,286
Current portion of notes payable (Note 4)	225,000	215,000
Current portion of unpaid claims and claim adjustment expenses (Note 3)	<u>2,759,000</u>	<u>2,394,000</u>
Total current liabilities	2,994,436	2,622,286
Long-term portion of notes payable (Note 4)	3,485,000	3,710,000
Unpaid claims and claim adjustment expenses (Note 3)	<u>11,920,870</u>	<u>11,699,000</u>
Total liabilities	<u>18,400,306</u>	<u>18,031,286</u>
NET POSITION		
Total net position - unrestricted	<u>\$ (4,428,995)</u>	<u>\$ (3,614,519)</u>

See accompanying notes to financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Member contributions	\$ 4,939,825	\$ 4,738,785
Excess insurance recovery reimbursements	<u>556,830</u>	<u>241,111</u>
Total operating revenues	<u>5,496,655</u>	<u>4,979,896</u>
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 3)	4,594,695	4,836,139
Insurance premiums	1,027,666	825,605
Claims administration	193,228	188,516
Contract risk management services	302,397	284,297
Other risk management expenses	80,560	74,011
General and administrative	<u>116,860</u>	<u>136,227</u>
Total operating expenses	<u>6,315,406</u>	<u>6,344,795</u>
Operating loss	(818,751)	(1,364,899)
Non-operating income (expense):		
Interest income	41,867	53,362
Interest and amortization expense	<u>(37,592)</u>	<u>(39,935)</u>
Total non-operating income	<u>4,275</u>	<u>13,427</u>
Change in net position	(814,476)	(1,351,472)
Net position, beginning of year	<u>(3,614,519)</u>	<u>(2,263,047)</u>
Net position, end of year	<u>\$ (4,428,995)</u>	<u>\$ (3,614,519)</u>

See accompanying notes to financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from members	\$ 5,519,774	\$ 4,753,274
Cash paid for claims	(4,007,825)	(3,221,568)
Cash paid for insurance	(1,027,666)	(825,605)
Cash paid to suppliers	<u>(695,895)</u>	<u>(679,681)</u>
Net cash (used in) provided by operating activities	<u>(211,912)</u>	<u>26,420</u>
Cash flows from investing activities:		
Interest received	46,487	58,648
Investments sold	<u>1,948,713</u>	<u>1,037,678</u>
Net cash provided by investing activities	<u>1,995,200</u>	<u>1,096,326</u>
Cash flows from noncapital financing activities:		
Interest paid on notes payable	(31,853)	(34,196)
Principal payments on notes payable	<u>(215,000)</u>	<u>(205,000)</u>
Net cash used in noncapital financing activities	<u>(246,853)</u>	<u>(239,196)</u>
Net change in cash and cash equivalents	1,536,735	883,550
Cash and cash equivalents, beginning of year	<u>1,515,192</u>	<u>631,342</u>
Cash and cash equivalents, end of year	<u>\$ 3,051,927</u>	<u>\$ 1,515,192</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (818,751)	\$ (1,364,899)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
(Increase) decrease in:		
Receivables from member agencies	(58,874)	(49,034)
Notes receivable	81,993	(177,588)
(Decrease) increase in:		
Accounts payable	(2,850)	3,370
Unpaid claims and claim adjustment expenses	<u>586,870</u>	<u>1,614,571</u>
Net cash (used in) provided by operating activities	<u>\$ (211,612)</u>	<u>\$ 26,420</u>
Supplemental cash flow information:		
Investing activities:		
Change in fair value of investments	<u>\$ (31,853)</u>	<u>\$ (34,196)</u>
Financing activities:		
Amortization of note issuance costs	<u>\$ 5,739</u>	<u>\$ 5,739</u>

See accompanying notes to financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Monterey Bay Area Self Insurance Authority (the "Authority") is a public agency created on July 1, 1983, by and among nine municipalities in California to provide a pooled approach to workers' compensation insurance. Since then, two municipalities have joined and one municipality has withdrawn. The Authority established a group to provide for liability insurance for certain electing members. The Authority is not a component unit of any entity and has no component units itself.

The Authority was created pursuant to the provisions of Title I, Division 7, Chapter 5, Article I, of the California Government code and was established to develop risk management programs, share the risk of self-insured losses, and jointly purchase excess insurance and administrative and other services.

It is governed by a Board of Directors which is comprised of the City Managers or their designated alternates from each of the member entities. Member cities at June 30, 2012 and June 30, 2013 included Capitola, Del Rey Oaks, Gonzales, Greenfield, Hollister, King City, Marina, Sand City, Scotts Valley and Soledad.

The Authority has certain administrative duties and obligations to its members including accounting, reporting, claims administration and investment of funds. Contribution rates are determined on the basis of individual member's claims experience. Members are required to participate in safety and risk reduction programs. Any member desiring to withdraw from participation will remain liable for any unpaid claims.

Basis of Presentation: The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. The Authority maintains two funds, which are reported as an enterprise fund:

Property and Liability Program: This fund was established to account for the contributions received from members that are to be used to provide self-funded property and liability benefits.

Workers' Compensation Program: This fund was established to account for the contributions received from members that are to be used to provide self-funded workers' compensation benefits.

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses are recognized when the obligation is incurred.

Cash Equivalents: Cash equivalents are investments readily convertible into known amounts of cash with original maturities at date of purchase of less than three months.

Fair Value of Pooled Investments: The Authority records its investment in the Local Agency Investment Fund (LAIF) at fair value. Changes in fair value are reported as revenue in the statement of operations and retained earnings. The fair value of investments, including the Local Agency Investment Fund as an external investment pool, at June 30, 2013 and June 30, 2012 approximated their carrying value.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: Premiums are recognized as revenue when earned based upon the coverage period of the related insurance. Operating revenues and expenses include all activities necessary to achieve the objectives of the Authority. Non-operating revenues and expenses include investment and financing activity.

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

Provision for Unpaid Claims and Claim Adjustment Expenses: The Authority's policy is to establish unpaid claims and claim adjustment expenses based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and reinsurance recoverable on unpaid claims are deducted from the liability. The Authority increases the liability for allocated and unallocated claim adjustment expenses. Because actual claim costs depend on such complex factors as inflation, changes in doctrine of legal liability, and damage awards, the process used in computing unpaid claims and claim adjustment expenses does not necessarily result in an exact amount, particularly for coverages such as general liability. Unpaid claims and claim adjustment expenses are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, other economic and social factors and estimated payment dates. Adjustments to unpaid claims and claim adjustment expenses are charged or credited to expense in the period in which they are made.

Self Insurance and Excess Insurance: The Authority covers losses in excess of \$10,000 for members of the liability group and carries excess insurance for losses between \$1,000,000 and \$20,000,000. Members of the workers' compensation group pay temporary disability claims directly, while the Authority pays for permanent disability claims, medical costs, rehabilitation costs, and legal costs and carries excess workers' compensation coverage for between \$500,000 and statutory limits.

Reinsurance: The Authority uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Authority as a direct insurer of the risks insured. The Authority does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurance. The Authority is contingently liable with respect to certain loss coverage, which would become a liability in the event the insurance carriers are unable to meet the obligations under these contracts.

Member Contributions: Under the Authority's Joint Powers Agreement, members must make a three-year commitment to participate in the Authority. Mid-term cancellation or withdrawal is not permitted and notice must be given to the Authority six months in advance. Withdrawing members are not entitled to a refund.

Income Taxes: The Authority is an organization comprised of public agencies, and is exempt from Federal income and California franchise taxes. Accordingly, no provision for Federal or State income taxes has been made in the accompanying financial statements.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 3,051,927	\$ 1,515,192
Cash in Local Agency Investment Fund	<u>10,503,466</u>	<u>12,452,179</u>
	<u>\$ 13,555,393</u>	<u>\$ 13,967,371</u>

Custodial Credit Risk: The Authority limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2012, the carrying amount of the Authority's accounts was \$1,515,192 and the bank balance was \$1,615,929. \$289,405 of the balance was FDIC insured at June 30, 2012. At June 30, 2013, the carrying amount of the Authority's accounts was \$3,051,927 and the bank balance was \$3,286,069. \$250,000 of the bank balance was FDIC insured at June 30, 2013.

Local Agency Investment Fund: Monterey Bay Area Self Insurance Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Pool. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are reported on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. The interest rate at June 30, 2013 and 2012 was 0.24% and 0.37%, respectively. LAIF is currently unrated and has an average life of 170 days.

LAIF is administered by the State Treasurer and is audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity and yield are not jeopardized.

Investment Interest Rate Risk: The Authority does not have formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2013 and 2012, the Authority had no significant interest rate risk related to cash and investments held.

Concentration of Investment Credit Risk: The Authority does not place limits on the amount it may invest in any one issuer. At June 30, 2013 and 2012, the Authority had no concentration of credit risk.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

	<u>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 14,093,000	\$ 12,478,429
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	3,474,851	3,462,583
Change in provision for covered events of prior fiscal years	<u>1,119,844</u>	<u>1,373,556</u>
Total incurred claims and claim adjustment expenses	<u>4,594,695</u>	<u>4,836,139</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	605,203	528,633
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>3,402,622</u>	<u>2,692,935</u>
Total payments	<u>4,007,825</u>	<u>3,221,568</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 14,679,870</u>	<u>\$ 14,093,000</u>

The components of the unpaid claims and claim adjustment expenses for the Authority as of June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Claim reserves	\$ 6,453,320	\$ 5,638,800
Claims incurred but not reported (IBNR)	7,322,000	7,480,500
Unallocated loss adjustment expenses (ULAE)	<u>904,550</u>	<u>973,700</u>
	14,679,870	14,093,000
Current portion	<u>(2,759,000)</u>	<u>(2,394,000)</u>
	<u>\$ 11,920,870</u>	<u>\$ 11,699,000</u>

These liabilities are reported at their present value using an expected future investment yield assumption of 1.5 percent and 1.0 percent for June 30, 2013 and 2012, respectively. The undiscounted liabilities are \$16,245,112 and \$14,901,847 at June 30, 2013 and 2012, respectively. The current portion of claim liabilities is estimated based on claims payment history.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 – LONG-TERM DEBT

Long-term debt at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Note payable to DEPFA Bank. Annual payments including interest are due on an annual basis. The loan bears interest at the monthly LIBOR rate plus 60 basis points per annum. The note matures October 1, 2024. The note is secured by all premiums received by the Authority.	\$ 3,710,000	\$ 3,925,000
Less current portion	<u>(225,000)</u>	<u>(215,000)</u>
Total long-term debt	<u>\$ 3,485,000</u>	<u>\$ 3,710,000</u>

Long-term debt maturities at June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Interest *</u>	<u>Principal</u>
2014	\$ 28,089	\$ 225,000
2015	26,215	240,000
2016	24,252	250,000
2017	22,180	265,000
2018	19,989	280,000
2019-2023	62,603	1,650,000
2024-2025	<u>4,839</u>	<u>800,000</u>
	<u>\$ 188,167</u>	<u>\$ 3,710,000</u>

* Interest is a variable rate computed at the monthly LIBOR rate plus 60 basis points. The interest amounts shown above are based on the June 30, 2013 monthly LIBOR rate plus 60 basis points, or 0.7932% annual interest rate.

NOTE 5 – NOTE ISSUANCE COSTS

Note issuance costs represent legal and accounting fees, preparation costs and other expenses associated with the issuance of a long-term debt note. Such costs are being amortized over the 20 year term of the note which matures during the fiscal year ending June 30, 2025. The balance as of June 30, 2013 and 2012 is presented as follows:

	<u>2013</u>	<u>2012</u>
Original cost	\$ 114,785	\$ 114,785
Accumulated amortization	<u>(50,218)</u>	<u>(44,479)</u>
Debt issuance costs, net	<u>\$ 64,567</u>	<u>\$ 70,306</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – NET POSITION

The Authority has maintained a balanced approach to addressing the negative net position the Authority has carried for the last several years. In 2004, the Authority entered into a note payable to ensure there would be no cash flow issues.

The majority of the Authority's debt is long-term claims reserves. The Authority, in 2004, raised rates to exceed the actuarial estimates, in hopes of slowly eating away at the negative position, which is being accomplished, albeit slowly. Due to the financial hardships at each member agency, the Authority has not been able to accelerate their deficit reduction, but continue to overfund the program each year, with the expectation of climbing out of debt in the long term.

Each member agency is responsible for reporting their share of the debt to their City, to be sure it is also reflected on their City's audit. All member agencies are well aware of their obligation to pay off any debt associated with the Authority, and that they cannot leave the Authority while any debt is outstanding.

The Authority continues to monitor and budget for the current and future years to ensure financial stability.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
LIABILITY PROGRAM
For the Years Ended June 30, 2013 and 2012

The schedule below presents the changes in claims liabilities for the past two years of the Authority's Liability Program:

	<u>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>2,620,000</u>	\$ <u>1,748,233</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	767,977	816,240
Decrease in provision for covered events of prior fiscal years	<u>1,349,002</u>	<u>766,851</u>
Total incurred claims and claim adjustment expenses	<u>2,116,979</u>	<u>1,583,091</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	44,710	33,710
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>1,731,949</u>	<u>677,614</u>
Total payments	<u>1,776,659</u>	<u>711,324</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	\$ <u>2,960,320</u>	\$ <u>2,620,000</u>

The components of the unpaid claims and claim adjustment expenses for the Property and Liability Program as of June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Claim reserves	\$ 1,880,320	\$ 1,096,800
Claims incurred but not reported (IBNR)	900,000	1,343,500
Unallocated loss adjustment expenses (ULAE)	<u>180,000</u>	<u>179,700</u>
	2,960,320	2,620,000
Current portion	<u>(1,099,000)</u>	<u>(846,000)</u>
	\$ <u>1,861,320</u>	\$ <u>1,774,000</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2013 and 2012

The schedule below presents the changes in claims liabilities for the past two years of the Workers' Compensation Program:

	<u>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>11,473,000</u>	\$ <u>10,730,196</u>
Incurred claims and claim adjustment expenses:		
Change in provision for covered events of the current fiscal year	2,706,874	2,646,343
Change in provision for covered events of prior fiscal years	<u>(229,158)</u>	<u>606,705</u>
Total incurred claims and claim adjustment expenses	<u>2,477,716</u>	<u>3,253,048</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	560,493	494,923
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>1,670,673</u>	<u>2,015,321</u>
Total payments	<u>2,231,166</u>	<u>2,510,244</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 11,719,550</u>	<u>\$ 11,473,000</u>

The components of the unpaid claims and claim adjustment expenses for the Workers' Compensation Program as of June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Claim reserves	\$ 4,573,000	\$ 4,542,000
Claims incurred but not reported (IBNR)	6,422,000	6,137,000
Unallocated loss adjustment expenses (ULAE)	<u>724,550</u>	<u>794,000</u>
	11,719,550	11,473,000
Current portion	<u>(1,660,000)</u>	<u>(1,548,000)</u>
	<u>\$ 10,059,550</u>	<u>\$ 9,925,000</u>

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
CLAIMS DEVELOPMENT INFORMATION
For the Years Ended June 30, 2013 and 2012

The tables that follow illustrate how the Authority's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the previous ten years for the Liability and Workers' Compensation Programs. The rows of the tables are defined as follows:

1. Total of each fiscal year's gross earned premiums and reported investment revenue, amounts of premiums ceded and net earned reported premiums and reported investment revenue.
2. Each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims.
3. Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called policy year).
4. The cumulative net amounts paid as of the end of successive years for each policy year.
5. The latest reestimated amount of losses assumed by reinsurers for each policy year.
6. Policy year's incurred net claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
7. Compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 WORKERS' COMPENSATION PROGRAM - CLAIMS DEVELOPMENT INFORMATION
 June 30, 2013

	Fiscal and Policy Year Ended June 30,									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1. Premiums and investment income	\$ 3,196,556	\$ 2,670,356	\$ 2,989,236	\$ 3,073,170	\$ 3,345,961	\$ 3,883,249	\$ 3,606,504	\$ 3,583,356	\$ 3,770,837	\$ 3,764,840
Ceded	-	-	-	-	-	-	(227,219)	(303,371)	(394,286)	(502,384)
Net earned	<u>\$ 3,196,556</u>	<u>\$ 2,670,356</u>	<u>\$ 2,989,236</u>	<u>\$ 3,073,170</u>	<u>\$ 3,345,961</u>	<u>\$ 3,883,249</u>	<u>\$ 3,379,285</u>	<u>\$ 3,279,985</u>	<u>\$ 3,376,551</u>	<u>\$ 3,262,456</u>
2. Unallocated expenses	\$ 276,675	\$ 579,100	\$ 538,020	\$ 628,870	\$ 641,843	\$ 627,390	\$ 671,656	\$ 788,351	\$ 671,956	\$ 504,622
3. Estimated claims and expenses	\$ 3,533,352	\$ 5,257,674	\$ 3,286,833	\$ 4,486,641	\$ 3,400,000	\$ 3,013,783	\$ 3,963,481	\$ 2,563,783	\$ 2,496,115	\$ 2,569,812
4. Paid cumulative as of:										
End of policy year	\$ 467,013	\$ 659,475	\$ 425,153	\$ 864,346	\$ 434,224	\$ 509,729	\$ 1,126,017	\$ 494,781	\$ 494,923	\$ 560,493
One year later	\$ 863,861	\$ 1,237,583	\$ 852,367	\$ 1,708,701	\$ 955,325	\$ 1,232,805	\$ 1,143,243	\$ 1,635,654	\$ 902,235	
Two years later	\$ 1,207,910	\$ 1,420,240	\$ 1,065,792	\$ 2,251,562	\$ 1,169,893	\$ 1,062,901	\$ 1,517,870	\$ 2,520,451		
Three years later	\$ 1,296,330	\$ 1,495,340	\$ 1,193,470	\$ 2,634,600	\$ 875,997	\$ 1,186,781	\$ 1,929,442			
Four years later	\$ 1,723,566	\$ 1,562,876	\$ 1,129,898	\$ 2,195,189	\$ 880,627	\$ 1,269,509				
Five years later	\$ 1,659,129	\$ 1,685,126	\$ 1,012,475	\$ 2,455,735	\$ 909,536					
Six years later	\$ 1,683,354	\$ 1,291,180	\$ 992,259	\$ 2,449,012						
Seven years later	\$ 1,432,120	\$ 1,368,522	\$ 1,015,859							
Eight years later	\$ 1,461,034	\$ 1,401,108								
Nine years later	\$ 1,457,120									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated incurred claims and expenses:										
End of policy year	\$ 3,533,352	\$ 5,257,674	\$ 3,286,833	\$ 4,486,641	\$ 3,400,000	\$ 3,013,783	\$ 3,963,481	\$ 2,563,783	\$ 2,496,115	\$ 2,569,812
One year later	\$ 4,883,715	\$ 4,290,642	\$ 3,985,890	\$ 7,461,081	\$ 2,697,992	\$ 3,997,281	\$ 3,672,408	\$ 3,685,771	\$ 2,473,966	
Two years later	\$ 3,216,789	\$ 3,358,806	\$ 4,474,971	\$ 4,020,775	\$ 2,388,044	\$ 3,041,571	\$ 2,970,172	\$ 4,116,586		
Three years later	\$ 2,833,552	\$ 3,729,099	\$ 2,481,433	\$ 3,983,835	\$ 1,909,682	\$ 2,050,108	\$ 2,995,078			
Four years later	\$ 3,018,979	\$ 2,168,738	\$ 2,401,500	\$ 3,467,799	\$ 1,369,373	\$ 1,810,994				
Five years later	\$ 1,794,713	\$ 2,547,642	\$ 2,077,361	\$ 3,183,147	\$ 1,328,851					
Six years later	\$ 2,060,383	\$ 2,499,645	\$ 1,657,983	\$ 2,947,163						
Seven years later	\$ 1,965,227	\$ 1,939,594	\$ 1,533,818							
Eight years later	\$ 1,725,681	\$ 1,827,048								
Nine years later	\$ 1,689,644									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ (1,843,708)</u>	<u>\$ (3,430,626)</u>	<u>\$ (1,753,015)</u>	<u>\$ (1,539,478)</u>	<u>\$ (2,071,149)</u>	<u>\$ (1,202,789)</u>	<u>\$ (968,403)</u>	<u>\$ 1,552,803</u>	<u>\$ (22,149)</u>	<u>\$ -</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
LIABILITY PROGRAM - CLAIMS DEVELOPMENT INFORMATION
June 30, 2013

	Fiscal and Policy Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Premiums and investment revenue:										
Earned	\$ 1,114,863	\$ 1,204,596	\$ 1,404,160	\$ 1,331,436	\$ 1,213,122	\$ 1,010,101	\$ 623,496	\$ 1,012,970	\$ 1,033,081	\$ 1,146,867
Ceded	-	-	-	-	-	-	-	(260,460)	(338,246)	(408,624)
Net earned	<u>\$ 1,114,863</u>	<u>\$ 1,204,596</u>	<u>\$ 1,404,160</u>	<u>\$ 1,331,436</u>	<u>\$ 1,213,122</u>	<u>\$ 1,010,101</u>	<u>\$ 623,496</u>	<u>\$ 752,510</u>	<u>\$ 694,835</u>	<u>\$ 738,243</u>
2. Unallocated expenses	\$ 312,192	\$ 444,255	\$ 377,006	\$ 417,914	\$ 459,686	\$ 565,048	\$ 519,595	\$ 274,576	\$ 220,517	\$ 156,865
3. Estimated claims and expenses, end of policy year:										
Incurred	\$ 508,490	\$ 868,733	\$ 925,446	\$ 840,642	\$ 873,013	\$ 1,025,703	\$ 625,950	\$ 698,586	\$ 762,804	\$ 724,371
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>\$ 508,490</u>	<u>\$ 868,733</u>	<u>\$ 925,446</u>	<u>\$ 840,642</u>	<u>\$ 873,013</u>	<u>\$ 1,025,703</u>	<u>\$ 625,950</u>	<u>\$ 698,586</u>	<u>\$ 762,804</u>	<u>\$ 724,371</u>
4. Net paid (cumulative) as of:										
End of policy year	\$ 17,060	\$ 18,774	\$ 9,800	\$ 8,689	\$ 15,328	\$ 4,286	\$ 24,307	\$ 16,636	\$ 33,710	\$ 44,710
One year later	\$ 158,570	\$ 215,295	\$ 150,741	\$ 90,271	\$ 219,961	\$ 92,309	\$ 261,851	\$ 197,618	\$ 48,244	
Two years later	\$ 291,222	\$ 346,950	\$ 378,738	\$ 261,521	\$ 314,375	\$ 160,426	\$ 572,208	\$ 906,156		
Three years later	\$ 964,238	\$ 421,737	\$ 378,738	\$ 272,604	\$ 444,256	\$ 208,525	\$ 717,466			
Four years later	\$ 965,392	\$ 421,737	\$ 427,893	\$ 291,191	\$ 382,169	\$ 217,558				
Five years later	\$ 965,392	\$ 327,828	\$ 427,893	\$ 264,086	\$ 382,509					
Six years later	\$ 426,270	\$ 327,828	\$ 427,893	\$ 274,867						
Seven years later	\$ 426,270	\$ 327,828	\$ 482,175							
Eight years later	\$ 426,270	\$ 331,379								
Nine years later	\$ 426,270									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated incurred claims and expenses:										
End of policy year	\$ 508,490	\$ 868,733	\$ 925,446	\$ 840,642	\$ 873,013	\$ 1,025,703	\$ 625,950	\$ 698,586	\$ 762,804	\$ 724,371
One year later	\$ 835,291	\$ 774,170	\$ 910,000	\$ 552,712	\$ 1,113,374	\$ 585,468	\$ 1,130,864	\$ 1,250,164	\$ 408,855	
Two years later	\$ 657,232	\$ 520,000	\$ 1,053,781	\$ 676,691	\$ 708,769	\$ 381,845	\$ 1,169,927	\$ 2,155,714		
Three years later	\$ 640,000	\$ 545,081	\$ 874,809	\$ 347,925	\$ 640,779	\$ 269,524	\$ 1,025,751			
Four years later	\$ 585,221	\$ 504,718	\$ 427,893	\$ 321,274	\$ 382,169	\$ 300,114				
Five years later	\$ 583,962	\$ 327,828	\$ 427,893	\$ 264,087	\$ 382,509					
Six years later	\$ 426,270	\$ 327,828	\$ 427,893	\$ 274,868						
Seven years later	\$ 426,270	\$ 327,828	\$ 577,572							
Eight years later	\$ 426,270	\$ 332,159								
Nine years later	\$ 426,270									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ (82,220)</u>	<u>\$ (536,574)</u>	<u>\$ (347,874)</u>	<u>\$ (565,774)</u>	<u>\$ (490,504)</u>	<u>\$ (725,589)</u>	<u>\$ 399,801</u>	<u>\$ 1,457,128</u>	<u>\$ (353,949)</u>	<u>\$ -</u>

N/A = not available

SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENTS OF NET POSITION
 June 30, 2013

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,191,308	\$ 860,619	\$ -	\$ 3,051,927
Investments	7,541,569	2,961,897	-	10,503,466
Receivables:				
Member agencies	133,821	28,848	-	162,669
Interest	4,466	1,754	-	6,220
Note issuance costs, net	5,739	-	-	5,739
Due to/due from other funds	<u>-</u>	<u>8,423</u>	<u>(8,423)</u>	<u>-</u>
Total current assets	<u>9,876,903</u>	<u>3,861,541</u>	<u>(8,423)</u>	<u>13,730,021</u>
Noncurrent assets:				
Note issuance costs, net	58,828	-	-	58,828
Note receivable	<u>182,462</u>	<u>-</u>	<u>-</u>	<u>182,462</u>
Total assets	<u>10,118,193</u>	<u>3,861,541</u>	<u>(8,423)</u>	<u>13,971,311</u>
LIABILITIES				
Current liabilities:				
Accounts payable	1,507	6,654	2,275	10,436
Current portion of note payable	225,000	-	-	225,000
Current portion of unpaid claims and claims adjustment expenses	<u>1,660,000</u>	<u>1,099,000</u>	<u>-</u>	<u>2,759,000</u>
Total current liabilities	<u>1,886,507</u>	<u>1,105,654</u>	<u>2,275</u>	<u>2,994,436</u>
Note, payable, less current portion	3,485,000	-	-	3,485,000
Unpaid claims and claim adjustment expenses, less current portion	<u>10,059,550</u>	<u>1,861,320</u>	<u>-</u>	<u>11,920,870</u>
Total liabilities	<u>15,431,057</u>	<u>2,966,974</u>	<u>2,275</u>	<u>18,400,306</u>
Total net position	<u>\$ (5,312,864)</u>	<u>\$ 894,567</u>	<u>\$ (10,698)</u>	<u>\$ (4,428,995)</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENTS OF NET POSITION
 June 30, 2012

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 975,271	\$ 539,921	\$ -	\$ 1,515,192
Investments	8,014,986	4,437,193	-	12,452,179
Receivables:				
Member agencies	66,802	22,026	14,967	103,795
Interest	6,977	3,863	-	10,840
Note issuance costs, net	5,740	-	-	5,740
Due to/due from other funds	-	19,505	(19,505)	-
Total current assets	<u>9,069,776</u>	<u>5,022,508</u>	<u>(4,538)</u>	<u>14,087,746</u>
Noncurrent assets:				
Note issuance costs, net	64,566	-	-	64,566
Note receivable	<u>264,445</u>	-	-	<u>264,445</u>
Total assets	<u>9,398,797</u>	<u>5,022,508</u>	<u>(4,538)</u>	<u>14,416,767</u>
LIABILITIES				
Current liabilities:				
Accounts payable	6,515	4,560	2,211	13,286
Current portion of note payable	215,000	-	-	215,000
Current portion of unpaid claims and claims adjustment expenses	<u>1,548,000</u>	<u>846,000</u>	-	<u>2,394,000</u>
Total current liabilities	<u>1,769,515</u>	<u>850,560</u>	<u>2,211</u>	<u>2,622,286</u>
Note, payable, less current portion	3,710,000	-	-	3,710,000
Unpaid claims and claim adjustment expenses, less current portion	<u>9,925,000</u>	<u>1,774,000</u>	-	<u>11,699,000</u>
Total liabilities	<u>15,404,515</u>	<u>2,624,560</u>	<u>2,211</u>	<u>18,031,286</u>
Total net position	<u>\$ (6,005,718)</u>	<u>\$ 2,397,948</u>	<u>\$ (6,749)</u>	<u>\$ (3,614,519)</u>

See report on supplementary information.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENTS OF REVENUES, EXPENSES
 AND CHANGE IN NET POSITION
 June 30, 2013

	Workers' Compensation	Liability	Property	Total
Operating revenues:				
Member contributions	\$ 3,735,254	\$ 1,060,614	\$ 143,957	\$ 4,939,825
Excess insurance recovery reimbursements	<u>482,186</u>	<u>73,972</u>	<u>672</u>	<u>556,830</u>
Total operating revenues	<u>4,217,440</u>	<u>1,134,586</u>	<u>144,629</u>	<u>5,496,655</u>
Operating expenses:				
Provisions for claims and claim adjustment expenses	2,477,716	2,116,979	-	4,594,695
Insurance premiums	502,384	408,624	116,658	1,027,666
Claims administration	96,614	96,614	-	193,228
Contract risk management services	302,397	-	-	302,397
Other risk management services	48,640	-	31,920	80,560
General and administrative expenses	<u>88,829</u>	<u>28,031</u>	<u>-</u>	<u>116,860</u>
Total operating expenses	<u>3,516,580</u>	<u>2,650,248</u>	<u>148,578</u>	<u>6,315,406</u>
Operating income (loss)	<u>700,860</u>	<u>(1,515,662)</u>	<u>(3,949)</u>	<u>(818,751)</u>
Non-operating revenues (expenses):				
Interest income	29,586	12,281	-	41,867
Interest expense	<u>(37,592)</u>	<u>-</u>	<u>-</u>	<u>(37,592)</u>
Total non-operating (expenses) revenues	<u>(8,006)</u>	<u>12,281</u>	<u>-</u>	<u>4,275</u>
Change in net position	692,854	(1,503,381)	(3,949)	(814,476)
Net position, beginning of year	<u>(6,005,718)</u>	<u>2,397,948</u>	<u>(6,749)</u>	<u>(3,614,519)</u>
Net position, end of year	<u>\$ (5,312,864)</u>	<u>\$ 894,567</u>	<u>\$ (10,698)</u>	<u>\$ (4,428,995)</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENTS OF REVENUES, EXPENSES
 AND CHANGE IN NET POSITION
 June 30, 2012

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Operating revenues:				
Member contributions	\$ 3,735,249	\$ 883,997	\$ 119,539	\$ 4,738,785
Excess insurance recovery reimbursements	<u>109,801</u>	<u>131,310</u>	<u>-</u>	<u>241,111</u>
Total operating revenues	<u>3,845,050</u>	<u>1,015,307</u>	<u>119,539</u>	<u>4,979,896</u>
Operating expenses:				
Provisions for claims and claim adjustment expenses	3,253,048	1,583,091	-	4,836,139
Insurance premiums	394,286	338,246	93,073	825,605
Claims administration	94,258	94,258	-	188,516
Contract risk management services	284,297	-	-	284,297
Other risk management services	26,779	25,000	22,232	74,011
General and administrative expenses	<u>110,883</u>	<u>25,344</u>	<u>-</u>	<u>136,227</u>
Total operating expenses	<u>4,163,551</u>	<u>2,065,939</u>	<u>115,305</u>	<u>6,344,795</u>
Operating (loss) income	<u>(318,501)</u>	<u>(1,050,632)</u>	<u>4,234</u>	<u>(1,364,899)</u>
Non-operating revenues (expenses):				
Interest income	35,588	17,774	-	53,362
Interest expense	<u>(39,935)</u>	<u>-</u>	<u>-</u>	<u>(39,935)</u>
Total non-operating revenues	<u>(4,347)</u>	<u>17,774</u>	<u>-</u>	<u>13,427</u>
Change in net position	(322,848)	(1,032,858)	4,234	(1,351,472)
Net position, beginning of year	<u>(5,682,870)</u>	<u>3,430,806</u>	<u>(10,983)</u>	<u>(2,263,047)</u>
Net position, end of year	<u>\$ (6,005,718)</u>	<u>\$ 2,397,948</u>	<u>\$ (6,749)</u>	<u>\$ (3,614,519)</u>

See independent auditor's report.

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

To the Board of Directors and Members
Monterey Bay Area Self Insurance Authority
Scotts Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Monterey Bay Area Self Insurance Authority which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and change in net position, statements of cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated October 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Monterey Bay Area Self Insurance Authority internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority internal control. Accordingly, we do not express an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority internal controls.

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
October 3, 2014