

**MONTEREY BAY AREA  
SELF INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2009

AND INDEPENDENT  
AUDITORS' REPORT

# MONTEREY BAY AREA SELF INSURANCE AUTHORITY

## Table of Contents

	PAGE
<b>Independent Auditors' Report</b>	1 – 2
<b>Management's Discussion and Analysis</b>	3 – 7
<b>Financial Statements:</b>	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10 – 11
Combining Statement of Net Assets	12
Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	13
Combining Statement of Cash Flows	14
Notes to Financial Statements	15 – 23
<b>Report Required by <i>Government Auditing Standards</i> –</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government     Auditing Standards</i>	24 – 25
<b>Supplementary Information:</b>	
Statement of Revenues and Expenses – Budget and Actual – Workers' Compensation	26
Statement of Revenues and Expenses – Budget and Actual – Liability	27
Ten-Year Claims Development Information – Workers' Compensation	28 – 29
Ten-Year Claims Development Information – Liability	30 – 31

## INDEPENDENT AUDITORS' REPORT

**Board of Directors**  
**Monterey Bay Area Self Insurance Authority**  
**Scotts Valley, California**

We have audited the accompanying financial statements of the enterprise fund, each major fund, and the aggregate remaining fund information of *Monterey Bay Area Self Insurance Authority* as of and for the year then ended, June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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, and State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the enterprise fund activities, each major fund, and the aggregate remaining fund information of the Authority at June 30, 2009, 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.

As described in Note 7 to the financial statements, *Monterey Bay Area Self Insurance Authority* changed accounting policies related to Claim and Claim Adjustment Expense Reserves. Accordingly, the cumulative effect of the accounting change as of the beginning or the year is reported in the Statement of Revenues, Expenses and Changes in Net Assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2010, on our consideration of *Monterey Bay Area Self Insurance Authority's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is 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 supplementary information. However, we did not audit the information and express no opinion on it. *Monterey Bay Area Self Insurance Authority's* presentation of Ten-Year Claims Development Information on pages 28 through 31, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements, does not include estimates for incurred but not reported (IBNR) claims prior to July 1, 2003.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of *Monterey Bay Area Self Insurance Authority*. The accompanying statements of revenues and expenses – budget and actual are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 6, 2010

*Hayashi & Wenzel*

## MONTEREY BAY AREA SELF INSURANCE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

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 year ended June 30, 2009. 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 basic financial statements. Comparisons to and analysis of the prior year are incorporated where appropriate.

#### FINANCIAL HIGHLIGHTS

- The Authority's net assets increased by \$2,118,290 (or 41.9%) during 2009. Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$(2,943,077) and \$(5,061,367) for 2009 and 2008 respectively.
- Total costs of all of the Authority's programs were \$2,872,734 in 2009 and \$4,414,313 in 2008.

#### 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 Assets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows, Combining Statements of Net Assets, Combining Statements of Revenues, Expenses and Changes in Net Assets, Combining Statements of Cash Flows, notes to the financial statements, an Independent Auditors' Report thereon 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 Assets

The Statements of Net Assets is a report of the Authority's assets, liabilities and net assets. 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 assets are reported in major categories reflecting any restriction thereon.

## **OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

### **Statements of Revenues, Expenses and Changes in Net Assets**

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

### **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, 10% criteria is used 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

## COMPARATIVE ANALYSIS

### Statements of Net Assets

A comparative summary of the Authority's Statements of Net Assets at June 30 which generally reflects its financial condition, is as follows:

	<u>2009</u>	<u>2008 (Restated)</u>
Current assets	\$ 14,425,366	\$ 14,280,003
Capital and other assets	<u>87,524</u>	<u>93,263</u>
Total assets	<u>14,512,890</u>	<u>14,373,266</u>
Current liabilities	2,754,460	5,038,565
Long-term liabilities	<u>14,701,507</u>	<u>14,396,068</u>
Total liabilities	<u>17,455,967</u>	<u>19,434,633</u>
Net assets -		
Unrestricted	<u>(2,943,077)</u>	<u>(5,061,367)</u>
Total net assets	<u>\$ (2,943,077)</u>	<u>\$ (5,061,367)</u>

### **Major Factors Affecting the Statements of Net Assets**

Current year's net assets increased by \$2,118,290 for the year ending June 30, 2009, resulting mainly from the change in claims payable based on the actuarial study. See Note 7 to the financial statements regarding a change in accounting method for reserve for claims and claim adjustments for workers compensation.

## COMPARATIVE ANALYSIS (Continued)

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

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

	<u>2009</u>	<u>2008</u> <u>(Restated)</u>
Revenue:		
Contributions from members	\$ 4,380,087	\$ 3,738,469
Excess insurance recovery and reimbursements	306,164	202,257
Interest income	304,773	571,647
Unrealized gain on investment	<u>—</u>	<u>144,142</u>
Total revenue	<u>4,991,024</u>	<u>4,656,515</u>
Expenses:		
Claims expense	2,125,696	2,505,941
Increase (decrease) in provision for claims and allocated claims adjustment expenses	(798,022)	443,888
Contract risk management services	446,844	375,311
Other risk management services	25,005	23,288
Other contract services - administration	108,500	101,266
General and administrative	130,844	137,742
Insurance expense	578,012	560,953
Interest expense	<u>255,855</u>	<u>265,924</u>
Total expenses	<u>2,872,734</u>	<u>4,414,313</u>
Changes in net assets	<u>\$ 2,118,290</u>	<u>\$ 242,202</u>

### **Major Factors Affecting the Statements of Revenues, Expenses and Changes in Net Assets**

The increase in contributions in 2009 was caused by higher premiums being charged to the member cities. Interest income decreased due to lower rates of return. Claims expense and the incurred but not reported claims decreased substantially based on the actuarial study.

## COMPARATIVE ANALYSIS (Continued)

### Reserves for Claims and Allocated Claims Adjustment Expenses

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

	<u>2009</u>	<u>2008 (Restated)</u>
Claim and claim adjustment expense reserves, beginning of year	\$ 13,719,529	\$ 13,275,641
Incurred claim and claim adjustment expenses, current and prior years	978,404	4,681,186
Payments, current and prior years	(1,776,426)	(2,468,298)
Cumulative effect of change in accounting method	<u>—</u>	<u>(1,769,000)</u>
Claim and claim adjustment expense reserves, end of year	<u>\$ 12,921,507</u>	<u>\$ 13,719,529</u>

Further detail on the above amounts is provided in Footnotes 3, 4, and 7

### Capital Assets and Debt Administration

**Capital Assets** – At June 30, 2009, the Authority had no capital assets

**Debt Administration** – At June 30, 2009, the Authority had \$4,500,000 in long-term debt. There was no new debt for the year and retirement was made in the amount of \$170,000.

### **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.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

---

ASSETS

CURRENT ASSETS:

Cash	\$ 7,286,764
Investments	6,944,543
Accounts receivable	169,108
Interest receivable	<u>24,951</u>
Total current assets	<u>14,425,366</u>

NONCURRENT ASSETS --

Note issuance costs-net	<u>87,524</u>
Total noncurrent assets	<u>87,524</u>

TOTAL ASSETS \$ 14,512,890

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 5,716
Deferred revenue	28,744
Claim and claim adjustment expense reserves	2,540,000
Current portion of long-term debt	<u>180,000</u>
Total current liabilities	<u>2,754,460</u>

LONG-TERM CLAIM AND CLAIM ADJUSTMENT RESERVES 10,381,507

LONG-TERM DEBT 4,320,000

NET ASSETS (DEFICIT) --

Unrestricted \$ (2,943,077)

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

REVENUES.

Contributions from members:	
Workers' compensation	\$ 3,521,013
Liability	761,400
EAP and property insurance	97,674
Excess insurance recovery reimbursements	<u>306,164</u>
Total	<u>4,686,251</u>

EXPENSES:

Claims expense	2,125,696
Decrease in provision for claims and allocated claims adjustment expenses	(798,022)
Contract risk management services	446,844
Other risk management expenses	25,005
Other contract services – administration	108,500
General and administrative	130,844
Insurance expense:	
Workers' compensation	230,809
General liability	275,441
Property	<u>71,762</u>
Total	<u>2,616,879</u>

OPERATING INCOME (LOSS) 2,069,372

NONOPERATING REVENUE (EXPENSE).

Interest income	304,773
Interest expense	<u>(255,855)</u>

CHANGES IN NET ASSETS 2,118,290

NET ASSETS (DEFICIT), BEGINNING OF YEAR (6,830,367)

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING  
METHOD (NOTE 7) 1,769,000

NET ASSETS (DEFICIT), BEGINNING OF YEAR, RESTATED (5,061,367)

NET ASSETS (DEFICIT), END OF YEAR \$ (2,943,077)

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Contributions received from members	\$ 3,469,907
Reimbursements received from recoveries	306,164
Cash paid for claims and other services	<u>(3,597,512)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>178,559</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Interest paid on debt	(255,855)
Principal payments on long-term debt	<u>(170,000)</u>
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(425,855)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income received	329,733
Net withdrawal from investments	<u>(172,008)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>157,725</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(89,571)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>7,376,335</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 7,286,764</u>

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2009**  
**(Continued)**

---

RECONCILIATION OF OPERATING INCOME (LOSS)  
TO NET CASH PROVIDED BY OPERATING  
ACTIVITIES:

Operating income (loss)	\$ 2,069,372
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Amortization	5,739
(Increase) decrease in –	
Accounts receivable	(148,813)
Prepaid expenses	60,927
Increase (decrease) in:	
Accounts payable	(249,277)
Deferred revenue	(761,367)
Reserves for claims and allocated claims adjustment expenses	<u>(798,022)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 178,559</u>

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	<u>Major Funds</u>		<u>Non-Major Funds</u>	<u>Total</u>
	<u>Workers' Compen- sation</u>	<u>Liability</u>		
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash \$	\$ 4,677,676	\$ 2,608,488	\$ 600	\$ 7,286,764
Investments	4,486,312	2,458,231	-	6,944,543
Accounts receivable	89,808	79,300	-	169,108
Interest receivable	14,614	10,337	-	24,951
Prepaid expenses	-	-	-	-
Due from/to other funds	-	7,666	(7,666)	-
Total current assets	<u>9,268,410</u>	<u>5,164,022</u>	<u>(7,066)</u>	<u>14,425,366</u>
<b>NONCURRENT ASSETS</b>				
Note issuance costs-net	<u>87,524</u>	<u>-</u>	<u>-</u>	<u>87,524</u>
Total noncurrent assets	<u>87,524</u>	<u>-</u>	<u>-</u>	<u>87,524</u>
Total assets	<u>9,355,934</u>	<u>5,164,022</u>	<u>(7,066)</u>	<u>14,512,890</u>
<b><u>LIABILITIES</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	5,716	-	-	5,716
Deferred revenue	-	28,144	600	28,744
Claims and claim adjustment expense reserves	1,848,000	692,000	-	2,540,000
Current portion of long-term debt	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Total current liabilities	<u>2,033,716</u>	<u>720,144</u>	<u>600</u>	<u>2,754,460</u>
<b>LONG-TERM CLAIM AND CLAIM ADJUSTMENT RESERVES</b>				
	<u>8,834,000</u>	<u>1,547,507</u>	<u>-</u>	<u>10,381,507</u>
<b>LONG-TERM DEBT</b>				
	<u>4,320,000</u>	<u>-</u>	<u>-</u>	<u>4,320,000</u>
<b><u>NET ASSETS (DEFICIT) -</u></b>				
Unrestricted	<u>\$ (5,831,782)</u>	<u>\$ 2,896,371</u>	<u>\$ (7,666)</u>	<u>\$ (2,943,077)</u>

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS (DEFICIT)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Major Funds			Total
	Workers' Compen- sation	Liability	Non-Major Funds	
<b>REVENUES:</b>				
Contributions from members				
Workers' compensation	\$ 3,521,013	\$ -	\$ -	\$ 3,521,013
Liability	-	761,400	-	761,400
EAP and property insurance	-	-	97,674	97,674
Excess insurance recovery and reimbursements	161,724	144,440	-	306,164
Total revenues	<u>3,682,737</u>	<u>905,840</u>	<u>97,674</u>	<u>4,686,251</u>
<b>EXPENSES</b>				
Claims expense	1,398,083	727,613	-	2,125,696
Increase (decrease) in provision for claims and allocated claims adjustment expenses	(1,284,738)	486,716	-	(798,022)
Contract risk management services	257,300	189,544	-	446,844
Other risk management expenses	-	-	25,005	25,005
Other contract services – administration	54,250	54,250	-	108,500
General and administrative	85,031	45,813	-	130,844
Insurance expense				
Workers' compensation	230,809	-	-	230,809
General liability	-	275,441	-	275,441
Property	-	-	71,762	71,762
Total expenses	<u>740,735</u>	<u>1,779,377</u>	<u>96,767</u>	<u>2,616,879</u>
OPERATING INCOME (LOSS)	2,942,002	(873,537)	907	2,069,372
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest income	200,512	104,261	-	304,773
Interest expense	(255,855)	-	-	(255,855)
CHANGES IN NET ASSETS	<u>2,886,659</u>	<u>(769,276)</u>	<u>907</u>	<u>2,118,290</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(10,487,441)	3,665,647	(8,573)	(6,830,367)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD	<u>1,769,000</u>	<u>-</u>	<u>-</u>	<u>1,769,000</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR, RESTATED	<u>(8,718,441)</u>	<u>3,665,647</u>	<u>(8,573)</u>	<u>(5,061,367)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (5,831,782)</u>	<u>\$ 2,896,371</u>	<u>\$ (7,666)</u>	<u>\$ (2,943,077)</u>

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Major Funds			Total
	Workers' Compensation	Liability	Non-Major Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Contributions received from members	\$ 2,792,422	\$ 579,211	\$ 98,274	\$ 3,469,907
Reimbursements received from recoveries	161,724	144,440	-	306,164
Cash paid for claims and other services	(2,256,672)	(1,305,000)	(35,840)	(3,597,512)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>697,474</b>	<b>(581,349)</b>	<b>62,434</b>	<b>178,559</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Decrease in due from other funds / (decrease) in due to other funds	-	61,834	(61,834)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Interest paid on debt	(255,855)	-	-	(255,855)
Principal payments on long-term debt	(170,000)	-	-	(170,000)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(425,855)</b>	<b>-</b>	<b>-</b>	<b>(425,855)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income received	215,128	114,605	-	329,733
Net (purchase) withdrawal from investments	(410,567)	238,559	-	(172,008)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(195,439)</b>	<b>353,164</b>	<b>-</b>	<b>157,725</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>76,180</b>	<b>(166,351)</b>	<b>600</b>	<b>(89,571)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>4,601,496</b>	<b>2,774,839</b>	<b>-</b>	<b>7,376,335</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>4,677,676</b>	<b>2,608,488</b>	<b>600</b>	<b>7,286,764</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	2,942,002	(873,537)	907	2,069,372
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Amortization expense	5,739	-	-	5,739
(Increase) decrease in Accounts receivable	(89,808)	(59,005)	-	(148,813)
Prepaid expenses	-	-	60,927	60,927
Increase (decrease) in Accounts payable	(236,938)	(12,339)	-	(249,277)
Deferred revenue	(638,783)	(123,184)	600	(761,367)
Reserves for claims and allocated claims adjustment expenses	(1,284,738)	486,716	-	(798,022)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 697,474</b>	<b>\$ (581,349)</b>	<b>\$ 62,434</b>	<b>\$ 178,559</b>

See Notes to Financial Statements.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** – 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 Article I of Chapter 5, Division 7, Title 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, 2009, 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 Accounting and Financial Statement Presentation** – In accordance with generally accepted accounting principles (GAAP) applicable to Public Entity Risk Pools, the accounts of the Authority are organized into one proprietary fund, the Enterprise Fund, which has a measurement focus and a basis of accounting similar to a commercial enterprise which is appropriate to account for such entities.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expense generally result from providing services and producing and delivering good in connection with an enterprise fund's principal ongoing operations. The Principal operating revenues of the Authority's enterprise fund is premiums collected from member entities. Operating expenses for enterprise funds include claims expense, administrative expense and insurance expense for excess of loss coverage.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Authority has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Authority's and Other Governmental Entities that Use Proprietary Authority Accounting*. Accordingly, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Fair Value Measurements** – Effective July 1, 2008, the Authority adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (“SFAS 157”), for financial assets and financial liabilities to the extent of guidelines provided in GASB-31, paragraphs 7, 10, and 11. SFAS 157 defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. Adopting SFAS 157 did not have a material impact on the financial position and results of operations.

As noted above, SFAS 157 establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following table presents the financial instruments measured on a recurring basis and carried at fair value as of June 30, 2009, by caption on the statement of financial position by the SFAS 157 valuation hierarchy defined above:

<u>ASSETS</u>	<u>Level 1</u>
Cash and cash equivalents	\$ 7,286,764
Investments	6,944,543

Fair value for Level 1 is based upon quoted market price. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, only deposits in commercial bank accounts are considered cash equivalents.

**Accounts Receivable** – Receivables are accounted for using the allowance method. The allowances were zero at June 30, 2009.

**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.

**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 reinsures, although it does not discharge the primary liability of the Authority as 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 reinsures. 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.

**Net Assets** – Net assets represent the difference between assets and liabilities. If adequate provision has been made for the payment of all claims and expenses of the Authority, the Board of Directors, under certain conditions, may distribute surplus funds to past or present members, who were members for the prior fiscal year, or may carry forward the surplus to offset annual or supplemental payments in the subsequent fiscal year. In the event the Authority is terminated, all members of the Authority are obligated for any necessary supplemental payments applicable to the years during which they were members. After all claims and related expenses have been paid or reserves established for the payment of any such claims, any surplus funds will be distributed to members, past or present, who constituted the Authority for that year. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets not subject to such limitations are reported as unrestricted.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Restricted Resources** – When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

**Claim and Claim Adjustment Expense Reserves** – Claim and claim adjustment expenses are charged to income as incurred. Claim and Claim adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including claim adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Claim adjustment expenses represent anticipated costs of settling claims, including attorneys’ and adjusters’ fees. The reserves for incurred but not reported claim and claim adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year’s earned contributions, less cumulative claims paid and reported unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

For financial statement presentation Authority uses the 70% confidence level discounted at 3% interest from the actuarial report for workers compensation claim reserves and the undiscounted central value (approximately 55% confidence level) for liability claim reserves. Workers compensation claims use the discounted value because these claims take a long time to be finalized. Over that time period, the funds set aside for these claims are earning interest to offset the ultimate claim liability. The 70% confidence level is used because of their long-term nature and also due to the historical trend that has taken place. It will take longer to know the ultimate amount of these claims so a higher confidence level is used to better ensure that the amounts presented are more accurate

**Use of Estimates** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

**Budget** – The Board of Directors adopts an annual budget prepared on the cash basis of accounting.

**Subsequent Events** – Subsequent events have been evaluated through March 6, 2010, which is the date the financial statements are available to be issued.

**NOTE 2. DEPOSITS AND INVESTMENTS**

**Deposits** – All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. The collateral must be held by the pledging financial institutions’ trust departments or agents.

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

**Custodial Credit Risk Related to Deposits** – Custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits might not be recovered. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2009 the following amounts were exposed to custodial credit risk:

Total deposit amounts	\$ 7,351,868
Insured by FDIC	<u>(526,034)</u>
Uncollateralized (including bank balances of \$6,825,834 that are collateralized with securities held by the pledging financial institution’s agent but not in the name of the Authority).	<u>\$ 6,825,834</u>

**Investments** – The Authority’s investment policy is designed to follow the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized:

United States Treasury Bills, Bonds and Notes

Obligations issued by Federal Agencies such as the Government National Mortgage (GNMA) the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association (FHLMC).

In addition, the Authority may invest in Banker’s Acceptances, commercial paper ranked P1 by Moody’s Investor Services or A1+ by Standard & Poor’s, Certificate of Deposits, Repurchase Agreements, Reverse Repurchase Agreements, Local Agency Investment Fund, the pooled cash program of the Treasurer of Santa Cruz County, Time Deposits, and Medium Term Corporate Notes. All of the above investments are further restricted by specific maturity periods and their proportionate value to the total portfolio.

All securities owned by the Authority shall be held in safekeeping by a third party bank trust department, acting as an agent for the Authority under the terms of a custody agreement. Collateral is required for investments in certificates of deposits, repurchase agreements and reverse repurchase agreements at the level of at least 102% of market value of principal and accrued interest.

**Custodial Credit Related to Investments** – The custodial credit risk for investment is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Authority’s investment policy is designed to mitigate the custodial credit risk by investing in investment grade securities and by diversifying the investment portfolio, so that the failure of any one issuer does not unduly harm the Authority’s capital base and cash flow.

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

As of June 30, 2009 the following amounts were exposed to custodial credit risk;

Total investment balance	\$ 6,944,543
Less:	
Investments not subject to categorization	6,638,578
Investments with no credit risk	<u>305,965</u>
Insured or registered securities held by the entity or its agent	<u>\$ -</u>

**Concentration of Credit Risk** – There is a concentration of credit risk when the amount of investment in any one entity is at least 5% of total investments except investments held in the U.S. Government or investments guaranteed by the U.S. Government. At June 30, 2009 there were no amounts considered to be a concentration of credit risk.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The amount of loss in the fair value of a fixed-income security increases as the current market interest rate related to the investment rises. It is the Authority's policy to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and to investing operating funds primarily in shorter-term securities. This policy is designed to minimize the interest rate risk.

**NOTE 3. CLAIM AND CLAIM ADJUSTMENT EXPENSE RESERVES – WORKER’S COMPENSATION**

Activity in the claim and claim adjustment expense reserves for the year ended June 30, 2009 was as follows:

Claim and claim adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$2,674,708.	\$ 13,735,738
Cumulative effect of change in accounting method (Note 7)	<u>(1,769,000)</u>
Claim and claim adjustment expense reserves, beginning of year, restated	<u>11,966,738</u>
Incurred claim and claim adjustment expenses:	
Provision for insured events – current year	3,900,000
Provision for insured events – prior years	<u>(3,786,655)</u>
Total incurred claim and claim adjustment expenses	<u>113,345</u>
Payments:	
Claim and claim adjustment expenses attributable to insured events – current year	509,729
Claim and claim adjustment expenses attributable to insured events – prior years	<u>888,354</u>
Total payments	<u>1,398,083</u>
Claim and claim adjustment expense reserves, end of year, net of reinsurance recoverable of \$1,512,850.	<u>\$ 10,682,000</u>

The provision for prior year insured events represents the variations between the Authority’s estimated claims payable for prior years’ claims and the actual amounts required to satisfy such claims.

**NOTE 4. CLAIM AND CLAIM ADJUSTMENT EXPENSE RESERVES – LIABILITY**

Activity in the claim and claim adjustment expense reserves for the year ended June 30, 2009 was as follows:

Claim and claim adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$ –0–	\$ 1,752,791
Incurred claim and claim adjustment expenses:	
Provision for insured events – current year	1,025,703
Provision for insured events – prior years	<u>188,626</u>
Total incurred claim and claim adjustment expenses	<u>1,214,329</u>
Payments:	
Claim and claim adjustment expenses attributable to insured events – current year	4,286
Claim and claim adjustment expenses attributable to insured events – prior years	<u>723,327</u>
Total payments	<u>727,613</u>
Claim and claim adjustment expense reserves, end of year, net of reinsurance recoverable of \$ –0–.	<u>\$ 2,239,507</u>

The provision for prior year insured events represents the variations between the Authority's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims

**NOTE 5. LONG-TERM DEBT**

Long-term debt at June 30, 2009 consists of the following:

Note payable to DEPFA Bank. Annual payments including interest are due on annual basis. The loan bears interest at a rate of 5.5% per annum, until October 1, 2009, at which time it changes to a variable rate as described below. The note matures October 1, 2024. The note is secured by all premiums received by the Authority	\$ <u>4,500,000</u>
Total	4,500,000
Less current portion	<u>(180,000)</u>
Total long-term debt	<u>\$ 4,320,000</u>

**NOTE 5. LONG-TERM DEBT (Continued)**

Long-term debt maturities at June 30, 2009 are as follows:

	<u>Interest *</u>	<u>Principal</u>
2010	\$ 40,408	\$ 180,000
2011	38,714	190,000
2012	36,904	205,000
2013	34,980	215,000
2014	32,964	225,000
2015 – 2019	130,481	1,330,000
2020 – 2024	60,545	1,745,000
2025	<u>1,878</u>	<u>410,000</u>
Total	<u>\$ 376,874</u>	<u>\$ 4,500,000</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, 2009 monthly LIBOR rate plus 60 basis points, or .9163% annual interest rate.

**NOTE 6. NOTE ISSUANCE COSTS**

Note issuance costs represent legal and accounting fees, preparation costs and other expenses associated with the issuance of long-term debt note. Such costs are being amortized over the term of the note. The balance as of June 30, 2009 is presented as follows:

Original cost	\$ 114,785
Less accumulated amortization	<u>(27,261)</u>
Debt issuance costs – net	<u>\$ 87,524</u>

Amortization expense for the years ended June 30, 2009 is \$5,739.

**NOTE 7. RESTATEMENT OF BEGINNING NET ASSETS DUE TO CHANGE IN ACCOUNTING METHOD**

Prior to fiscal year ended June 30, 2009, the Authority used the same confidence level for financial statement presentation of both workers compensation and liability claim reserves. A new confidence level is now being used for workers compensation claims. A description of that new confidence level and the reason for using it is presented in Note 1 under "Claim and Claim Adjustment Expense Reserves." A calculation of the amount resulting from this change in accounting method is presented below.

Reserve, Central Value, Undiscounted	\$ 13,736,000
Reserve, 70% Confidence Level, Discounted 3%	<u>11,967,000</u>
Amount resulting from change in accounting method	<u>\$ 1,769,000</u>

**REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

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

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

We have audited the financial statements of the *Monterey Bay Area Self Insurance Authority* as of and for the year ended June 30, 2009, and have issued our report thereon dated March 6, 2010. We conducted our audits 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *Monterey Bay Area Self Insurance Authority's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Monterey Bay Area Self Insurance Authority's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Monterey Bay Area Self Insurance Authority's* internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

This report is solely intended for the information of the Board of Directors and management and is not intended to be and should not be used by anyone other than those specified parties

March 6, 2010

*Margaret V. Wainland*

## **SUPPLEMENTARY INFORMATION**

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL**  
**WORKERS' COMPENSATION**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>			
Contributions from members	\$ 3,521,013	\$ 3,521,013	\$ –
Excess insurance recovery reimbursements	<u>60,000</u>	<u>161,724</u>	<u>101,724</u>
Total revenues	<u>3,581,013</u>	<u>3,682,737</u>	<u>101,724</u>
<b>EXPENSES</b>			
Claims expense	2,580,000	1,398,083	1,181,917
Contract risk management services	437,113	257,300	179,813
Other contract services – administration	52,500	54,250	(1,750)
General and administrative	82,200	85,031	(2,831)
Insurance expense	250,000	230,809	19,191
Contingency reserve	<u>100,000</u>	<u>–</u>	<u>100,000</u>
Total expenses	<u>3,501,813</u>	<u>2,025,473</u>	<u>1,476,340</u>
Operating income before reconciliation for non – budgeted items	<u>\$ 79,200</u>	1,657,264	<u>\$ 1,578,064</u>
Accrued expenses – Decrease in provision for claims and allocated claims adjustment expenses		<u>1,284,738</u>	
<b>OPERATING INCOME</b>		<u>\$ 2,942,002</u>	

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL**  
**LIABILITY**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES.</b>			
Contributions from members	\$ 761,400	\$ 761,400	\$ –
Reimbursements	<u>–</u>	<u>144,440</u>	<u>144,440</u>
Total revenues	<u>761,400</u>	<u>905,840</u>	<u>144,440</u>
<b>EXPENSES:</b>			
Claims expense	485,000	727,613	(242,613)
Contract risk management services	43,200	189,544	(146,344)
Other contract services – administration	50,000	54,250	(4,250)
General and administrative	33,200	45,813	(12,613)
Insurance expense	250,000	275,441	(25,441)
Contingency reserve	<u>60,000</u>	<u>–</u>	<u>60,000</u>
Total expenses	<u>921,400</u>	<u>1,292,661</u>	<u>(371,261)</u>
Operating income (loss) before reconciliation for non-budgeted items	<u>\$ (160,000)</u>	(386,821)	<u>\$ (226,821)</u>
Accrued expenses – Decrease in provision for claims and allocated claims adjustment expenses		<u>(486,716)</u>	
<b>OPERATING INCOME</b>		<u>\$ (873,537)</u>	

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**WORKERS' COMPENSATION**  
**JUNE 30, 2009**

---

The rows of the table on page 29 are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the fund, including overhead and claim adjustment expenses not allocable to individual claims.
- (3) This line shows the Authority's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section of 10 rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received in known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 1) 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 re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature years. The columns of the table show data for successive policy years.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**LIABILITY**  
**JUNE 30, 2009**

---

The rows of the table on page 31 are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the fund, including overhead and claim adjustment expenses not allocable to individual claims.
- (3) This line shows the Authority's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section of 10 rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received in known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 1) 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 re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature years. The columns of the table show data for successive policy years.

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**WORKERS' COMPENSATION**  
**JUNE 30, 2009**  
(Continued)

	FOR THE YEARS ENDED JUNE 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Premiums and Investment Income	N/A	1,917,685	2,129,475	2,890,042	3,196,556	2,670,356	2,989,236	3,073,170	3,345,961	3,883,249
(2) Unallocated Expenses	N/A	238,836	272,527	387,216	276,675	579,100	538,020	628,870	641,843	627,390
(3) Estimated Claims and Expenses	1,198,610	849,090	936,992	1,745,294	3,533,352	5,257,674	3,286,833	4,486,641	3,400,000	3,013,783
(4) Paid, Cumulative as of										
End of policy year	405,869	308,367	437,455	843,311	467,013	659,475	425,153	864,346	434,224	509,729
One year later	763,299	880,486	1,052,763	1,250,278	863,861	1,237,583	852,367	1,708,701	955,325	
Two years later	1,088,918	2,200,827	1,352,163	1,742,590	1,207,910	1,420,240	1,065,792	2,251,562		
Three years later	1,227,486	1,787,663	1,744,918	2,008,899	1,296,330	1,495,340	1,193,470			
Four years later	804,925	2,183,656	1,966,932	2,184,698	1,723,566	1,562,876				
Five years later	869,000	2,434,758	2,116,874	2,275,884	1,659,129					
Six years later	976,943	2,566,262	2,144,547	2,276,611						
Seven years later	1,102,787	2,835,895	2,166,200							
Eight years later	1,171,386	3,013,951								
Nine years later	1,308,278									
(5) Re-estimated, Incurred Claims and Expenses										
End of policy year	1,198,610	849,090	936,992	1,745,294	3,533,352	5,257,674	3,286,833	4,486,641	3,400,000	3,013,783
One year later	1,552,756	1,687,835	1,813,024	2,408,139	4,883,715	4,290,642	3,985,890	7,461,081	2,697,992	
Two years later	1,696,811	3,000,939	1,965,802	4,621,000	3,216,789	3,358,806	4,474,971	4,020,775		
Three years later	1,625,149	2,412,153	3,618,736	3,969,661	2,833,552	3,729,099	2,481,433			
Four years later	1,261,455	2,954,991	3,221,898	3,412,770	3,018,979	2,168,738				
Five years later	1,598,756	3,123,346	2,919,897	3,116,729	1,794,713					
Six years later	1,520,921	3,157,444	2,883,004	2,175,279						
Seven years later	1,527,613	3,211,541	2,047,669							
Eight years later	1,605,874	2,387,108								
Nine years later	1,456,643									
(6) Increase (decrease) in Estimated Incurred Claims and Expenses	258,033	1,538,018	1,110,677	429,985	(1,738,639)	(3,088,936)	(805,400)	(465,866)	(702,008)	-

N/A = not available

**MONTEREY BAY AREA SELF INSURANCE AUTHORITY**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**LIABILITY**  
**JUNE 30, 2009**  
(Continued)

	FOR THE YEARS ENDED JUNE 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Premiums and Investment Income	N/A	N/A	N/A	1,183,895	1,114,863	1,204,596	1,404,160	1,331,436	1,213,122	1,010,101
(2) Unallocated Expenses	N/A	N/A	N/A	681,621	312,192	444,255	377,006	417,914	459,686	565,048
(3) Estimated Claims and Expenses	N/A	N/A	N/A	532,739	508,490	868,733	925,446	840,642	873,013	1,025,703
(4) Paid, Cumulative as of										
End of policy year	N/A	N/A	N/A	4,259	17,060	18,774	9,800	8,689	15,328	4,286
One year later	N/A	N/A	N/A	N/A	158,570	214,295	150,741	90,271	219,961	
Two years later	N/A	N/A	N/A	731,520	291,222	346,950	378,738	261,521		
Three years later	N/A	N/A	675,315	1,213,186	964,238	421,737	378,738			
Four years later	N/A	366,113	762,346	1,029,513	965,392	421,737				
Five years later	350,050	343,396	769,594	1,029,513	965,392					
Six years later	556,635	343,396	785,964	1,029,513						
Seven years later	556,635	343,396	785,964							
Eight years later	556,635	343,396								
Nine years later	556,635									
(5) Re-estimated, Incurred Claims and Expenses:										
End of policy year	N/A	N/A	N/A	532,739	508,490	868,733	925,446	840,642	873,013	1,025,703
One year later	N/A	N/A	N/A	N/A	835,291	774,170	910,000	552,712	1,113,374	
Two years later	N/A	N/A	N/A	1,503,829	657,232	520,000	1,053,781	676,691		
Three years later	N/A	N/A	846,663	1,458,355	640,000	545,081	874,809			
Four years later	N/A	429,238	762,346	1,330,000	585,221	504,718				
Five years later	406,325	343,396	762,346	1,299,553	583,962					
Six years later	556,635	343,396	762,346	1,369,831						
Seven years later	556,635	343,396	762,346							
Eight years later	556,635	343,396								
Nine years later	556,635									
(6) Increase (decrease) in Estimated Incurred Claims and Expenses	N/A	N/A	N/A	837,092	75,472	(364,015)	(50,637)	(163,951)	240,361	-

N/A = not available