MONTEREY BAY AREA
SELF INSURANCE AUTHORITY

FINANCIAL STATEMENTS
June 30, 2015 and 2014

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
Monterey, California

FINANCIAL STATEMENTS
June 30, 2015 and 2014

CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS:

STATEMENTS OF NET POSITION 8

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION 9

STATEMENTS OF CASH FLOWS 10

NOTES TO BASIC FINANCIAL STATEMENTS 11

REQUIRED SUPPLEMENTARY INFORMATION:

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT 16

CLAIMS DEVELOPMENT INFORMATION 18

SUPPLEMENTARY INFORMATION:

COMBINING STATEMENTS OF NET POSITION 21

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION 23

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* 25

Crowe Horwath

Crowe Horwath LLP
Independent Member Crowe Horwath International

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 as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Monterey Bay Area Self Insurance Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 financial position of Monterey Bay Area Self Insurance Authority, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Reconciliation of Claims Liabilities by Type of Contract on pages 16 through 17, and the Claims Development Information on pages 18 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Monterey Bay Area Self Insurance Authority's basic financial statements. The Combining Statements of Net Position and Combining Statements of Revenues, Expenses and Change in Net Position are presented on pages 21 through 24 for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 12, 2016 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

Crowe Horwath LLP

Sacramento, California
January 12, 2016

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, 2015 and 2014. 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 position at June 30, 2015 ended at $(3,113,719). This year MBASIA's net position decreased, losing $873,337 since the June 30, 2014 audit. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net position. Net Position was $(2,240,382), $(4,493,562) and $(3,614,519) for 2014, 2013, and 2012, respectively.

- Total operating expenses of all of the Authority's programs were $8,366,326 in 2015, $3,359,936 in 2014, $6,321,145 in 2013, and $6,350,534 in 2012

- MBASIA's financial state is primarily due to an increase in claims expense during fiscal year 2014-15.

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.

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.

PROGRAMS

Workers' Compensation Program – Under the Workers' Compensation Program, the Authority provides workers' compensation insurance to member municipalities. The principal operating revenue for the Workers' Compensation Program is premiums collected from the members. Operating expenses for this program include claims expense, contract risk management services expense, and administrative expenses. MBASIA has taken steps to reduce the claims exposure to the Workers Compensation Program by purchasing excess insurance from CSAC-EIA at a $250,000 self-insured retention.

Liability Program – Under the Liability Program, the Authority provides liability insurance to member municipalities. The principal operating revenue for the Liability Program is premiums collected from the members. Operating expenses for this program include claims expense, contract risk management services expense, administrative expenses and insurance expense for excess of loss coverage. MBASIA participates in CARMA for excess liability relief, with CARMA providing coverage for claims excess of $1,000,000. Similarly, MBASIA participates in ERMA for excess employment practices coverage.

COMPARATIVE ANALYSIS

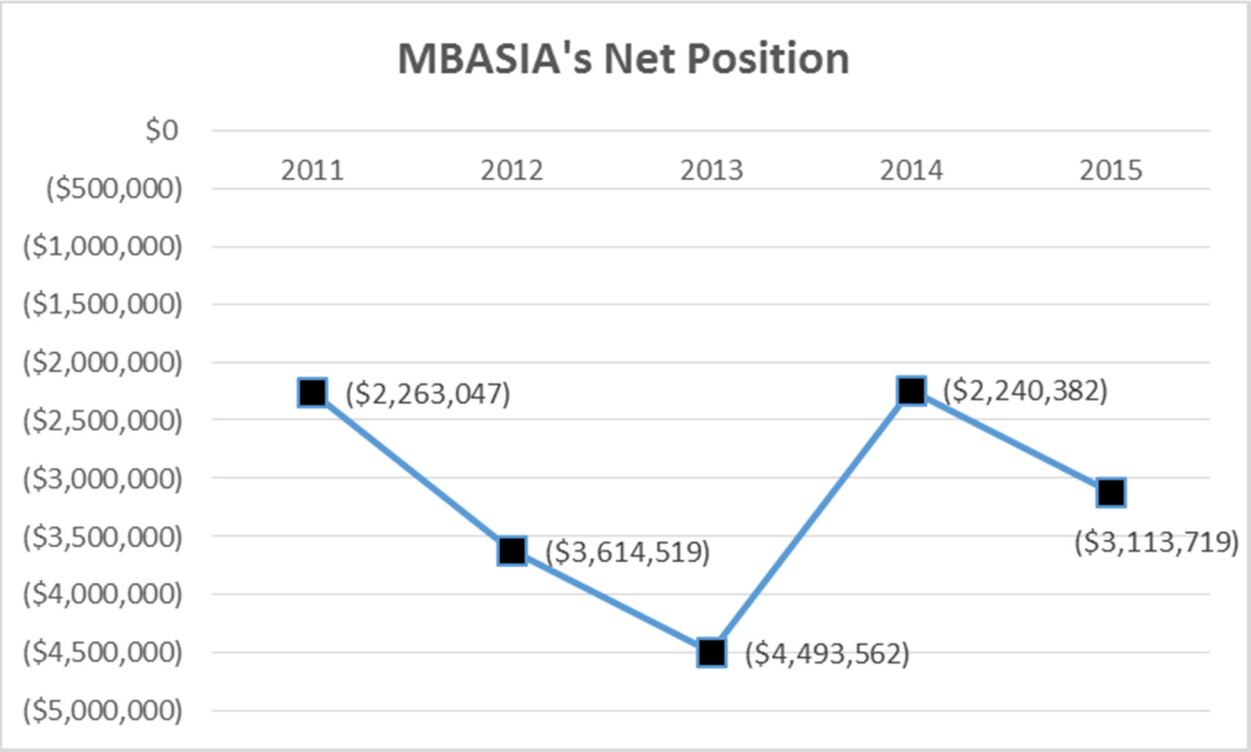
Statements of Net Position

A comparative summary of the Authority's Statements of Net Position as of June 30, 2015, 2014 and 2013, which generally reflects its financial condition is as follows:

	2015	2014	2013
Current assets	$ 15,764,035	$ 14,751,165	$ 13,724282
Capital and other assets	-	201,499	182,462
Total assets	15,764,035	14,952,664	13,906,744
Current liabilities	3,253,394	2,573,785	2,994,436
Long–term liabilities	15,624,360	14,619,261	15,405,870
Total liabilities	18,877,754	17,193,046	18,400,306
Net position -			
Unrestricted	(3,113,719)	(2,240,382)	(4,493,562)
Total net position	$ (3,113,719)	$ (2,240,382)	$ (4,493,562)

Major Factors Affecting the Statements of Net Position

Net position increased (decreased) by ($873,337), $2,253,180, and ($879,043) during the years ending June 30, 2015, 2014 and 2012, respectively, resulting mainly from the change in claims payable based on the actuarial studies.



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, 2015, 2014 and 2013, which generally reflects its results of operations, is as follows:

	2015	2014	2013
Revenue:			
Contributions from members	$ 5,747,778	$ 5,270,435	$ 4,939,825
Excess insurance recovery and reimbursements	1,735,950	332,074	556,830
Interest income	35,112	39,082	41,867
Total revenue	7,748,728	5,602,509	5,538,522
Expenses:			
Provision for claims and claims Adjustment expense	6,714,258	1,642,870	4,594,695
Insurance expense	1,002,198	1,013,198	1,027,666
Claims administration	199,655	197,092	193,228
Contract risk management services	206,114	250,685	302,397
Other risk management expenses	67,526	75,921	80,560
General and administrative	176,575	180,170	116,860
Interest expense	25,851	28,475	37,592
Total expenses	8,392,177	3,394,150	6,352,998
Change in net position	$ (873,337)	$ 2,225,180	$ (879,043)

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

The main reason for decrease in net position is claims expense and increase in provision for claims and allocated claims adjustment expenses exceeding revenues. Change in both areas came from the liability fund.

Reserves for Claims and Allocated Claims Adjustment Expenses

Reserves for Claims and Allocated Claims Adjustment Expenses for the years ended June 30, 2014, 2013 and 2012 are calculated as follows:

	2015	2014	2013
Claim and claim adjustment expense reserves, beginning of year	$ 13,628,261	$ 14,679,870	$ 14,093,000
Incurred claim and claim adjustment expenses, current and prior years	6,714,258	1,642,870	4,594,695
Payments, current and prior years	(4,887,159)	(2,694,479)	(4,007,825)
Claim and claim adjustment expense reserves, end of year	$ 15,455,360	$ 13,628,261	$ 14,679,870

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.

BASIC FINANCIAL STATEMENTS

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash (Note 2)	$ 1,901,538	$ 555,331
Investments (Note 2)	13,588,103	14,045,674
Receivables:		
Member agencies	82,654	123,828
Interest	9,402	7,594
Prepaid expenses	182,338	18,738
Total current assets	15,764,035	14,751,165
Noncurrent assets:		
Notes receivable	-	201,499
Total assets	15,764,035	14,952,664
LIABILITIES		
Current liabilities:		
Accounts payable	177,394	79,785
Current portion of notes payable (Note 4)	250,000	240,000
Current portion of unpaid claims and claim adjustment expenses (Note 3)	2,826,000	2,254,000
Total current liabilities	3,253,394	2,573,785
Long-term portion of notes payable (Note 4)	2,995,000	3,245,000
Unpaid claims and claim adjustment expenses (Note 3)	12,629,360	11,374,261
Total liabilities	18,877,754	17,193,046
NET POSITION		
Total net position – unrestricted (Note 5)	$ (3,113,719)	$ (2,240,382)

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Member contributions	$ 5,747,778	$ 5,270,435
Excess insurance recovery reimbursements	1,735,950	332,074
Total operating revenues	7,483,728	5,602,509
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 3)	6,714,258	1,642,870
Insurance premiums	1,002,198	1,013,198
Claims administration	199,655	197,092
Contract risk management services	206,114	250,685
Other risk management expenses	67,526	75,921
General and administrative	176,575	180,170
Total operating expenses	8,366,326	3,359,936
Operating (loss) income	(882,598)	2,242,573
Non-operating income (expense):		
Interest income	35,112	39,082
Interest expense	(25,851)	(28,475)
Total non-operating income	9,261	10,607
Change in net position	(873,337)	2,253,180
Net position, beginning of year	(2,240,382)	(4,493,562)
Net position, end of year	$ (3,113,719)	$ (2,240,382)

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash received from members and others	$ 7,726,401	$ 5,622,313
Cash paid for claims	(4,887,159)	(2,694,479)
Cash paid for insurance	(1,002,198)	(1,013,198)
Cash paid to suppliers	(715,861)	(653,257)
Net cash provided by operating activities	1,121,183	1,261,379
Cash flows from investing activities:		
Interest received	33,304	37,708
Investments (purchased) sold	457,571	(3,542,208)
Net cash provided by (used in) investing activities	490,875	(3,504,500)
Cash flows from noncapital financing activities:		
Interest paid on notes payable	(25,851)	(28,475)
Principal payments on notes payable	(240,000)	(225,000)
Net cash used in noncapital financing activities	(265,851)	(253,475)
Net change in cash	1,346,207	(2,496,596)
Cash, beginning of year	555,331	3,051,927
Cash, end of year	$ 1,901,538	$ 555,331
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (882,598)	$ 2,242,573
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Decrease (increase) in:		
Receivables from member agencies	41,174	38,841
Prepaid expenses	(163,600)	(18,738)
Notes receivable	201,499	(19,037)
Increase (decrease) in:		
Accounts payable	97,609	69,439
Unpaid claims and claim adjustment expenses	1,827,099	(1,051,609)
Net cash provided by operating activities	$ 1,121,183	$ 1,261,379
Supplemental cash flow information:		
Investing activities:		
Change in fair value of investments	$ (25,851)	$ (34,214)

See accompanying notes to basic financial statements.

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, 2015 and 2014 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 program are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The Authority operates two programs, which are operated within a single enterprise fund:

Property and Liability Program: This program 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 program 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 and 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.

Revenue Recognition: Member contributions 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 enters into reinsurance agreements, whereby it cedes various amounts of risk to other insurance companies or joint powers authorities. As of June 30, 2015 and 2014, the Authority's Workers' Compensation Program provides self-insured retention of $250,000 per incident. The Property and Liability Program provides claims excess of $1,000,000. Risks ceded to other entities are treated as though they were not risks for which the Authority is liable. For the years ended June 30, 2015, 2014, and 2013 amounts totaling $372,833, $544,284, and $502,384, respectively, were ceded to other insurance companies or joint powers authorities through the Workers Compensation Program. For the years ended June 30, 2015, 2014, and 2013 amounts totaling $489,467, $321,778, and $408,624, respectively, were ceded to other insurance companies or joint powers authorities through the Liability Program.

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)

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Cash and investments:		
Cash in bank	$ 1,901,538	$ 555,331
Cash in Local Agency Investment Fund	13,588,103	14,045,674
Total cash and investments	$ 15,489,641	$ 14,601,005

Custodial Credit Risk – Cash in bank: The Authority limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2015, the carrying amount of the Authority's accounts was $1,901,538 and the bank balance was $1,948,685. $500,000 of the bank balance was FDIC insured at June 30, 2015. At June 30, 2014, the carrying amount of the Authority's accounts was $555,331 and the bank balance was $622,418. $250,000 of the bank balance was FDIC insured at June 30, 2014.

Local Agency Investment Fund: The 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. LAIF is administered by the State Treasurer. LAIF investments are 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. LAIF is not currently rated for credit quality.

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, 2015 and 2014, 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, 2015 and 2014, the Authority had no concentration of credit risk.

(Continued)

NOTE 3 – UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended June 30, 2015 and 2014:

	2015	2014
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 13,628,261	$ 14,679,870
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	3,814,902	3,405,433
Change in provision for covered events of prior fiscal years	2,899,356	(1,762,563)
Total incurred claims and claim adjustment expenses	6,714,258	1,642,870
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	294,681	472,501
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	4,592,478	2,221,978
Total payments	4,887,159	2,694,479
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 15,455,360	$ 13,628,261

The components of the unpaid claims and claim adjustment expenses for the Authority as of June 30, 2015 and 2014 were as follows:

	2015	2014
Claim reserves	$ 5,741,000	$ 5,531,900
Claims incurred but not reported (IBNR)	8,581,000	7,145,000
Unallocated loss adjustment expenses (ULAE)	1,133,360	951,361
	15,455,360	13,628,261
Current portion	(2,826,000)	(2,254,000)
	$ 12,629,360	$ 11,374,261

These liabilities are reported at their present value using an expected future investment yield assumption of 1.5 percent for June 30, 2015 and 2014. The undiscounted liabilities are $16,937,674 and $15,434,885 at June 30, 2015 and 2014, respectively. The current portion of claim liabilities is estimated based on claims payment history.

(Continued)

NOTE 4 – LONG-TERM DEBT

Long-term debt at June 30, 2015 and 2014 consists of the following:

	2015	2014
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.	$ 3,245,000	$ 3,485,000
Less current portion	(250,000)	(240,000)
Total long-term debt	$ 2,995,000	$ 3,245,000

Long-term debt maturities at June 30, 2015 are as follows:

Year Ending June 30,	Interest*	Principal
2016	$ 24,029	$ 250,000
2017	21,976	265,000
2018	19,805	280,000
2019	17,516	295,000
2020	48,500	310,000
2021-2025	806	1,845,000
	$ 158,604	$ 3,245,000

* 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, 2015 monthly LIBOR rate plus 60 basis points, or 0.7859% annual interest rate.

NOTE 5 – 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 liabilities are comprised of long-term claims reserves. The Authority, in 2004, raised rates to exceed the actuarial estimates, in hopes of slowly reducing the negative position, which is being accomplished. 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 liability to their City, to be sure it is also reflected in their respective City's financial statements. 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 liability 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
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2015 and 2014

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

	2015	2014
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 11,266,846	$ 11,719,550
Incurred claims and claim adjustment expenses:		
Change in provision for covered events of the current fiscal year	2,665,628	2,649,157
Change in provision for covered events of prior fiscal years	1,981,605	(1,231,152)
Total incurred claims and claim adjustment expenses	4,647,233	1,418,005
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	179,703	441,674
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	3,203,814	1,429,035
Total payments	3,383,517	1,870,709
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 12,530,562	$ 11,266,846

The components of the unpaid claims and claim adjustment expenses for the Workers' Compensation Program as of June 30, 2015 and 2014 were as follows:

	2015	2014
Claim reserves	$ 4,401,000	$ 4,317,000
Claims incurred but not reported (IBNR)	7,166,000	6,125,000
Unallocated loss adjustment expenses (ULAE)	963,562	824,846
	12,530,562	11,266,846
Current portion	(1,603,000)	(1,453,000)
	$ 10,927,562	$ 9,813,846

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

LIABILITY PROGRAM

For the Years Ended June 30, 2015 and 2014

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

	2015	2014
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 2,361,415	$ 2,960,320
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	1,149,274	756,276
Decrease in provision for covered events of prior fiscal years	917,751	(531,411)
Total incurred claims and claim adjustment expenses	2,067,025	224,865
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	114,978	30,827
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	1,388,664	792,943
Total payments	1,503,642	823,770
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 2,924,798	$ 2,361,415

The components of the unpaid claims and claim adjustment expenses for the Property and Liability Program as of June 30, 2015 and 2014 were as follows:

	2015	2014
Claim reserves	$ 1,340,000	$ 1,214,900
Claims incurred but not reported (IBNR)	1,415,000	1,020,000
Unallocated loss adjustment expenses (ULAE)	169,798	126,515
	2,924,798	2,361,415
Current portion	(1,223,000)	(801,000)
	$ 1,701,798	$ 1,560,415

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, 2015

	Fiscal and Policy Year Ended June 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Premiums and investment income	$ 2,989,236	$ 3,073,170	$ 3,345,961	$ 3,883,249	$ 3,606,504	$ 3,583,356	$ 3,770,837	$ 3,764,840	$ 3,877,332	$ 3,982,543
Ceded	-	-	-	-	(227,219)	(303,371)	(394,286)	(502,384)	(544,284)	(372,833)
Net earned	$ 2,989,236	$ 3,073,170	$ 3,345,961	$ 3,883,249	$ 3,379,285	$ 3,279,985	$ 3,376,551	$ 3,262,456	$ 3,333,048	3,609,710
2. Unallocated expenses	$ 538,020	$ 628,870	$ 641,843	$ 627,390	$ 671,656	$ 788,351	$ 671,956	$ 504,622	$ 662,243	$ 598,367
3. Estimated claims and expenses	$ 3,286,833	$ 4,486,641	$ 3,400,000	$ 3,013,783	$ 3,963,481	$ 2,563,783	$ 2,496,115	$ 2,569,812	$ 2,483,430	$ 2,468,517
4. Paid cumulative as of:										
End of policy year	$ 425,153	$ 864,346	$ 434,224	$ 509,729	$ 1,126,017	$ 494,781	$ 494,923	$ 560,493	$ 441,674	$ 179,703
One year later	$ 852,367	$ 1,708,701	$ 955,325	$ 1,232,805	$ 1,143,243	$ 1,635,654	$ 902,235	$ 914,903	$ 1,210,068	
Two years later	$ 1,065,792	$ 2,251,562	$ 1,169,893	$ 1,062,901	$ 1,517,870	$ 2,520,451	$ 1,318,437	$ 1,435,421		
Three years later	$ 1,193,470	$ 2,634,600	$ 875,997	$ 1,186,781	$ 1,929,442	$ 2,986,473	$ 1,752,903			
Four years later	$ 1,129,898	$ 2,195,189	$ 880,627	$ 1,269,509	$ 2,139,157	$ 3,159,182				
Five years later	$ 1,012,475	$ 2,455,735	$ 909,536	$ 1,374,172	$ 2,187,184					
Six years later	$ 992,259	$ 2,449,012	$ 1,001,969	$ 1,356,760						
Seven years later	$ 1,015,859	$ 2,485,679	$ 1,139,462							
Eight years later	$ 1,002,560	$ 2,552,742								
Nine years later	$ 987,590									
5. Re-estimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. Re-estimated incurred claims and expenses:										
End of policy year	$ 3,286,833	$ 4,486,641	$ 3,400,000	$ 3,013,783	$ 3,963,481	$ 2,563,783	$ 2,496,115	$ 2,569,812	$ 2,483,430	$ 2,468,517
One year later	$ 3,985,890	$ 7,461,081	$ 2,697,992	$ 3,997,281	$ 3,672,408	$ 3,685,771	$ 2,473,966	$ 2,454,045	$ 2,767,084	
Two years later	$ 4,474,971	$ 4,020,775	$ 2,388,044	$ 3,041,571	$ 2,970,172	$ 4,116,586	$ 2,343,257	$ 2,535,904		
Three years later	$ 2,481,433	$ 3,983,835	$ 1,909,682	$ 2,050,108	$ 2,995,078	$ 3,751,716	$ 2,756,098			
Four years later	$ 2,401,500	$ 3,467,799	$ 1,369,373	$ 1,810,994	$ 3,115,676	$ 3,919,184				
Five years later	$ 2,077,361	$ 3,183,147	$ 1,328,851	$ 2,071,213	$ 3,252,305					
Six years later	$ 1,657,983	$ 2,947,163	$ 1,503,192	$ 1,920,496						
Seven years later	$ 1,533,818	$ 2,951,752	$ 1,812,894							
Eight years later	$ 1,513,496	$ 3,067,679								
Nine years later	$ 1,180,479									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	$ (2,106,354)	$ (1,418,962)	$ (1,587,106)	$ (1,093,287)	$ (711,176)	$ 1,355,401	$ 259,983	$ (33,908)	$ 283,654	$ -

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
LIABILITY PROGRAM - CLAIMS DEVELOPMENT INFORMATION
June 30, 2015

	Fiscal and Policy Year Ended June 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Premiums and investment revenue:										
Earned	$ 1,404,160	$ 1,331,436	$ 1,213,122	$ 1,010,101	$ 623,496	$ 1,012,970	$ 1,033,081	$ 1,146,867	$ 1,260,614	$ 1,590,963
Ceded	-	-	-	-	-	(260,460)	(338,246)	(408,624)	(321,778)	(489,467)
Net earned	$ 1,404,160	$ 1,331,436	$ 1,213,122	$ 1,010,101	$ 623,496	$ 752,510	$ 694,835	$ 738,243	$ 938,836	1,109,496
2. Unallocated expenses	$ 377,006	$ 417,914	$ 459,686	$ 565,048	$ 519,595	$ 274,576	$ 220,517	$ 156,865	$ 98,496	$ 207,904
3. Estimated claims and expenses, end of policy year:										
Incurred	925,446	$ 840,642	$ 873,013	$ 1,025,703	$ 625,950	$ 698,586	$ 762,804	$ 724,371	$ 717,627	$ 1,089,791
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 925,446	$ 840,642	$ 873,013	$ 1,025,703	$ 625,950	$ 698,586	$ 762,804	$ 724,371	$ 717,627	1,089,791
4. Net paid (cumulative) as of:										
End of policy year	$ 9,800	$ 8,689	$ 15,328	$ 4,286	$ 24,307	$ 16,636	$ 33,710	$ 44,710	$ 30,827	$ 114,978
One year later	$ 150,741	$ 90,271	$ 219,961	$ 92,309	$ 261,851	$ 197,618	$ 48,244	$ 70,663	$ 833,982	
Two years later	$ 378,738	$ 261,521	$ 314,375	$ 160,426	$ 572,208	$ 906,156	$ 257,963	$ 328,231		
Three years later	$ 378,738	$ 272,604	$ 444,256	$ 208,525	$ 717,466	$ 1,939,076	$ 460,840			
Four years later	$ 427,893	$ 291,191	$ 382,169	$ 217,558	$ 566,348	$ 2,046,234				
Five years later	$ 427,893	$ 264,086	$ 382,509	$ 268,160	$ 566,348					
Six years later	$ 427,893	$ 274,867	$ 382,169	$ 323,426						
Seven years later	$ 482,175	$ 274,834	$ 382,510							
Eight years later	$ 437,893	$ 274,868								
Nine years later	$ 437,893									
5. Re-estimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. Re-estimated incurred claims and expenses:										
End of policy year	$ 925,446	$ 840,642	$ 873,013	$ 1,025,703	$ 625,950	$ 698,586	$ 762,804	$ 724,371	$ 717,627	$ 1,089,791
One year later	$ 910,000	$ 552,712	$ 1,113,374	$ 585,468	$ 1,130,864	$ 1,250,164	$ 408,855	$ 656,003	$ 1,936,531	
Two years later	$ 1,053,781	$ 676,691	$ 708,769	$ 381,845	$ 1,169,927	$ 2,155,714	$ 597,525	$ 487,423		
Three years later	$ 874,809	$ 347,925	$ 640,779	$ 269,524	$ 1,025,751	$ 2,495,696	$ 839,954			
Four years later	$ 427,893	$ 321,274	$ 382,169	$ 300,114	$ 566,348	$ 2,184,891				
Five years later	$ 427,893	$ 264,087	$ 382,509	$ 331,968	$ 566,348					
Six years later	$ 427,893	$ 274,868	$ 382,169	$ 323,426						
Seven years later	$ 577,572	$ 274,868	$ 382,510							
Eight years later	$ 437,893	$ 274,868								
Nine years later	$ 437,893									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	$ (487,553)	$ (565,774)	$ (490,503)	$ (702,277)	$ (59,602)	$ 1,486,305	$ 77,150	$ (236,948)	$ 1,218,904	$ -

SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
COMBINING STATEMENTS OF NET POSITION
June 30, 2015

	Workers' Compensation	Liability	Property	Total
ASSETS				
Current assets:				
Cash	$ 1,480,572	$ 420,976	$ -	$ 1,901,548
Investments	10,579,873	3,008,230	-	13,588,103
Receivables:				
Member agencies	64,449	18,195	-	82,644
Interest	7,321	2,081	-	9,402
Prepaid expenses	-	6,900	175,438	182,338
Due to/due from other funds	-	9,018	(9,018)	-
Total assets	12,132,215	3,465,400	166,420	15,764,035
LIABILITIES				
Current liabilities:				
Accounts payable	-	15,594	161,800	177,394
Current portion of note payable	250,000	-	-	250,000
Current portion of unpaid claims and claims adjustment expenses	1,603,000	1,223,000	-	2,826,000
Total current liabilities	1,853,000	1,238,594	161,800	3,253,394
Long-term portion of notes payable	2,995,000	-	-	2,995,000
Unpaid claims and claim adjustment expenses	10,927,562	1,701,798	-	12,629,360
Total liabilities	15,775,562	2,940,392	161,800	18,877,754
Total net position - unrestricted	$ (3,643,347)	$ 525,008	$ 4,620	$ (3,113,719)

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
COMBINING STATEMENTS OF NET POSITION
June 30, 2014

	Workers' Compensation	Liability	Property	Total
ASSETS				
Current assets:				
Cash	$ 405,860	$ 149,471	$ -	$ 555,331
Investments	10,265,192	3,780,482	-	14,045,674
Receivables:				
Member agencies	102,462	20,497	869	123,828
Interest	5,550	2,044	-	7,594
Prepaid expenses	18,738	-	-	18,738
Due to/due from other funds	-	9,211	(9,211)	-
Total current assets	10,797,802	3,961,705	(8,342)	14,751,165
Noncurrent assets:				
Notes receivable	201,499	-	-	201,499
Total assets	10,999,301	3,961,705	(8,342)	14,952,664
LIABILITIES				
Current liabilities:				
Accounts payable	35,772	41,938	2,075	79,785
Current portion of note payable	240,000	-	-	240,000
Current portion of unpaid claims and claims adjustment expenses	1,453,000	801,000	-	2,254,000
Total current liabilities	1,728,772	842,938	2,075	2,573,785
Long-term portion of note payable	3,245,000	-	-	3,245,000
Unpaid claims and claim adjustment expenses	9,813,846	1,560,415	-	11,374,261
Total liabilities	14,787,618	2,403,353	2,075	17,193,046
Total net position - unrestricted	$ (3,788,317)	$ 1,558,352	$ (10,417)	$ (2,240,382)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION
For the Year Ended June 30, 2015

	Workers' Compensation	Liability	Property	Total
Operating revenues:				
Member contributions	$ 3,979,739	$ 1,584,506	$ 183,533	$ 5,747,778
Excess insurance recovery reimbursements	1,639,144	96,806	-	1,735,950
Total operating revenues	5,618,883	1,681,312	183,533	7,483,728
Operating expenses:				
Provisions for claims and claim adjustment expenses	4,647,233	2,067,025	-	6,714,258
Insurance premiums	372,833	489,467	139,898	1,002,198
Claims administration	99,828	99,827	-	199,655
Contract risk management services	206,114	-	-	206,114
Other risk management expenses	38,928	-	28,598	67,526
General and administrative	111,781	64,794	-	176,575
Total operating expenses	5,476,717	2,721,113	168,496	8,366,326
Operating income (loss)	142,166	(1,039,801)	15,037	(882,598)
Non-operating revenues (expenses):				
Interest income	28,655	6,457	-	35,112
Interest expense	(25,851)	-	-	(25,851)
Total non-operating revenues (expenses)	2,804	6,457	-	9,261
Change in net position	144,970	(1,033,344)	15,037	(873,337)
Net position, beginning of year	$ (3,788,317)	$ 1,558,352	$ (10,417)	$ (2,240,382)
Net position, end of year	$ (3,643,347)	$ 525,008	$ 4,620	$ (3,113,719)

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION
For the Year Ended June 30, 2014

	Workers' Compensation	Liability	Property	Total
Operating revenues:				
Member contributions	$ 3,838,250	$ 1,260,614	$ 171,571	$ 5,270,435
Excess insurance recovery reimbursements	230,279	101,795	-	332,074
Total operating revenues	4,068,529	1,362,409	171,571	5,602,509
Operating expenses:				
Provisions for claims and claim adjustment expenses	1,418,005	224,865	-	1,642,870
Insurance premiums	544,284	321,778	147,136	1,013,198
Claims administration	98,546	98,546	-	197,092
Contract risk management services	250,685	-	-	250,685
Other risk management expenses	51,767	-	24,154	75,921
General and administrative	126,735	53,435	-	180,170
Total operating expenses	2,490,022	698,624	171,290	3,359,936
Operating income (loss)	1,578,507	663,785	281	2,242,573
Non-operating revenues (expenses):				
Interest income	39,082	-	-	39,082
Interest expense	(28,475)	-	-	(28,475)
Total non-operating revenues (expenses)	10,607	-	-	10,607
Change in net position	1,589,114	663,785	281	2,253,180
Net position, beginning of year	(5,377,431)	894,567	(10,698)	(4,493,562)
Net position, end of year	$ (3,788,317)	$ 1,558,352	$ (10,417)	$ (2,240,382)

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, 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, the financial statements of Monterey Bay Area Self Insurance Authority as of and for the year ended June 30, 2015, and the related notes to basic financial statements which collectively comprise Monterey Bay Area Self Insurance Authority's financial statements and have issued our report thereon dated January 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Monterey Bay Area Self Insurance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority's 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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
January 12, 2016