

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

**FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
Monterey, California

FINANCIAL STATEMENTS  
June 30, 2011 and 2010

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS:	
STATEMENTS OF NET ASSETS .....	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET DEFICIT .....	9
STATEMENTS OF CASH FLOWS.....	10
NOTES TO BASIC FINANCIAL STATEMENTS .....	11
REQUIRED SUPPLEMENTARY INFORMATION:	
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT .....	17
CLAIMS DEVELOPMENT INFORMATION.....	20
SUPPLEMENTARY INFORMATION:	
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION.....	22
COMBINING STATEMENTS OF NET DEFICIT ASSETS .....	23
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET DEFICIT ASSETS .....	25
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> .....	27

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Monterey Bay Area Self Insurance Authority  
Monterey, California

We have audited the accompanying balance sheet of Monterey Bay Area Self Insurance Authority as of June 30, 2011 and the related statements of revenues, expenses and change in net deficit, and cash flows for the year then ended. 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. The 2010 financial statements of Monterey Bay Area Self Insurance Authority prior to the restatement described in Note 7, were audited by other auditors, and whose report dated August 15, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 basic 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, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the basic financial statements, the Authority has restated their June 30, 2010 financial statements to properly reflect the estimate for unallocated loss adjustment expenses. The previously-issued report dated August 15, 2011 should not be relied upon because the previously-issued financial statements were materially misstated and is hereby replaced by the report on the restated financial statements. The material weakness and managements response related to this restatement are presented in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards. We also audited the adjustments described in Note 7 that were applied to restate the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with Government Auditing Standards, we have also issued our report dated \_\_\_\_\_, 2013 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 and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Reconciliation of Claims Liability by Type of Contract, and Claims Development Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Sacramento, California  
\_\_\_\_\_, 2013

## MONTEREY BAY AREA SELF INSURANCE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 and 2010

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, 2011 and 2010. 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 (decreased) by \$1,762,728 (or 43.8%) during 2011, \$(313,590) (or -8.4%) during 2010, and \$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 (Deficit) Assets was \$(2,263,047) for 2011, \$(4,025,775) for 2010, and \$(3,712,185) for 2009.
- Total costs of all of the Authority's programs were \$3,221,851 in 2011; \$4,542,842 in 2010; and \$2,872,734 in 2009.

#### 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 (Deficit) Assets, Statements of Cash Flows, Combining Statements of Net Assets, Combining Statements of Revenues, Expenses and Changes in Net (Deficit) 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.

## **FUNDS**

### **Program 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>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 14,198,125	\$ 14,011,089	\$ 14,425,366
Capital and other assets	<u>157,173</u>	<u>76,044</u>	<u>87,524</u>
Total assets	<u>14,355,298</u>	<u>14,087,133</u>	<u>14,512,890</u>
Current liabilities	2,632,576	2,779,227	2,754,460
Long-term liabilities	<u>13,985,769</u>	<u>15,333,681</u>	<u>14,701,507</u>
Total liabilities	<u>16,618,345</u>	<u>18,112,908</u>	<u>17,455,967</u>
Net Deficit - Unrestricted	<u>(2,263,047)</u>	<u>(4,025,775)</u>	<u>(2,943,077)</u>
Total net deficit	<u>\$ (2,263,047)</u>	<u>\$ (4,025,775)</u>	<u>\$ (2,943,077)</u>

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

Current year's net (deficit) assets increased (decreased) by \$1,762,728; \$(313,590); and \$2,118,290 during the years ending June 30, 2011, 2010, and 2009, respectively, resulting mainly from the change in claims payable based on the actuarial study.

## 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>2011</u>	<u>2010</u>	<u>2009</u>
Revenue:			
Contributions from members	\$ 4,529,833	\$ 4,107,245	\$ 4,380,087
Excess insurance recovery and reimbursements	423,382	168,020	306,164
Interest income	<u>69,039</u>	<u>101,356</u>	<u>304,773</u>
Total revenue	<u>5,022,254</u>	<u>4,376,621</u>	<u>4,991,024</u>
Expenses:			
Provision for claims and claim claims adjustment expenses	1,899,532	3,236,019	1,327,674
Insurance premiums	644,281	594,359	578,012
Claims administration	269,351	130,991	108,500
Contract risk management services	258,139	446,875	446,844
Other risk management services	25,727	27,074	25,005
General and administrative	124,821	107,524	130,844
Interest expense	<u>37,675</u>	<u>147,369</u>	<u>255,855</u>
Total expenses	<u>3,259,526</u>	<u>4,690,211</u>	<u>2,872,734</u>
Changes in net deficit	<u>\$ 1,762,728</u>	<u>\$ (313,590)</u>	<u>\$ 2,118,290</u>

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

In 2010, the primary reason for decrease in change in net deficit is claims expense and increase in provision for claims and allocated claims adjustment expenses. Increase in both areas came from workers compensation fund. In 2011, the change in net deficit increased due to the provisions for claims and allocated claims adjustment expenses estimated by the actuary as well as a slight increase member contributions and excess insurance recovery and reimbursements.

## 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>2011</u>	<u>2010</u>	<u>2010</u>
Claim and claim adjustment expense reserves, beginning of year	\$ 13,770,681	\$ 13,690,615	\$ 14,488,637
Incurred claim and claim adjustment expenses, current and prior years	1,899,532	3,236,019	978,404
Payments, current and prior years	<u>(3,191,784)</u>	<u>(3,155,953)</u>	<u>(1,776,426)</u>
Claim and claim adjustment expense reserves, end of year	<u>\$ 12,478,429</u>	<u>\$ 13,770,681</u>	<u>\$ 13,690,615</u>

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

### FACTORS AFFECTING FUTURE PERIODS

There are no material factors affecting near future periods.

### REQUESTS FOR INFORMATION

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

## **BASIC FINANCIAL STATEMENTS**

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

	<u>2011</u>	<u>Restated 2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 631,642	\$ 2,355,571
Investments (Note 2)	13,489,857	11,611,238
Receivables:		
Member agencies	54,761	29,254
Interest	16,126	9,286
Note issuance costs, net (Note5)	<u>5,739</u>	<u>5,740</u>
Total current assets	<u>14,198,125</u>	<u>14,011,089</u>
Noncurrent assets:		
Note issuance costs, net (Note 5)	70,306	76,044
Note receivable	<u>86,867</u>	<u>-</u>
Total noncurrent assets	<u>157,173</u>	<u>76,044</u>
Total assets	<u>14,355,298</u>	<u>14,087,133</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	9,916	21,627
Deferred revenue	-	600
Current portion of notes payable (Note 4)	205,000	190,000
Current portion of unpaid claims and claim adjustment expenses (Note 3)	<u>2,417,660</u>	<u>2,567,000</u>
Total current liabilities	2,632,576	2,779,227
Long-term portion of notes payable (Note 4)	3,925,000	4,130,000
Unpaid claims and claim adjustment expenses (Note 3)	<u>10,060,769</u>	<u>11,203,681</u>
Total liabilities	<u>16,618,345</u>	<u>18,112,908</u>
<b>NET ASSETS</b>		
Total net deficit	<u>\$ (2,263,047)</u>	<u>\$ (4,025,775)</u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET DEFICIT  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>Restated 2010</u>
Operating revenues:		
Member contributions	\$ 4,529,833	\$ 4,107,245
Excess insurance recovery reimbursements	<u>423,382</u>	<u>168,020</u>
Total operating revenues	<u>4,953,215</u>	<u>4,275,265</u>
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 3)	1,899,532	3,236,019
Insurance premiums	644,281	594,359
Claims administration	269,351	130,991
Contract risk management services	258,139	446,875
Other risk management expenses	25,727	27,074
General and administrative	<u>124,821</u>	<u>107,524</u>
Total operating expenses	<u>3,221,851</u>	<u>4,542,842</u>
Operating income (loss)	1,731,364	(267,577)
Non-operating income (expense):		
Interest income	69,039	101,356
Interest expense	<u>(37,675)</u>	<u>(147,369)</u>
Total non-operating income (expense)	<u>31,364</u>	<u>(46,013)</u>
Change in net deficit	1,762,728	(313,590)
Net deficit, beginning of year, originally stated	(4,025,775)	(2,943,077)
Restatement (Note 7)	<u>-</u>	<u>(769,108)</u>
Net deficit, beginning of year, restated	<u>(4,025,775)</u>	<u>(3,712,185)</u>
Net deficit, end of year	<u>\$ (2,263,047)</u>	<u>\$ (4,025,775)</u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>Restated 2010</u>
Cash flows from operating activities:		
Cash received from members	\$ 4,840,241	\$ 4,386,975
Cash paid for claims	(3,191,784)	(3,155,953)
Cash paid for insurance	(644,281)	(594,359)
Cash paid to suppliers	<u>(689,749)</u>	<u>(696,553)</u>
Net cash provided by (used in) operating activities	<u>314,427</u>	<u>(59,890)</u>
Cash flows from investing activities:		
Interest received	62,199	117,021
Purchase of investments	<u>(1,878,619)</u>	<u>(4,666,695)</u>
Net cash used in investing activities	<u>(1,816,420)</u>	<u>(4,549,674)</u>
Cash flows from financing activities:		
Interest paid on notes payable	(37,675)	(147,369)
Principal payments on notes payable	(190,000)	(180,000)
Note issuance costs	<u>5,739</u>	<u>5,740</u>
Net cash used in financing activities	<u>(221,936)</u>	<u>(321,629)</u>
Net change in cash and cash equivalents	(1,723,929)	(4,931,193)
Cash and cash equivalents, beginning of year	<u>2,355,571</u>	<u>7,286,764</u>
Cash and cash equivalents, end of year	<u>\$ 631,642</u>	<u>\$ 2,355,571</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 1,731,364	\$ (267,577)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in:		
Receivable from members	(112,374)	139,854
(Decrease) increase in:		
Accounts payable	(11,711)	15,911
Deferred revenue	(600)	(28,144)
Unpaid claims and claim adjustment expense	<u>(1,292,252)</u>	<u>80,066</u>
Net cash provided by (used in) operating activities	<u>\$ 314,427</u>	<u>\$ (59,890)</u>
Supplemental cash flow information:		
Investing activities:		
Change in fair value of investments	<u>\$ (37,675)</u>	<u>\$ 147,369</u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

---

**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, 2011 included Capitola, Del Rey Oaks, Gonzales, Greenfield, Hollister, King City, Marina, Sand City, Scotts Valley and Soledad.

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

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

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

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

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses are recognized when the obligation is incurred. The Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

Fair Value of Pooled Investments: The Authority records its investment in the Local Agency Investment Fund (LAIF) at fair value. Changes in fair value are reported as revenue in the statement of operations and retained earnings. The fair value of investments, including the Local Agency Investment Fund as an external investment pool, at June 30, 2011 and June 30, 2010 approximated their carrying value.

---

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

---

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

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

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

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

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

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

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

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

---

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

---

**NOTE 2 – CASH AND INVESTMENTS**

Cash and cash equivalents as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 631,642	\$ 2,355,571
Cash in Local Agency Investment Fund	<u>13,489,857</u>	<u>11,611,238</u>
	<u>\$ 14,121,499</u>	<u>\$ 13,966,809</u>

Custodial Credit Risk: The Authority limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2011, the carrying amount of the Authority's accounts was \$631,642 and the bank balance was \$747,136, all of which was insured.

Local Agency Investment Fund: Monterey Bay Area Self Insurance Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Pool. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are reported on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. The interest rate at June 30, 2011 was 0.48% LAIF is currently unrated and has an average life of 170 days.

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

Investment Interest Rate Risk: The Authority does not have formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2011, 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, 2011, the Authority had no concentration of credit risk.

---

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 3 – UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES**

	<u>2011</u>	<u>Restated 2010</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 13,770,681	\$ 13,690,615
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	3,262,369	4,427,275
Change in provision for covered events of prior fiscal years	<u>(1,362,837)</u>	<u>(1,191,256)</u>
Total incurred claims and claim adjustment expenses	<u>1,899,532</u>	<u>3,236,019</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	511,417	1,150,324
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>2,680,367</u>	<u>2,005,629</u>
Total payments	<u>3,191,784</u>	<u>3,155,953</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 12,478,429</u>	<u>\$ 13,770,681</u>

The components of the unpaid claims and claim adjustment expenses for the Authority as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Claim reserves	\$ 4,277,376	\$ 4,834,169
Claims incurred but not reported (IBNR)	7,396,840	8,167,404
Unallocated loss adjustment expenses (ULAE)	<u>804,213</u>	<u>769,108</u>
	12,478,429	13,770,681
Current portion	<u>(2,417,660)</u>	<u>(2,567,000)</u>
	<u>\$ 10,060,769</u>	<u>\$ 11,203,681</u>

These liabilities are reported at their present value using an expected future investment yield assumption of three percent for June 30, 2011 and 2010. The undiscounted liabilities are \$13,964,462 and \$15,118,947 at June 30, 2011 and 2010, respectively. The current portion of claim liabilities is estimated based on claims payment history.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

---

**NOTE 4 – LONG-TERM DEBT**

Long-term debt at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Note payable to DEPFA Bank. Annual payments including interest are due on an annual basis. The loan bears interest at the monthly LIBOR rate plus 60 basis points per annum. The note matures October 1, 2024. The note is secured by all premiums received by the Authority.	\$ 4,130,000	\$ 4,320,000
Less current portion	<u>(205,000)</u>	<u>(190,000)</u>
Total long-term debt	<u>\$ 3,925,000</u>	<u>\$ 4,130,000</u>

Long-term debt maturities at June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Interest *</u>	<u>Principal</u>
2012	\$ 31,704	\$ 205,000
2013	30,051	215,000
2014	28,320	225,000
2015	26,489	240,000
2016	24,561	250,000
2017-2021	90,016	1,480,000
2022-2025	<u>24,659</u>	<u>1,515,000</u>
	<u>\$ 255,800</u>	<u>\$ 4,130,000</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, 2011 monthly LIBOR rate plus 60 basis points, or .9487% annual interest rate.

**NOTE 5 – NOTE ISSUANCE COSTS**

Note issuance costs represent legal and accounting fees, preparation costs and other expenses associated with the issuance of a long-term debt note. Such costs are being amortized over the 20 year term of the note which matures during the fiscal year ending June 30, 2025. The balance as of June 30, 2011 and 2010 is presented as follows:

	<u>2011</u>	<u>2010</u>
Original cost	\$ 114,785	\$ 114,785
Accumulated amortization	<u>(38,740)</u>	<u>(33,001)</u>
Debt issuance costs, net	<u>\$ 76,045</u>	<u>\$ 81,784</u>

---

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011 and 2010

---

**NOTE 6 – CHANGE IN ACCOUNTING ESTIMATE**

Prior to the fiscal year ended June 30, 2010, the Authority used the 70% confidence level for financial statement presentation of both workers' compensation and liability claims reserves. A new confidence level is now being used for both workers' compensation and liability claims for 2010. A description of that new confidence level is presented in Note 1 under "Provision for Claims and Claim Adjustment Expenses." For the year ended June 30, 2010, the provision for claims and claim adjustment expenses was reduced by the following amounts as a result of the change in accounting estimate:

Workers' compensation Liability	\$ 791,000
	<u>140,264</u>
Total	<u>\$ 931,264</u>

**NOTE 7 – RESTATEMENT**

On July 1, 2009, the Authority corrected for an error in the recording of unallocated loss adjustment expenses (ULAE) for amounts that were previously unreported. The unpaid claims and claim adjustment expenses liability was increased by \$769,108 with a corresponding decrease in net assets as of July 1, 2009 to correct for this error. The impact on the provision for claims and claim adjustment expenses for the year ended June 30, 2010 is not significant.

Net Deficit as of July 1, 2009, previously stated	\$ (2,943,077)
Restatement	<u>(769,108)</u>
Net Deficit as of July 1, 2009, restated	<u>\$ (3,712,185)</u>
Unpaid claims and claim adjustment expenses July 1, 2009, previously stated	\$ 13,001,573
Restatement	<u>769,108</u>
Unpaid claims and claim adjustment expenses July, 1 2009, restated	<u>\$ 13,770,681</u>

---

**REQUIRED SUPPLEMENTARY INFORMATION**

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT  
LIABILITY PROGRAM  
For the Years Ended June 30, 2011 and 2010

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

	<u>2011</u>	<u>Restated 2010</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>1,461,650</u>	\$ <u>2,331,584</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	698,586	577,763
Decrease in provision for covered events of prior fiscal years	<u>(110,340)</u>	<u>(1,129,895)</u>
Total incurred claims and claim adjustment expenses	<u>588,246</u>	<u>(552,132)</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	16,636	24,307
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>285,027</u>	<u>293,495</u>
Total payments	<u>301,663</u>	<u>317,802</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	\$ <u>1,748,233</u>	\$ <u>1,461,650</u>

The components of the unpaid claims and claim adjustment expenses for the Property and Liability Program as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Claim reserves	\$ 551,953	\$ 361,371
Claims incurred but not reported (IBNR)	1,070,263	1,008,202
Unallocated loss adjustment expenses (ULAE)	<u>126,017</u>	<u>92,077</u>
	1,748,233	1,461,650
Current portion	<u>647,780</u>	<u>403,000</u>
	\$ <u>1,100,453</u>	\$ <u>1,058,650</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT  
WORKERS' COMPENSATION PROGRAM  
For the Years Ended June 30, 2011 and 2010

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

	<u>2011</u>	<u>Restated 2010</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>12,309,031</u>	\$ <u>11,359,031</u>
Incurring claims and claim adjustment expenses:		
Change in provision for covered events of the current fiscal year	2,563,783	3,849,512
Change in provision for covered events of prior fiscal years	<u>(1,252,497)</u>	<u>(61,361)</u>
Total incurred claims and claim adjustment expenses	<u>1,311,286</u>	<u>3,788,151</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	494,781	1,126,017
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>2,395,340</u>	<u>1,712,134</u>
Total payments	<u>2,890,121</u>	<u>2,838,151</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	\$ <u>10,730,196</u>	\$ <u>12,309,031</u>

The components of the unpaid claims and claim adjustment expenses for the Workers' Compensation Program as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Claim reserves	\$ 3,725,423	\$ 4,466,798
Claims incurred but not reported (IBNR)	6,326,577	7,165,202
Unallocated loss adjustment expenses (ULAE)	<u>678,196</u>	<u>677,031</u>
	10,730,196	12,309,031
Current portion	<u>1,769,880</u>	<u>2,164,000</u>
	\$ <u>8,960,316</u>	\$ <u>10,145,031</u>

See independent auditors' report on required supplementary information.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
CLAIMS DEVELOPMENT INFORMATION  
For the Years Ended June 30, 2011 and 2010

---

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  
LIABILITY PROGRAM - CLAIMS DEVELOPMENT INFORMATION  
June 30, 2011

	Fiscal and Policy Year Ended June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Premiums and investment revenue:										
Earned	\$ N/A	\$ 1,183,895	\$ 1,114,863	\$ 1,204,596	\$ 1,404,160	\$ 1,331,436	\$ 1,213,122	\$ 1,010,101	\$ 623,496	\$ 1,012,970
Ceded	N/A									(260,460)
Net earned	<u>\$ N/A</u>	<u>\$ 1,183,895</u>	<u>\$ 1,114,863</u>	<u>\$ 1,204,596</u>	<u>\$ 1,404,160</u>	<u>\$ 1,331,436</u>	<u>\$ 1,213,122</u>	<u>\$ 1,010,101</u>	<u>\$ 623,496</u>	<u>\$ 752,510</u>
2. Unallocated expenses	\$ N/A	\$ 681,621	\$ 312,192	\$ 444,255	\$ 377,006	\$ 417,914	\$ 459,686	\$ 565,048	\$ 519,595	\$ 274,576
3. Estimated claims and expenses, end of policy year:										
Incurred	\$ N/A	\$ 532,739	\$ 508,490	\$ 868,733	\$ 925,446	\$ 840,642	\$ 873,013	\$ 1,025,703	\$ 625,950	\$ 698,586
Ceded	N/A	-	-	-	-	-	-	-	-	-
Net incurred	<u>\$ N/A</u>	<u>\$ 532,739</u>	<u>\$ 508,490</u>	<u>\$ 868,733</u>	<u>\$ 925,446</u>	<u>\$ 840,642</u>	<u>\$ 873,013</u>	<u>\$ 1,025,703</u>	<u>\$ 625,950</u>	<u>\$ 698,586</u>
4. Net paid (cumulative) as of:										
End of policy year	\$ N/A	\$ 4,259	\$ 17,060	\$ 18,774	\$ 9,800	\$ 8,689	\$ 15,328	\$ 4,286	\$ 24,307	\$ 16,636
One year later	\$ N/A	\$ N/A	\$ 158,570	\$ 215,295	\$ 150,741	\$ 90,271	\$ 219,961	\$ 92,309	\$ 261,851	
Two years later	\$ N/A	\$ 731,520	\$ 291,222	\$ 346,950	\$ 378,738	\$ 261,521	\$ 314,375	\$ 160,426		
Three years later	\$ 675,315	\$ 1,213,186	\$ 964,238	\$ 421,737	\$ 378,738	\$ 272,604	\$ 444,256			
Four years later	\$ 762,346	\$ 1,029,513	\$ 965,392	\$ 421,737	\$ 427,893	\$ 291,191				
Five years later	\$ 769,594	\$ 1,029,513	\$ 965,392	\$ 327,828	\$ 427,893					
Six years later	\$ 785,964	\$ 1,029,513	\$ 426,270	\$ 327,828						
Seven years later	\$ 785,964	\$ 978,960	\$ 426,270							
Eight years later	\$ 679,467	\$ 983,870								
Nine years later	\$ 679,467									
5. Re-estimated ceded claims and expenses	\$ N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated incurred claims and expenses:										
End of policy year	\$ N/A	\$ 532,739	\$ 508,490	\$ 868,733	\$ 925,446	\$ 840,642	\$ 873,013	\$ 1,025,703	\$ 625,950	\$ 698,586
One year later	\$ N/A	\$ N/A	\$ 835,291	\$ 774,170	\$ 910,000	\$ 552,712	\$ 1,113,374	\$ 585,468	\$ 1,130,864	
Two years later	\$ N/A	\$ 1,503,829	\$ 657,232	\$ 520,000	\$ 1,053,781	\$ 676,691	\$ 708,769	\$ 381,845		
Three years later	\$ 846,663	\$ 1,458,355	\$ 640,000	\$ 545,081	\$ 874,809	\$ 347,925	\$ 640,779			
Four years later	\$ 762,346	\$ 1,330,000	\$ 585,221	\$ 504,718	\$ 427,893	\$ 321,274				
Five years later	\$ 762,346	\$ 1,299,533	\$ 583,962	\$ 327,828	\$ 427,893					
Six years later	\$ 762,346	\$ 1,369,831	\$ 426,270	\$ 327,828						
Seven years later	\$ 762,346	\$ 978,960	\$ 426,270							
Eight years later	\$ 679,467	\$ 983,870								
Nine years later	\$ 679,467									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ N/A</u>	<u>\$ 451,131</u>	<u>\$ (82,220)</u>	<u>\$ (540,905)</u>	<u>\$ (497,554)</u>	<u>\$ (519,368)</u>	<u>\$ (232,234)</u>	<u>\$ (643,858)</u>	<u>\$ 504,914</u>	<u>\$ -</u>

N/A = not available

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
 WORKERS' COMPENSATION PROGRAM - CLAIMS DEVELOPMENT INFORMATION  
 June 30, 2011

	Fiscal and Policy Year Ended June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Premiums and investment income	\$ 2,129,475	\$ 2,890,042	\$ 3,196,556	\$ 2,670,356	\$ 2,989,236	\$ 3,073,170	\$ 3,345,961	\$ 3,883,249	\$ 3,606,504	\$ 3,583,356
2. Unallocated expenses	\$ 272,527	\$ 387,216	\$ 276,675	\$ 579,100	\$ 538,020	\$ 628,870	\$ 641,843	\$ 627,390	\$ 671,656	\$ 788,351
3. Estimated claims and expenses	\$ 936,992	\$ 1,745,294	\$ 3,533,352	\$ 5,257,674	\$ 3,286,833	\$ 4,486,641	\$ 3,400,000	\$ 3,013,783	\$ 3,963,481	\$ 2,563,783
4. Paid cumulative as of:										
End of policy year	\$ 437,455	\$ 843,311	\$ 467,013	\$ 659,475	\$ 425,153	\$ 864,346	\$ 434,224	\$ 509,729	\$ 1,126,017	\$ 494,781
One year later	\$ 1,052,763	\$ 1,250,278	\$ 863,861	\$ 1,237,583	\$ 852,367	\$ 1,708,701	\$ 955,325	\$ 1,232,805	\$ 1,143,243	
Two years later	\$ 1,352,163	\$ 1,742,590	\$ 1,207,910	\$ 1,420,240	\$ 1,065,792	\$ 2,251,562	\$ 1,169,893	\$ 1,062,901		
Three years later	\$ 1,744,918	\$ 2,008,899	\$ 1,296,330	\$ 1,495,340	\$ 1,193,470	\$ 2,634,600	\$ 875,997			
Four years later	\$ 1,966,932	\$ 2,184,698	\$ 1,723,566	\$ 1,562,876	\$ 1,129,898	\$ 2,195,189				
Five years later	\$ 2,116,874	\$ 2,275,884	\$ 1,659,129	\$ 1,685,126	\$ 1,012,475					
Six years later	\$ 2,144,547	\$ 2,276,611	\$ 1,683,354	\$ 1,291,180						
Seven years later	\$ 2,166,200	\$ 2,281,606	\$ 1,432,120							
Eight years later	\$ 2,199,423	\$ 1,836,453								
Nine years later	\$ 1,799,369									
5. Re-estimated incurred claims and expenses:										
End of policy year	\$ 936,992	\$ 1,745,294	\$ 3,533,352	\$ 5,257,674	\$ 3,286,833	\$ 4,486,641	\$ 3,400,000	\$ 3,013,783	\$ 3,963,481	\$ 2,563,783
One year later	\$ 1,813,024	\$ 2,408,139	\$ 4,883,715	\$ 4,290,642	\$ 3,985,890	\$ 7,461,081	\$ 2,697,992	\$ 3,997,281	\$ 3,672,408	
Two years later	\$ 1,965,802	\$ 4,621,000	\$ 3,216,789	\$ 3,358,806	\$ 4,474,971	\$ 4,020,775	\$ 2,388,044	\$ 3,041,571		
Three years later	\$ 3,618,736	\$ 3,969,661	\$ 2,833,552	\$ 3,729,099	\$ 2,481,433	\$ 3,983,835	\$ 1,909,682			
Four years later	\$ 3,221,898	\$ 3,412,770	\$ 3,018,979	\$ 2,168,738	\$ 2,401,500	\$ 3,467,799				
Five years later	\$ 2,919,897	\$ 3,116,729	\$ 1,794,713	\$ 2,547,642	\$ 2,077,361					
Six years later	\$ 2,883,004	\$ 2,175,279	\$ 2,060,383	\$ 2,499,645						
Seven years later	\$ 2,047,669	\$ 2,479,204	\$ 1,965,227							
Eight years later	\$ 2,260,566	\$ 2,455,453								
Nine years later	\$ 2,246,960									
6. Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ 1,309,968	\$ 710,159	\$ (1,568,125)	\$ (2,758,029)	\$ (1,209,472)	\$ (1,018,842)	\$ (1,490,318)	\$ 27,788	\$ (291,073)	\$ -

See independent auditors' report on required supplementary information.

**SUPPLEMENTARY INFORMATION**

INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION

The Board of Directors  
Monterey Bay Area Self Insurance Authority  
Monterey, California

Our audit was conducted for the purpose of forming an opinion on the basic 2011 financial statements taken as a whole. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 2011 information has been subjected to the auditing procedures applied in the audit of the basic 2011 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2011 financial statements taken as a whole. The 2010 Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets are presented for purposes of additional analysis and are not a required part of the basic 2010 financial statements. Such information was subjected to the auditing procedures applied by other auditors, prior to the restatement described in Note 7, whose report dated August 15, 2011 expressed an opinion that such information was fairly stated in all material respects in relation to the basic 2010 financial statements taken as a whole. We also audited the adjustments described in Note 7 that were applied to restate the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

████████████████████  
Sacramento, California  
\_\_\_\_\_, 2013

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
 COMBINING STATEMENTS OF NET (DEFICIT) ASSETS  
 June 30, 2011

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 401,704	\$ 227,791	\$ 2,147	\$ 631,642
Investments	8,569,147	4,920,710	-	13,489,857
Accounts receivable:				
Member agencies	34,962	19,799	-	54,761
Interest	10,256	5,870	-	16,126
Due to/due from other funds	<u>-</u>	<u>10,983</u>	<u>(10,983)</u>	<u>-</u>
Total current assets	<u>9,016,069</u>	<u>5,185,153</u>	<u>(8,836)</u>	<u>14,192,386</u>
Noncurrent assets:				
Note issuance costs, net	76,045	-	-	76,045
Note receivable	<u>86,867</u>	<u>-</u>	<u>-</u>	<u>86,867</u>
Total assets	<u>9,178,981</u>	<u>5,185,153</u>	<u>(8,836)</u>	<u>14,355,298</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	1,655	6,114	2,147	9,916
Deferred revenue	-	-	-	-
Current portion of note payable	205,000	-	-	205,000
Current portion of unpaid claims and claims adjustment expenses	<u>1,769,880</u>	<u>647,780</u>	<u>-</u>	<u>2,417,660</u>
Total current liabilities	<u>1,976,535</u>	<u>653,894</u>	<u>2,147</u>	<u>2,632,576</u>
Note, payable, less current portion	3,925,000	-	-	3,925,000
Unpaid claims and claim adjustment expenses, less current portion	<u>8,960,316</u>	<u>1,100,453</u>	<u>-</u>	<u>10,060,769</u>
Total liabilities	<u>14,861,851</u>	<u>1,754,347</u>	<u>2,147</u>	<u>16,618,345</u>
Total net (deficit) assets	<u>\$ (5,682,870)</u>	<u>\$ 3,430,806</u>	<u>\$ (10,983)</u>	<u>\$ (2,263,047)</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
 COMBINING STATEMENTS OF NET (DEFICIT) ASSETS  
 June 30, 2010 (Restated)

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,525,410	\$ 829,561	\$ 600	\$ 2,355,571
Investments	7,519,155	4,092,083	-	11,611,238
Accounts receivable:				
Member agencies	12,265	16,989	-	29,254
Interest	6,013	3,273	-	9,286
Due to/due from other funds	-	11,053	(11,053)	-
Total current assets	<u>9,062,843</u>	<u>4,952,959</u>	<u>(10,453)</u>	<u>14,005,349</u>
Noncurrent assets:				
Note issuance costs, net	81,784	-	-	81,784
Note receivable	-	-	-	-
Total assets	<u>9,144,627</u>	<u>4,952,959</u>	<u>(10,453)</u>	<u>14,087,133</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	1,737	19,890	-	21,627
Deferred revenue	-	-	600	600
Current portion of note payable	190,000	-	-	190,000
Current portion of unpaid claims and claims adjustment expenses	<u>2,164,000</u>	<u>403,000</u>	<u>-</u>	<u>2,567,000</u>
Total current liabilities	<u>2,355,737</u>	<u>422,890</u>	<u>600</u>	<u>2,779,227</u>
Note, payable, less current portion	4,130,000	-	-	4,130,000
Unpaid claims and claim adjustment expenses, less current portion	<u>10,145,031</u>	<u>1,058,650</u>	<u>-</u>	<u>11,203,681</u>
Total liabilities	<u>16,630,768</u>	<u>1,481,540</u>	<u>600</u>	<u>18,112,908</u>
Total net (deficit) assets	<u>\$ (7,486,141)</u>	<u>\$ 3,471,419</u>	<u>\$ (11,053)</u>	<u>\$ (4,025,775)</u>

See independent auditors' report on supplementary information.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
 COMBINING STATEMENTS OF REVENUES, EXPENSES  
 AND CHANGE IN NET DEFICIT ASSETS  
 June 30, 2011

	Workers' Compensation	Liability	Property	Total
Operating revenues:				
Member contributions	\$ 3,538,173	\$ 885,343	\$ 106,317	\$ 4,529,833
Excess insurance recovery reimbursements	<u>309,649</u>	<u>113,733</u>	-	<u>423,382</u>
Total operating revenues	<u>3,847,822</u>	<u>999,076</u>	<u>106,317</u>	<u>4,953,215</u>
Operating expenses:				
Provisions for claims and claim adjustment expenses	1,311,286	588,246	-	1,899,532
Insurance premiums	303,371	260,460	80,450	644,281
Claims administration	136,350	133,001	-	269,351
Contract risk management services	205,661	52,478	-	258,139
Other risk management services	-	(70)	25,797	25,727
General and administrative expenses	<u>95,391</u>	<u>29,430</u>	-	<u>124,821</u>
Total operating expenses	<u>2,052,059</u>	<u>1,063,545</u>	<u>106,247</u>	<u>3,221,851</u>
Operating income (loss)	<u>1,795,763</u>	<u>(64,469)</u>	<u>70</u>	<u>1,731,364</u>
Non-operating revenues (expenses):				
Interest income	45,183	23,856	-	69,039
Interest expense	<u>(37,675)</u>	-	-	<u>(37,675)</u>
Total non-operating revenues	<u>7,508</u>	<u>23,856</u>	-	<u>31,364</u>
Change in net deficit	1,803,271	(40,613)	70	1,762,728
Net (deficit) assets, beginning of year, as originally stated	(7,486,141)	3,471,419	(11,053)	(4,025,775)
Restatement	-	-	-	-
Net (deficit) assets, beginning of year, restated	<u>(7,486,141)</u>	<u>3,471,419</u>	<u>(11,053)</u>	<u>(4,025,775)</u>
Net (deficit) assets, end of year	<u>\$ (5,682,870)</u>	<u>\$ 3,430,806</u>	<u>\$ (10,983)</u>	<u>\$ (2,263,047)</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
 COMBINING STATEMENTS OF REVENUES, EXPENSES  
 AND CHANGE IN NET DEFICIT ASSETS  
 June 30, 2010 (Restated)

	Workers' Compensation	Liability	Property	Total
Operating revenues:				
Member contributions	\$ 3,553,060	\$ 442,000	\$ 112,185	\$ 4,107,245
Excess insurance recovery reimbursements	<u>8,157</u>	<u>159,863</u>	<u>-</u>	<u>168,020</u>
Total operating revenues	<u>3,561,217</u>	<u>601,863</u>	<u>112,185</u>	<u>4,275,265</u>
Operating expenses:				
Provisions for claims and claim adjustment expenses	3,788,151	(552,132)	-	3,236,019
Insurance premiums	227,219	278,642	88,498	594,359
Claims administration	65,876	65,115	-	130,991
Contract risk management services	297,018	149,857	-	446,875
Other risk management services	-	-	27,074	27,074
General and administrative expenses	<u>81,543</u>	<u>25,981</u>	<u>-</u>	<u>107,524</u>
Total operating expenses	<u>4,459,807</u>	<u>(32,537)</u>	<u>115,572</u>	<u>4,542,842</u>
Operating income (loss)	<u>(898,590)</u>	<u>634,400</u>	<u>(3,387)</u>	<u>(267,577)</u>
Non-operating revenues (expenses):				
Interest income	68,631	32,725	-	101,356
Interest expense	<u>(147,369)</u>	<u>-</u>	<u>-</u>	<u>(147,369)</u>
Total non-operating revenues	<u>(78,738)</u>	<u>32,725</u>	<u>-</u>	<u>(46,013)</u>
Change in net deficit	(977,328)	667,125	(3,387)	(313,590)
Net (deficit) assets, beginning of year, as originally stated	(5,831,782)	2,896,371	(7,666)	(2,943,077)
Restatement	(677,031)	(92,077)	-	(769,108)
Net (deficit) assets, beginning of year, restated	<u>(6,508,813)</u>	<u>2,804,294</u>	<u>(7,666)</u>	<u>(3,712,185)</u>
Net (deficit) assets, end of year	<u>\$ (7,486,141)</u>	<u>\$ 3,471,419</u>	<u>\$ (11,053)</u>	<u>\$ (4,025,775)</u>

See independent auditors' report on supplementary information.

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  
Monterey, California

We have audited the financial statements of Monterey Bay Area Self Insurance Authority (the "Authority"), as of and for the year ended June 30, 2011, and have issued our report thereon dated \_\_\_\_\_, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Monterey Bay Area Self Insurance Authority is responsible for establishing and maintaining effective 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 Monterey Bay Area Self Insurance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the Schedule of Audit Findings and Questioned Cost, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the deficiency identified in the Schedule of Audit Findings and Questioned Cost as 2011-01 to be a material weakness.

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*.

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



Sacramento, California  
\_\_\_\_\_, 2013

MONTEREY BAY AREA SELF INSURANCE AUTHORITY  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
June 30, 2011

---

**2011-01 MATERIAL WEAKNESS – FINANCIAL REPORTING**

Criteria

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting.

Condition

The Authority did not accrue an estimate in the financial statements for the Unallocated Loss Adjustment Expense as required by Governmental Accounting Standard Statement No. 10.

Effect

The Authority's liabilities were understated and the net assets were overstated by \$769,108.

Cause

The Authority did not establish the requisite internal control procedures to ensure the appropriate financial reporting process.

Fiscal Impact

The Authority's long-term liabilities were understated and beginning net assets overstated at July 1, 2009 by \$769,108.

Recommendations

The Authority should establish appropriate internal control procedures to ensure proper reporting of liabilities and financial reporting standards.

Corrective Action Plan