

**PUBLIC AGENCY RISK SHARING  
AUTHORITY OF CALIFORNIA  
(PARSAC)**

**AUDIT REPORT  
JUNE 30, 2002 AND 2001**

**PUBLIC AGENCY RISK SHARING  
AUTHORITY OF CALIFORNIA**

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# Bartig, Basler & Ray

A Professional Corporation

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Certified Public Accountants and Management Consultants

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Frank V. Trythall  
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Curtis A. Orgill

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Public Agency Risk Sharing Authority of California  
Sacramento, California

We have audited the balance sheets of the Public Agency Risk Sharing Authority of California (PARSAC's) as of June 30, 2002 and 2001, and the related statements of revenues and expenses, changes in retained earnings, and cash flows for the years then ended. The general-purpose financial statements are the responsibility of PARSAC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the *Government Auditing Standards* issued by the Comptroller General of the United States, and the *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general-purpose 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 audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Public Agency Risk Sharing Authority of California as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America, and the *Minimum Audit Requirements for California Special Districts issued by the Controller's office*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2002 on our consideration of the Public Agency Risk Sharing Authority of California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, relations, contracts and grants.

Board of Directors  
Public Agency Risk Sharing Authority of California

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Public Agency Risk Sharing Authority of California. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

BARTIG, BASLER & RAY, CPA's, INC.

*Bartig, Basler & Ray, CPAs, Inc.*

Roseville, California  
August 13, 2002

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

BALANCE SHEETS  
June 30, 2002 and 2001

ASSETS	<u>2002</u>	<u>2001</u>
Cash and Investments (Note 4)	\$ 15,780,875	\$ 17,710,649
Accrued Interest & Receivables	219,543	269,203
Equipment, Net of Accumulated Depreciation of \$67,088 in 2002 and \$91,939 in 2001 (Note 7)	37,498	23,046
Building and Land, Net of Accumulated Depreciation of \$235,860 in 2002 and \$195,704 in 2001 (Note 7)	926,799	966,955
Prepaid Assets	<u>566,343</u>	<u>338,980</u>
 Total Assets	 <b><u>\$ 17,531,058</u></b>	 <b><u>\$ 19,308,833</u></b>
 <b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Unpaid Losses and Loss Adjustment Expenses: (Note 2)		
Case Reserves		
Liability Program	\$ 1,014,911	\$ 1,178,958
Workers' Compensation Program	1,403,369	1,148,455
Incurred But Not Reported Claims		
Liability Program	2,870,340	8,203,000
Workers' Compensation Program	<u>324,260</u>	<u>2,523,424</u>
 Total Unpaid Losses and Loss Adjustment Expenses	 5,612,880	 13,053,837
Unearned Deposit Premium	1,370,566	330,121
Other Liabilities	177,675	619,529
Accumulated Retrospective Premium		
Adjustments Payable, Net (Note 3)	<u>531,432</u>	<u>4,761,348</u>
 Total Liabilities	 <u>7,692,553</u>	 <u>18,764,835</u>
 Fund Equity:		
Retained Earnings – (see Note 6)	<u>9,838,505</u>	<u>543,998</u>
 Total Liabilities and Fund Equity	 <b><u>\$ 17,531,058</u></b>	 <b><u>\$ 19,308,833</u></b>

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Fiscal Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating Revenues:		
Deposit Premiums Earned	\$ 5,122,922	\$ 4,527,158
Catastrophic Loss Interest Earned	10,572	14,180
Respective Premium Adjustment	<u>(727,279)</u>	<u>(1,076,214)</u>
Total Operating Revenues	<u>4,406,215</u>	<u>3,465,124</u>
Operating Expenses:		
Paid Losses and Loss Adjustment Expenses	(2,487,380)	1,414,540
Net Increase in Actuarially Determined Liability for		
Unpaid Losses and Loss Adjustment Expense	(4,096,898)	1,382,442
Purchased Excess and Other Insurance	1,382,668	1,090,311
General and Administrative Expenses, Including		
Claims Administration	748,643	869,891
Prior Years CAT Loss Fund Paid to Members	<u>335,373</u>	<u>5,756</u>
Total Operating Expenses	<u>(4,117,594)</u>	<u>4,762,940</u>
Net Operating Income (Loss)	<u>8,523,809</u>	<u>(1,297,816)</u>
Non-Operating Income:		
Unrealized Gain (Loss) on Investments (Note 4)	(105,634)	168,422
Investment income	865,932	1,120,388
Net Rental Income (Note 5)	<u>10,400</u>	<u>17,430</u>
Total Non-Operating Income	<u>770,698</u>	<u>1,306,240</u>
Net Income (Loss)	9,294,507	8,424
Retained Earnings, Beginning of Period (Note 6)	<u>543,998</u>	<u>535,574</u>
Retained Earnings, End of Period	<u><b>\$ 9,838,505</b></u>	<u><b>\$ 543,998</b></u>

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash Flows from Operating Activities:		
Net Operating Loss	\$ 8,523,809	\$ (1,297,816)
Adjustments to Reconcile Operating Revenue over Expenses to Net Cash Provided by Operations:		
Depreciation	54,083	57,155
Changes in assets and liabilities:		
(Increase) Decrease in Accounts Receivable	(78,275)	2,203
(Increase) Decrease in Other Prepaid Assets	(227,363)	(148,394)
Increase (Decrease) in Unpaid Losses and Loss Adjustment Expenses, Net	(7,882,811)	991,391
Increase (Decrease) in Unearned Deposit Premium	1,040,445	(325,995)
Increase (Decrease) in Retrospective Premium Adjustments Payable, Net	<u>(4,229,919)</u>	<u>770,624</u>
Net Cash Provided by Operating Activities	<u>(2,800,031)</u>	<u>49,168</u>
Cash Flows from Investing Activities:		
Unrealized Gains/(Loss On Investments)	(105,634)	168,422
Investment Income	865,932	1,120,388
Net Rental Income (Note 5)	10,400	17,430
(Increase) Decrease in Accrued Interest Receivable	<u>127,935</u>	<u>(20,235)</u>
Net Cash Provided by Investing Activities	<u>898,633</u>	<u>1,286,005</u>
Cash Flows from Financing Activities:		
Payment for Purchase of Fixed Assets	<u>(28,376)</u>	<u>(1,531)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,929,774)	1,333,642
Cash and Cash Equivalents, Beginning of Year	<u>17,710,649</u>	<u>16,377,007</u>
Cash and Cash Equivalents, End of Year	<u><b>\$ 15,780,875</b></u>	<u><b>\$ 17,710,649</b></u>

The accompanying notes are an integral part of these financial statements.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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### 1. Summary of Significant Accounting Policies

#### Organization and Operations

The Public Agency Risk Sharing Authority of California (PARSAC), formerly the California Municipal Insurance Authority, is a governmental joint powers authority formed in May 1986 pursuant to the Government Code of the State of California, commencing with Section 6500. PARSAC is a state-wide agency providing California municipalities risk management services including a variety of risk sharing and joint purchase coverage programs.

PARSAC is governed by a Board of Directors and member entity is entitled to representation on the Board of Directors.

Although PARSAC was created in May 1986, the extension of pooled (self-funded) joint protection to member entities actually began on July 1, 1986. During the first program year of the Liability Program, all risks were pooled or self-funded. Effective July 6, 1987, however, PARSAC began purchasing an occurrence-form commercial excess liability insurance policy which, combined with the Program's self-funded layers, offered a total of \$5 million in coverage limits.

PARSAC offers two risk sharing programs each administered by a third party administrator:

The Liability Program, implemented in 1986, provides comprehensive general and automobile liability coverage along with public officials errors and omissions. Effective July 1, 1993, members have been afforded \$10 million coverage per occurrence. PARSAC is self-insured to \$1 million and the California Affiliated Risk Management Authorities (CARMA) excess pool provides \$2 million excess coverage above the \$1 million self-insured retention (S.I.R.). Additionally, members of CARMA have joint-purchased \$7 million in commercial reinsurance above the CARMA pool coverage of \$2 million bringing the total limits to \$10 million. Within PARSAC's self-insured coverage, each member has a choice of selecting its own deductible of \$1,000, \$5,000, \$10,000, \$25,000, or self-insured retentions of \$50,000, \$100,000, \$250,000 or \$500,000.

Second, the Workers' Compensation Program, implemented on July 1, 1990, provides statutory coverage for employee injuries arising out of and in the course of employment. PARSAC is self-insured to \$250,000 per occurrence. Losses in excess of \$250,000 are covered through the Local Agency Workers' Compensation Excess Pool (LAWCX). Losses in excess of \$500,000 are covered through joint purchase of commercial insurance up to statutory limits. The Program initially provided first-dollar coverage. Beginning July 1, 2000, members may elect individual retention levels of \$25,000, \$50,000, \$100,000 and \$150,000 per occurrence. All members, with exception of the City of Rancho Cucamonga and the City of Ridgecrest, participate in the Program at first dollar.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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### 1. **Summary of Significant Accounting Policies** (continued)

PARSAC also offers its members access to property coverage. The Property Program provides all-risk replacement cost coverage for buildings and contents, and either actual cash value or replacement cost coverage for vehicles. The property coverage is commercial insurance joint-purchased with other public agencies throughout the state and is brokered through an insurance carrier.

PARSAC also offers its members a Special Events and Fidelity Bond Program, which are also provided through joint-purchased agreements.

Excess insurance and reinsurance contracts do not relieve PARSAC from obligations to its members. Failure of these insurers to honor their obligations could result in losses to PARSAC. Consequently, amounts deemed uncollectible are written off. PARSAC evaluates the financial condition of its excess insurers and reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the insurance companies to minimize exposure to significant losses from insolvencies. At June 30, 2002, PARSAC has agreements with two insurance companies, both of which have an A.M. Best rating of A + VI, or better.

PARSAC is a California public entity as provided in Internal Revenue section 115; thus, it is tax-exempt. The California Office of the Controller, Division of Local Government Fiscal Affairs, for the purpose of filing an Annual Report of Financial Transactions of Special Districts considers PARSAC to be a "Special District".

PARSAC includes all activities (operations of its administrative staff, officers and board of directors as they relate to PARSAC) considered to be part of PARSAC. The agency has reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether PARSAC is financially accountable for other entities. PARSAC has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, PARSAC is not aware of any entity that would be financially accountable for the agency that would result in PARSAC being considered a component unit of that entity.

#### **Basis of Accounting**

The accounting records of PARSAC are maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses when incurred. The agency uses the governmental accounting proprietary fund type (enterprise fund) model to account for its operations.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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### 1. Summary of Significant Accounting Policies (continued)

Enterprise Fund – The enterprise fund applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements: FASB Statements and Interpretations, APB Opines and ARBs. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing services to the members on a continuing basis be financed or recovered primarily through member deposit premiums. The fund is intended to be self-supporting with member deposit premiums set at a level sufficient to meet operations and claims servicing.

#### Cash and Cash Equivalents

PARSAC considers all highly liquid debt instruments purchased with maturity of three months or less and money market funds to be cash equivalents. The cash balances of PARSAC are deposited with the Local Agency Investment Fund (LAIF) of the State of California, the investment firms of First Union Securities and Public Financial Management. Funds beyond current year cash needs are withdrawn from LAIF and invested in higher yielding instruments such as bankers' acceptances, U.S. treasuries, certificates of deposit and other instruments meeting the PARSAC investment guidelines, set annually by the Board of Directors.

#### Accounts Receivable

Accounts receivable are reimbursements due PARSAC on the Workers Compensation Program from members for their Self Insured Retentions and from excess carriers on claims paid beyond \$250,000 during the fiscal year, but have not yet been received. Subsequent year's premiums billed during the last month of the current fiscal year are accounted for as earned revenue in the next fiscal year. Management believes that all accounts receivable are fully collectible.

#### Property and Equipment

Property and equipment is stated at historical cost, less accumulated depreciation, and where historical records are available and estimated where historical records do not exist. Depreciation is computed using the straight-line method over the estimated useful life of 15 to 30 years for property and five years for equipment. Gains and losses from disposal of equipment are reflected in investment income.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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### 1. Summary of Significant Accounting Policies (continued)

#### Deposit Premium Revenue

Deposit Premiums are recognized as revenue over the fiscal year period covered by the related Coverage Year coverage documents. Retrospective Premium Adjustments (Note 3) for each Coverage Year is provided for annually. The first retrospective premium adjustment for the coverage year June 30, 1987, was billed (credited) to the members' coverage year beginning July 1, 1990. Unearned Deposit Premiums at the end of the fiscal year represent billed Deposit Premiums for the program periods beginning after June 30th.

#### Unpaid Losses and Loss Adjustment Expenses

Claims that have been reported to PARSAC's claims administrator, as of June 30th, have been determined on an individual case basis. Losses, which may have incurred as of June 30th, but have not yet been reported to the claims administrator (IBNR claims), have been estimated based on an actuarial analysis of each program. The Liability and Workers Compensation Programs are based on the estimated ultimate cost of settling a claim. Adjustments to claims are charged or credited to expense in the periods in which they are made.

#### Compensated Absences

In accordance with the agency's employee handbook, compensated absences for vacation are accrued at various number of hours per month depending on each employee's years of service. The liability for compensated absences at June 30, 2002 and 2001 was \$17,003 and \$17,213, respectively.

#### Catastrophic Loss Fund

Effective July 1, 1988, a Liability Program Catastrophic Loss Fund was established. Contributions to the Fund were based upon a percentage of Deposit Premiums set by the Board of Directors. A three percent contribution rate was established for the fiscal year ending June 30, 1994. A contribution rate has not been established for any fiscal year ended since June 30, 1994 because the Board of Directors deemed that the Fund is adequately funded.

Effective July 1, 1990, the Liability Program Catastrophic Loss Fund was expanded to cover exposures, if any, beyond \$1 million which are covered by the Liability Program's Memorandum of Coverage but not covered by the commercial excess liability insurance policy. The balance of this fund appears in "Retained Earnings, End of Period" on the Statement of Revenues, Expenses and Changes in Retained Earnings schedule.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

2. **Unpaid Losses and Loss Adjustment Expenses**

The following represents changes in the unpaid losses and loss adjustment expenses for PARSAC during the past two years:

	<u>2002</u>	<u>2001</u>
Unpaid Losses and Loss Adjustment Expenses at Beginning of Year	\$ <u>13,084,341</u>	\$ <u>11,707,690</u>
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events – Current Year	1,898,432	2,441,000
Increase (Decrease) in Funding Levels for Previous Policy Years	<u>(7,721,956)</u>	<u>1,138,700</u>
Total Incurred Losses and Loss Adjustment Expenses	<u>(5,823,524)</u>	<u>3,579,700</u>
Payments:		
Loss and Loss Adjustment Expenses to Insured Events of the Current Year	102,880	146,219
Loss and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	<u>1,545,057</u>	<u>2,056,830</u>
Total Payments	<u>1,647,937</u>	<u>2,203,049</u>
Total Unpaid Losses and Loss Adjustment Expenses at End of Year	<b><u>\$ 5,612,880</u></b>	<b><u>\$ 13,084,341</u></b>

3. **Retrospective Premiums**

The Bylaws of PARSAC require Retrospective Premiums to be calculated in two stages for each Member Entity in each Program Year, as follows:

- a. Step One: “Actual” per-member costs are established by determining an amount equal to the individual member’s incurred losses, pro-rata share of claims and operating expenses, and interest income credit for such Program Year (subject to a minimum of 75% and a maximum of 150% of the initial Deposit Premium calculations).
- b. Step Two: “Residual” per-member costs are established by determining each member’s proportionate share of the difference between the sum of the individual amounts calculated pursuant to A, above, and the total of all incurred losses, expenses and interest income for such Program Year.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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### 3. **Retrospective Premiums** (continued)

The Bylaws of PARSAC require Retrospective Premiums to be calculated in two stages for each Member Entity in each Program Year, as follows:

Initial Retrospective Premium Adjustments (RPA) was calculated thirty months after program year inception date. RPA for each Program Year through June 30, 2001 were calculated based on the Retrospective Premium as calculated above, less Deposit Premiums and RPA previously billed for that Program Year. Effective with the Program Year June 30, 2002 RPA are calculated fifty-four months after program year inception date along with a percentage held on the calculated years. RPA are subject to change as the ultimate cost of claims becomes known, investment income is realized, and PARSAC's indirect costs, including expenses, are allocated to each Program Year.

### 4. **Cash and Investments**

Under provisions of the California Government Code (Code), PARSAC is authorized to invest in a variety of federal and state treasury obligations (including local California agencies), obligations or other instruments of, or issued by, a federal agency or government sponsored enterprise, bankers' acceptances which are eligible for purchase by the federal reserve system (subject to certain limitations), prime quality commercial paper (subject to certain limitations), and negotiable certificates of deposit issued by nationally or state chartered banks, savings and loan associations and credit unions.

In accordance with GASB 31, PARSAC's investments have been adjusted to fair value. Fair value is based on quoted market prices and the agency adjusts its' securities to market as of the fiscal year end. The gains or losses are recorded on the general ledger as unrealized gains or losses. At June 30, 2002 the unrealized loss was \$105,634 and at June 30, 2001 the unrealized gain was \$168,422.

Local Agency Investment Fund – At June 30, 2002 and 2001, PARSAC invested \$5,163,738 and \$6,308,501, respectively, in the State of California Investment Pool-Local Agency Investment Fund (LAIF). Generally, the investments are available for withdrawal on demand. To date, PARSAC has not incurred losses related to these investments.

Government Instruments – At June 30, 2002 PARSAC had government instruments invested through First Union Securities and Union Bank of \$10,497,116. The Authority decreased the value of the instruments by \$274,056 to reflect the following; (1) decrease value by \$168,422 to reverse the increase taken June 30, 2001, (2) and a decrease of \$105,634 to reflect market values as of June 30, 2002.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

4. **Cash and Investments** (continued)

Bank Deposits – At June 30, 2002 and 2001, the net carrying amounts of PARSAC’s deposits were \$119,521 and \$238,168 respectively, and the balance on deposit was \$395,782 and \$174,047, respectively. Bank deposits are covered by federal depository insurance on the first \$100,000 in any one bank.

PARSAC’s cash and investments for June 30, 2002 are categorized to give an indication of the level of risk assumed by the entity at year-end. Category I include investments that are insured or registered, or securities held by PARSAC or its agent in PARSAC’s name. Category II includes investments that are uninsured or unregistered, with securities held by the counterparty’s trust department or agent in PARSAC’s name. Category III includes investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in PARSAC’s name. The market value of the Government Securities was obtained from First Union Securities and Union Bank of California. The market value of Local Agency Investment Fund (LAIF) was obtained from LAIF.

	2002			2001		
	Category			Carrying Amount	Market Value	Market Value
	I	II	III			
Government Securities	\$ 10,497,116	\$ --	\$ --	\$ 10,497,116	\$ 10,497,116	\$ 11,163,480
Corporate Notes	--	\$ --	\$ --	--	--	--
Sub Total	\$ 10,497,116	\$ --	\$ --	\$ 10,497,116	\$ 10,497,116	\$ 11,163,480
Local Agency Investment Fund (LAIF)				5,163,738	5,163,738	6,308,501
Bank Deposits				119,521	119,521	238,168
Petty Cash Fund				500	500	500
Totals				\$ 15,780,875	\$ 15,780,875	\$ 17,710,649

5. **Rental Income**

PARSAC purchased an 8,753 square foot office building at 1525 Response Road in Sacramento on January 6, 1995. The Agency occupies approximately 2,150 square feet of the building and leases out the balance. For the period ended June 30, 2002 the gross rent income was \$98,355 with operating expenses of \$47,796 and depreciation of \$40,157 for a net gain amount of \$10,402.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2002 and 2001

6. **Retained Earnings**

The following shows the Retained Earnings and activity for the end of the fiscal year:

	<u>2002</u>	<u>2001</u>
Beginning Balance	\$ 543,998	\$ 535,574
Net Income	<u>9,294,507</u>	<u>8,424</u>
Ending Balance June 30	<u>\$ 9,838,505</u>	<u>\$ 543,998</u>

The retained earnings at June 30, 2001 constitute the Catastrophic Loss Fund. For June 30, 2002 the net income of \$9,294,507 reflect the changes to a less conservative actuary and the change from two years to four years in calculating Retrospective Premium Adjustments for the pool members.

7. **Property, Vehicle and Equipment**

Depreciation taken at June 30, 2002 and 2001 is \$67,088 and \$91,939. The following represents the property, vehicle and equipment of PARSAC as of the end of the fiscal year:

	<u>2002</u>	<u>2001</u>
Land	\$ 515,861	\$ 515,861
Building	462,777	462,776
Tenant Improvements	184,022	184,021
Vehicle	--	23,257
Equipment	<u>104,586</u>	<u>91,728</u>
Subtotal	\$ 1,267,246	\$ 1,277,643
Less: Accumulated Depreciation	<u>(302,949)</u>	<u>(287,642)</u>
Net Property and Equipment	<u>\$ 964,297</u>	<u>\$ 990,001</u>

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2002 and 2001

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8. **District Employees' Retirement Plan (Defined Benefit Pension Plan)**

A. **Plan Description**

Public Agency Risk Sharing Authority of California contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the estate of California. Copies of PERS annual financial report may be obtained from their Executive Office – 400 P Street, Sacramento, CA 95814.

B. **Funding Policy**

Public Agency Risk Sharing Authority of California makes the contributions required of PARSAC's employees on their behalf and for their account. The employee rate is set by statute and has remained at 7.0% since PARSAC joined. PARSAC's contribution rate of employee's payroll for the year ended June 30, 2002 is as follows:

<u>Category</u>	<u>Member Rates as a Percentage of Wages</u>
Local miscellaneous members	11.480%

The contribution requirements for the plan members are established by State statutes and the employer contribution rate is established by PERS and usually changes from year to year.

C. **Annual Pension Cost**

For the fiscal year June 30, 2002, PARSAC's annual pension cost was \$50,690 and the District actually contributed \$50,690. The required contribution for the fiscal year June 30, 2002 was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members; (c) no cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PARSAC's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of the investment gains and/or losses. PARSAC's excess assets are being amortized as a level percentage of projected payrolls on a closed basis.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

8. **District Employees' Retirement Plan (Defined Benefit Pension Plan)** (continued)

**Three-Year Trend Information (in thousands)**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APL)</u>	<u>Percentage of APL Contributed</u>	<u>Net Pension Obligation</u>
6/30/98	\$48,019	100%	\$0
6/30/99	\$49,859	100%	\$0
6/30/00	\$47,141	100%	\$0

**Required Supplementary Information  
Funded Status of Plan**

<u>Date</u>	<u>Entry Age Normal Accrual Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as Valuation % of a Payroll</u>
6/30/98	238,732	175,238	63,494	73.4%	255,257	24.875%
6/30/99	340,163	260,429	79,737	76.6%	270,143	29.516%
6/30/00	420,205	338,065	82,140	80.5%	283,678	28.955%

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**LIABILITY PROGRAM  
CLAIMS DEVELOPMENT INFORMATION  
Cumulative from July 1, 1992 through June 30, 2002**

	Year Ended June 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Required contribution & Investment Income										
Earned	\$ 3,701,841	\$ 3,363,384	\$ 4,076,538	\$ 4,337,213	\$ 3,877,026	\$ 3,572,192	\$ 3,294,695	\$ 3,362,992	\$ 3,726,823	\$ 3,635,324
Ceded -excess insurance	<u>1,152,547</u>	<u>685,795</u>	<u>901,400</u>	<u>886,648</u>	<u>657,923</u>	<u>620,456</u>	<u>659,415</u>	<u>794,360</u>	<u>833,079</u>	<u>960,803</u>
Net earned	2,549,294	2,677,589	3,175,138	3,450,565	3,219,103	2,951,736	2,635,280	2,568,632	2,893,744	2,674,521
2. Unallocated expenses	363,651	402,722	466,466	534,136	495,965	483,437	440,918	328,079	198,609	27,800
3. Estimated claims & expenses end policy year	1,722,000	1,825,000	1,936,000	1,980,000	1,886,000	1,812,000	1,929,000	1,807,000	1,953,000	1,807,000
4. Net paid (cumulative) as of:										
End of policy year	159	34	4,242	5,885	--	--	9,206	12,161	11,270	10,348
One year later	169	26,865	105,880	8,439	13,663	9,172	13,323	97,752	33,517	--
Two years later	65,292	234,072	863,329	738,652	887,287	106,661	703,726	382,936	--	--
Three years later	86,247	406,881	964,536	979,613	975,702	214,806	757,195	--	--	--
Four years later	154,064	414,833	974,815	1,074,552	1,014,577	215,825	--	--	--	--
Five years later	447,647	414,833	967,008	1,183,161	1,365,156	--	--	--	--	--
Six years later	468,152	414,833	967,421	1,581,307	--	--	--	--	--	--
Seven years later	492,553	665,258	967,231	--	--	--	--	--	--	--
Eight years later	492,553	354,971	--	--	--	--	--	--	--	--
Nine years later	671,923	--	--	--	--	--	--	--	--	--
5. Re-estimated ceded claims and expenses	--	918,680	2,156,836	--	--	--	--	--	--	--
6. Re-estimated net incurred claims and expenses:										
End of policy year	1,722,000	1,825,000	1,936,000	1,980,000	1,886,000	1,812,000	1,929,000	1,807,000	1,953,000	1,807,000
One year later	1,279,000	1,445,000	1,500,000	1,450,000	1,094,000	1,193,000	1,048,000	1,606,000	1,018,000	--
Two years later	1,236,000	1,100,000	2,000,000	1,555,000	1,081,000	1,153,000	1,295,000	1,075,000	--	--
Three years later	1,125,000	1,100,000	846,000	609,000	661,000	922,000	1,051,000	--	--	--
Four years later	483,000	2,732,000	571,000	613,000	571,000	316,000	--	--	--	--
Five years later	659,000	639,000	421,000	641,000	1,357,000	--	--	--	--	--
Six years later	554,000	489,000	396,000	1,915,000	--	--	--	--	--	--
Seven years later	404,000	464,000	982,000	--	--	--	--	--	--	--
Eight years later	354,000	613,000	--	--	--	--	--	--	--	--
Nine years later	502,633	--	--	--	--	--	--	--	--	--
7. Increase in estimated net incurred claims & expenses from end of policy year	(1,219,367)	(1,212,000)	(954,000)	(65,000)	(529,000)	(1,496,000)	(878,000)	(732,000)	(935,000)	--

The table above illustrates how the Authority's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Authority as of the end of each program year. The rows of the table are defined on page sixteen (18).

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**WORKERS' COMPENSATION PROGRAM  
TEN YEARS CLAIMS DEVELOPMENT INFORMATION  
Cumulative from July 1, 1990 through June 30, 2002**

	Year Ended June 30											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Required Contribution & Investment Income	\$1,023,067	\$1,591,535	\$1,494,865	\$1,532,962	\$1,779,617	\$1,779,170	\$1,834,764	\$1,617,997	\$1,446,584	\$1,333,426	\$1,253,121	\$1,304,623
Ceded -excess insurance	64,381	115,220	125,172	108,193	59,421	127,712	32,186	50,859	30,224	46,000	69,265	96,182
Net earned	958,686	1,476,315	1,369,693	1,424,769	1,720,196	1,651,458	1,802,578	1,567,138	1,416,360	1,287,426	1,188,856	1,208,441
2. Unallocated Expenses	469,306	429,066	255,371	188,736	178,170	377,739	261,113	188,586	137,668	126,469	49,252	42,231
3. Estimated Incurred Claims & Expenses												
End of Year	550,000	825,000	386,000	363,000	377,000	537,000	320,000	470,000	420,000	660,000	488,000	912,000
Ceded	64,381	115,220	125,172	108,193	59,421	127,712	32,186	50,859	30,224	46,000	69,265	96,182
Net Incurred	485,619	709,780	260,828	254,807	317,579	409,288	287,814	419,141	389,776	614,000	418,735	815,818
4. Paid (Cumulative)												
End of year	611,394	459,364	210,878	124,888	127,891	184,850	107,696	140,399	157,722	143,422	134,945	76,066
One year later	701,341	631,097	390,762	281,714	369,687	588,816	276,137	386,023	390,583	523,475	354,801	--
Two years later	771,903	835,757	563,649	391,887	492,910	772,592	446,263	520,956	501,355	694,440	--	--
Three years later	840,225	945,022	739,249	469,734	572,263	1,058,942	621,234	614,481	581,783	--	--	--
Four years later	914,345	978,014	776,241	511,243	604,884	1,125,140	597,327	673,146	--	--	--	--
Five years later	965,579	998,697	784,976	525,880	621,170	1,295,899	520,323	--	--	--	--	--
Six years later	995,542	1,021,942	787,326	531,040	633,886	1,317,347	--	--	--	--	--	--
Seven years later	1,004,947	1,032,757	790,286	539,754	637,329	--	--	--	--	--	--	--
Eight years later	1,046,760	1,035,085	794,014	539,795	--	--	--	--	--	--	--	--
Nine years later	1,053,161	1,036,724	796,288	--	--	--	--	--	--	--	--	--
5. Re-estimated Ceded Claims and Expenses	63,220	--	--	--	--	2,584,581	824,421	--	--	--	--	--
6. Re-estimated Incurred Claims and Expenses												
End of program year	806,000	705,000	386,000	363,000	377,000	537,000	320,000	470,000	420,000	660,000	488,000	912,000
One year later	854,000	1,008,000	769,000	451,000	576,000	713,000	428,000	562,000	369,000	507,000	687,000	--
Two years later	848,000	1,077,000	876,000	542,000	605,000	966,000	532,000	799,000	512,000	944,000	--	--
Three years later	895,000	1,069,000	876,000	532,000	650,000	1,038,000	704,000	1,099,000	775,000	--	--	--
Four years later	908,000	1,072,000	886,000	566,000	627,000	1,232,000	696,000	1,084,000	--	--	--	--
Five years later	974,000	1,085,000	843,000	612,000	654,000	1,253,000	745,000	--	--	--	--	--
Six years later	1,021,000	1,009,000	832,000	556,000	649,000	1,336,000	--	--	--	--	--	--
Seven years later	1,021,000	1,043,000	828,000	557,000	676,000	--	--	--	--	--	--	--
Eight years later	1,021,000	1,044,000	836,000	611,000	--	--	--	--	--	--	--	--
Nine years later	1,051,000	1,067,000	851,000	--	--	--	--	--	--	--	--	--
7. Increase in estimated Incurred Claims & Expenses from End of Policy Year.	501,000	242,000	465,000	248,000	299,000	799,000	425,000	614,000	355,000	284,000	199,000	--

The table above illustrates how the Authority's earned revenue and investment income compare to related costs of loss and other expenses assumed by the Authority as of the end of each program year. The rows of the table are defined on page sixteen (18).

The accompanying notes are an integral part of these financial statements.

## **PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

### **CLAIMS DEVELOPMENT INFORMATION** Cumulative from Inception through June 30, 2002

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1. This line shows the total of each fiscal year's earned deposit premiums and investment income less ceded (excess insurance cost) to arrive at net earned.
2. This line shows other operating costs of the Authority for each fiscal year including overhead and claims expense not allocable to individual claims.
3. This line shows the Authority's estimated ultimate losses as calculated by actuary study.
4. This line shows the cumulative amounts paid as of the end of successive years for each program year.
5. This line shows the ceded losses as determined by actuary study.
6. This line shows the re-estimated net incurred claims and expenses as calculated by actuary study.
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater than or less than originally thought.

The accompanying notes are an integral part of these financial statements

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**LIABILITY PROGRAM**  
**SCHEDULE OF REVENUE AND EXPENSES BY PROGRAM YEAR**  
 Cumulative from July 1, 1992 through June 30, 2002

	Year Ended June 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenue:										
Deposit Premiums Earned	\$ 3,108,267	\$ 3,015,729	\$ 3,442,154	\$ 3,546,929	\$ 3,391,753	\$ 3,167,318	\$ 2,940,607	\$ 3,203,518	\$ 3,324,762	\$ 3,154,758
Catastrophic Loss Contribution	92,368	85,247	--	62,432	30,125	33,633	17,815	20,414	29,186	26,622
Retrospective Premium Adjustments	(1,477,893)	(1,840,789)	(1,737,187)	(1,132,289)	(1,486,420)	(2,112,491)	(1,109,162)	(979,660)	(1,418,105)	(948,770)
Net Investment and Other Income	<u>466,486</u>	<u>501,629</u>	<u>659,066</u>	<u>783,329</u>	<u>565,124</u>	<u>393,502</u>	<u>338,552</u>	<u>250,611</u>	<u>173,801</u>	<u>123,320</u>
Total Revenue	<u>2,189,228</u>	<u>1,761,816</u>	<u>2,364,033</u>	<u>3,260,401</u>	<u>2,500,582</u>	<u>1,481,962</u>	<u>2,187,812</u>	<u>2,494,883</u>	<u>2,109,644</u>	<u>2,355,930</u>
Claim Expenses										
Paid Claims and Expenses	671,923	354,971	967,231	1,581,307	1,365,156	215,825	757,195	382,936	33,517	10,348
Reserves Reported Claims & Expenses	--	--	--	--	--	28,893	8,380	298,122	518,150	161,366
Reserves for Unreported Claims and Expenses	<u>(89,685)</u>	<u>114,263</u>	<u>14,674</u>	<u>184,871</u>	<u>(58,682)</u>	<u>92,144</u>	<u>296,063</u>	<u>665,665</u>	<u>494,450</u>	<u>1,156,577</u>
Total Claim Expenses	582,238	469,234	981,905	1,766,178	1,306,474	336,862	1,061,638	1,346,723	1,046,117	1,328,291
Purchased Excess Insurance	1,142,169	798,004	901,400	886,648	657,923	620,456	659,145	794,360	833,079	970,403
Claims Administration	8,802	6,609	14,262	11,007	10,095	7,574	8,296	5,307	2,653	250
General & Administrative Expenses	<u>363,651</u>	<u>402,722</u>	<u>466,466</u>	<u>534,136</u>	<u>495,965</u>	<u>483,437</u>	<u>440,918</u>	<u>328,079</u>	<u>198,609</u>	<u>27,800</u>
Total Expenses	2,096,860	1,676,569	2,364,033	3,197,969	2,470,457	1,448,329	2,169,997	2,474,469	2,080,458	2,326,744
Excess of Revenue Over Expenses	<u>\$ 92,368</u>	<u>\$ 85,247</u>	<u>\$ --</u>	<u>\$ 62,432</u>	<u>\$ 30,125</u>	<u>\$ 33,633</u>	<u>\$ 17,815</u>	<u>\$ 20,414</u>	<u>\$ 29,186</u>	<u>\$ 29,186</u>
Fund Balance (designated for catastrophic losses)	<u>\$ 92,368</u>	<u>\$ 85,247</u>	<u>\$ --</u>	<u>\$ 62,432</u>	<u>\$ 30,125</u>	<u>\$ 33,633</u>	<u>\$ 17,815</u>	<u>\$ 20,414</u>	<u>\$ 29,186</u>	<u>\$ 29,186</u>
Number of Program Members	28	29	32	33	34	35	35	35	35	36
Total Payroll (estimated for program year 7/1/01-02)	\$ 99,592,646		\$ 113,318,825		\$ 130,958,887		\$ 147,752,160		\$ 130,049,158	
		\$ 101,703,647		\$ 125,076,673		\$ 128,613,832		\$ 128,917,626		\$ 128,917,626
Ratio of Claims Expenses to Payroll	.59%	.46%	.87%	1.41%	1.00%	.26%	.72%	1.05%	.81%	1.03%

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**WORKERS' COMPENSATION PROGRAM  
SCHEDULE OF REVENUE AND EXPENSES BY PROGRAM YEAR  
Cumulative from July 1, 1990 through June 30, 2002**

	Year Ended June 30											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenue:												
Deposit Premiums Earned	\$ 952,372	\$1,257,269	\$1,299,387	\$1,380,483	\$1,520,801	\$1,526,552	\$1,661,832	\$1,430,782	\$1,384,294	\$1,182,363	\$1,252,936	\$1,304,623
Net Investment Income	<u>160,501</u>	<u>188,754</u>	<u>140,806</u>	<u>160,954</u>	<u>190,563</u>	<u>252,618</u>	<u>175,923</u>	<u>188,696</u>	<u>105,876</u>	<u>65,274</u>	<u>37,703</u>	<u>20,963</u>
Total Revenue	<u>1,112,873</u>	<u>1,446,023</u>	<u>1,440,193</u>	<u>1,541,437</u>	<u>1,711,364</u>	<u>1,779,170</u>	<u>1,837,755</u>	<u>1,619,478</u>	<u>1,490,170</u>	<u>1,247,637</u>	<u>1,290,639</u>	<u>1,325,586</u>
Expenses:												
Paid Claims and Expenses	1,053,161	1,036,724	796,288	539,795	637,329	1,317,347	520,323	673,146	581,783	694,440	354,801	76,060
Reserves for Reported Claims and Expenses	--	25,315	331	18,126	17,733	--	81,767	93,888	147,489	110,138	318,954	589,658
Reserves for Unreported Claims and Expenses	<u>113,614</u>	<u>17,326</u>	<u>28,620</u>	<u>18,905</u>	<u>25,714</u>	<u>(161,468)</u>	<u>(17,530)</u>	<u>87,187</u>	<u>106,575</u>	<u>225,515</u>	<u>(129,358)</u>	<u>9,160</u>
Claims Expenses	1,166,775	1,079,365	825,239	576,826	680,776	1,155,879	584,560	854,221	835,847	1,030,093	544,397	674,878
Purchased Excess Insurance	64,383	115,220	125,172	108,193	124,114	116,831	32,186	30,034	30,224	46,000	69,265	96,182
Claims Administration	125,592	65,390	109,208	92,200	67,797	68,055	70,859	74,109	82,266	84,925	94,197	90,930
General and Administrative Expenses	<u>469,306</u>	<u>429,066</u>	<u>255,371</u>	<u>188,736</u>	<u>178,170</u>	<u>377,739</u>	<u>261,113</u>	<u>188,586</u>	<u>137,668</u>	<u>126,469</u>	<u>49,252</u>	<u>9,237</u>
Total Expenses	<u>1,826,056</u>	<u>1,689,041</u>	<u>1,314,990</u>	<u>965,955</u>	<u>1,050,857</u>	<u>1,718,504</u>	<u>948,718</u>	<u>1,146,950</u>	<u>1,086,005</u>	<u>1,287,487</u>	<u>757,111</u>	<u>871,227</u>
Excess Revenue Over (Expenses)	(713,183)	(243,018)	125,203	575,482	660,507	60,666	889,037	472,528	404,165	(39,850)	533,528	454,359
Number of Program Members	15	16	16	17	18	18	18	18	18	17	17	18
Total Payroll (Estimated for Program Year 7/1/99-00)	\$21,180,922	\$26,465,012	\$26,126,492	\$27,223,579	\$29,908,394	\$30,454,127	\$31,862,886	\$33,571,946	\$32,274,432	\$34,326,558	\$36,974,893	\$43,319,292
Ratio of Claims Expenses to Payroll	5.51%	4.08%	3.16%	2.12%	2.28%	3.80%	1.84%	2.54%	2.59%	3.00%	1.47%	1.56%

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES BY PROGRAM**

For the Fiscal Years Ended June 30, 2002 and 2001

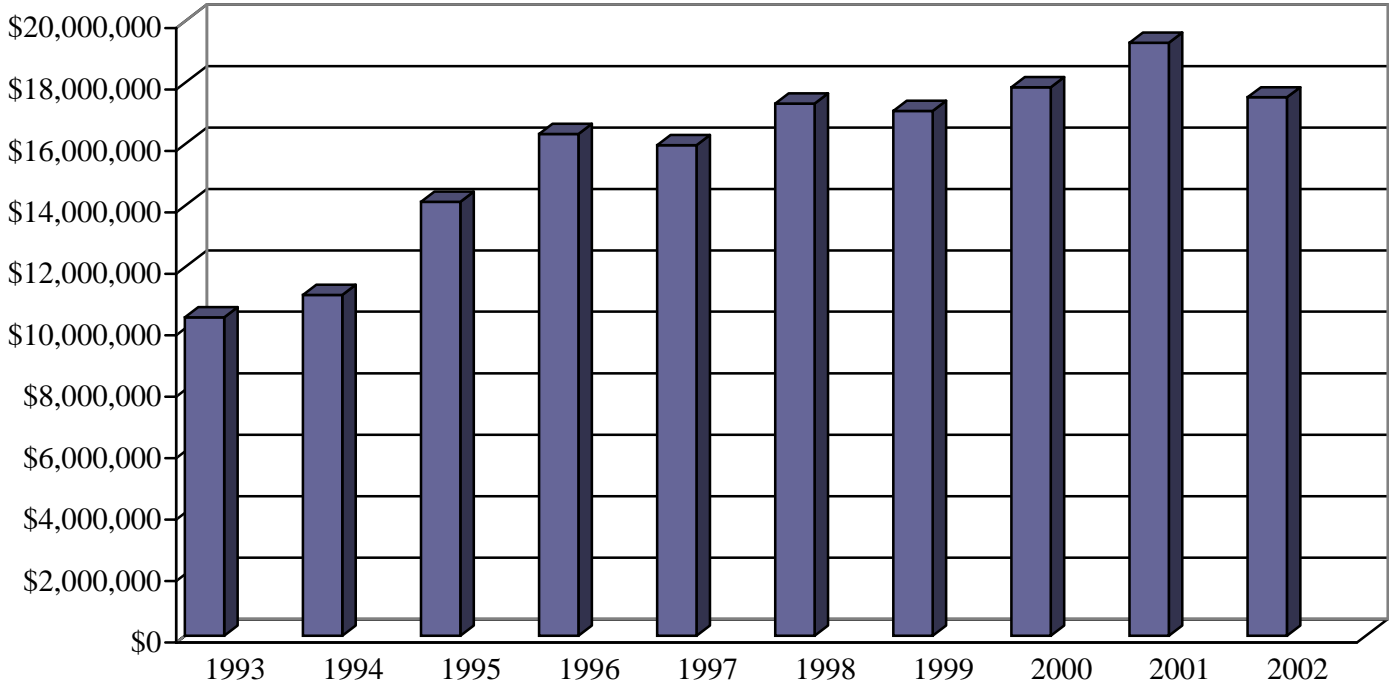
The following represents changes in the unpaid losses and loss adjustment expenses for PARSAC during the past two years by program:

<b>Liability Program</b>	<u><b>2002</b></u>	<u><b>2001</b></u>
Unpaid Losses and Loss Adjustment Expenses at Beginning of Year	<u>\$ 9,381,959</u>	<u>\$ 7,941,303</u>
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events – Current Year	1,317,934	1,953,000
Increase (Decrease) in Funding Levels for Previous Program Years	<u>(5,730,911)</u>	<u>757,255</u>
Total Incurred Losses and Loss Adjustment Expenses	<u>(4,412,977)</u>	<u>2,710,255</u>
Payments:		
Loss and Loss Adjustment Expenses Attributable to Insured Events of the Current Year	26,829	11,270
Loss and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	<u>1,056,902</u>	<u>1,258,330</u>
Total Payments	<u>1,083,731</u>	<u>1,269,600</u>
Total Unpaid Losses and Loss Adjustment Expenses at End of Year	<u>\$ 3,885,251</u>	<u>\$ 9,381,958</u>
<b>Workers' Compensation Program</b>	<u><b>2002</b></u>	<u><b>2001</b></u>
Unpaid Losses and Loss Adjustment Expenses at Beginning of Year	<u>\$ 3,702,382</u>	<u>\$ 3,766,387</u>
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events – Current Year	580,498	488,000
Increase (Decrease) in Funding Levels for Previous Program Years	<u>(1,991,045)</u>	<u>381,445</u>
Total Incurred Losses and Loss Adjustment Expenses	<u>(1,410,547)</u>	<u>869,445</u>
Payments:		
Loss and Loss Adjustment Expenses Attributable to Insured Events of the Current Year	76,051	134,949
Loss and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	<u>488,155</u>	<u>798,501</u>
Total Payments	<u>564,206</u>	<u>933,450</u>
Total Unpaid Losses and Loss Adjustment Expenses at End of Year	<u>\$ 1,727,629</u>	<u>\$ 3,702,382</u>

The accompanying notes are an integral part of these financial statements.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

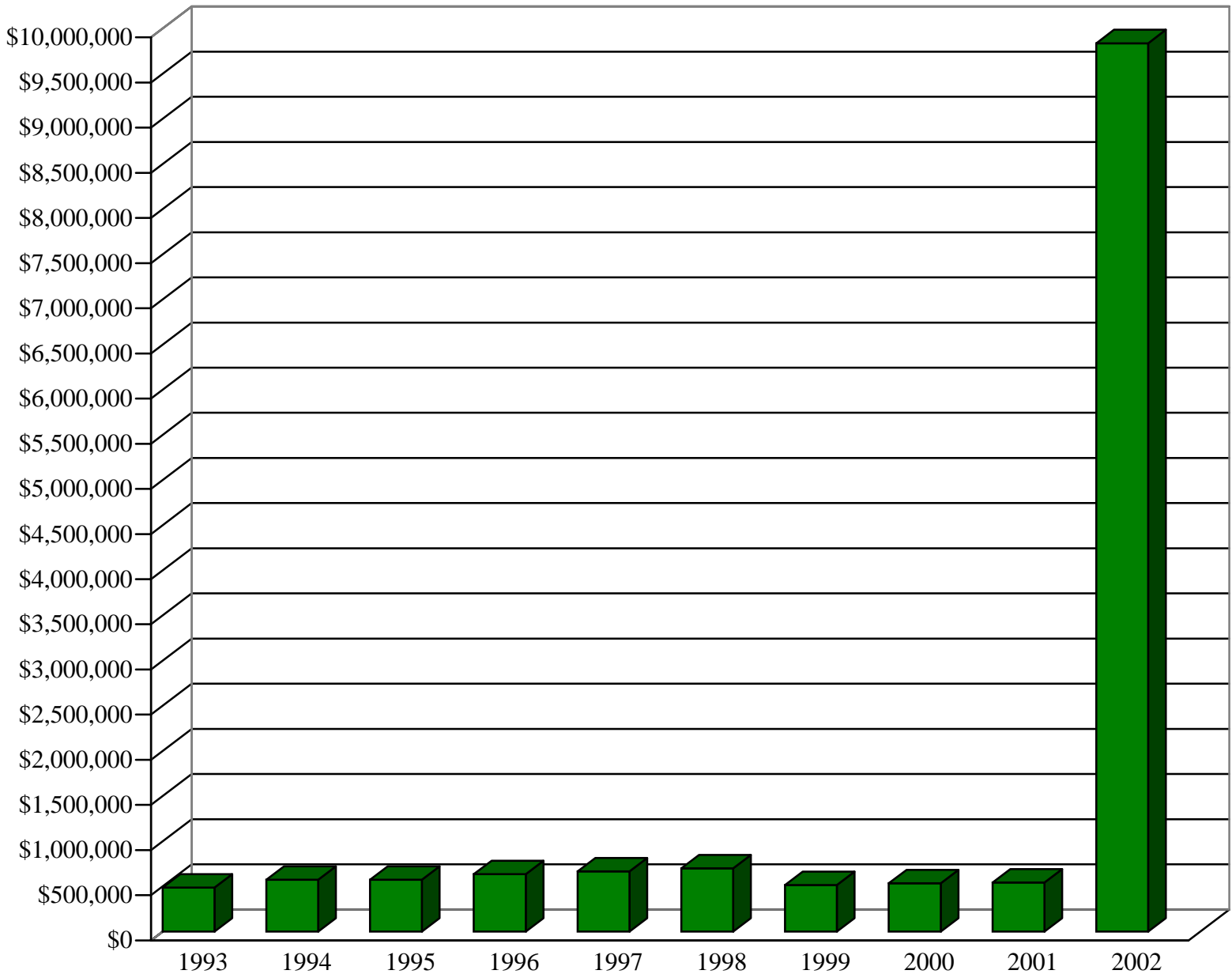
**CASH & INVESTMENTS  
For the Years June 30, 1993 - 2002**



The cash and investments of PARSAC had steadily increased over the first 10 years of operation until they leveled off as of June 30, 1997. This leveling is the result of distributions of over \$14.2 million in dividends to our members in the form of retrospective premium adjustments and program year closures. The remaining balance of these funds is needed to cover any unpaid claims and to cover potential costs of expected losses that have been incurred but have not been reported.

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**RETAINED EARNINGS  
For the Years June 30, 1993 - 2002**



PARSAC's Retained Earnings represents the Liability Program Catastrophic Loss Fund and the future reserves for the Liability and Workers Compensation programs retrospective premium adjustments.

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

Board of Directors  
Public Agency Risk Sharing Authority of California  
Sacramento, California

We have audited the financial statements of the Public Agency Risk Sharing authority of California as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated August 13, 2002. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Public Agency Risk Sharing Authority of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

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material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities.

BARTIG, BASLER & RAY, CPA's, INC.

*Bartig, Basler & Ray, CPAs, Inc.*

August 13, 2002