

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

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT FOR THE  
FISCAL YEARS ENDED**

**JUNE 30, 2004 AND 2003**

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**JUNE 30, 2004**

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**James Marta & Company**  
**Certified Public Accountants**

*Accounting Auditing Tax and Consulting*

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying Statement of Net Assets of the Public Agency Risk Sharing Authority of California as of June 30, 2004 and 2003, and the related Statement of Revenue, Expenses, and Changes in Net Assets, and Statement of 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.

We conducted our audit in accordance with generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Management's Discussion and Analysis and the Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Graphical Presentation of Claims is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

JAMES P. MARTA  
CERTIFIED PUBLIC ACCOUNTANT

August 3, 2004

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **BACKGROUND**

In May 1986, the California Municipal Insurance Authority (CMIA) began offering self-insured liability coverage to cities in California. CMIA established a self-insured Workers' Compensation Program in July 1990. In November 1993, CMIA was renamed Public Agency Risk Sharing Authority of California (PARSAC) to emphasize the Authority's identity as a self-insurance pool.

PARSAC provides coverage to 37 small to mid-size cities throughout California. PARSAC operates self-insured programs for liability and workers' compensation coverage, and offers insured programs for property, boiler and machinery, fidelity bonds, special events and employee benefits. In addition to its programs, PARSAC provides claims administration and loss control training for members. PARSAC has invested in a building in Sacramento that houses its administrative office and provides additional office space for commercial lease.

PARSAC is governed by a Board of Directors comprised of representatives from each member city. The Board of Directors elects a President, Vice President, Treasurer, and Auditor/Controller.

The daily operations are administered by a General Manager who serves as the chief executive officer. The General Manager is responsible for the administration of the policies as set forth by the pool's organizational documents and the Board of Directors.

### **FINANCIAL HIGHLIGHTS**

- Total operating revenue was \$6.7 million, a 10% increase over the prior year. This increase is due to the cost of excess insurance which passed through to members.
- Total non-operating revenues were \$220,000, a decrease of 67%. This reduction is primarily due to a decrease in the fair market value of investments at the close of the fiscal year. The Authority earned over \$500,000 in investment income during the year.
- Total operating expense was \$8.1 million, increasing by 13% from the previous year. The main factor was a \$1.4 million increase in excess insurance costs. Administration costs decreased by 15% due to fewer special projects and a vacancy in the General Manager position during the year.
- Outstanding claim liabilities increased again from \$7.7 million at June 30, 2003 to \$9.5 million at the close of the year, an increase of 23%. This increase was based on an adjustment recommended by the actuary and further review of reserves by management. PARSAC received notices regarding program deficits from LAWCX, our excess Workers' Compensation JPA and ERMA, our Employment Liability JPA. PARSAC's share of the LAWCX deficit is \$50,000 for the 1995/96 and 1996/97 years. PARSAC's share of the ERMA deficit is \$990,000 for fiscal years 1999/00 to 2003/04.
- Historical return of member contributions total just over \$16 million for the Liability Program with the closing of the 1992/93 program year.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DESCRIPTION OF THE BASIC FINANCIAL STATEMENTS

PARSAC's financial statements are prepared in conformity with generally accepted accounting principles and include amounts based upon reliable estimates and judgments. Statement of Net Assets, a Statement of Revenues, Expenses & Changes in Net Assets, and the Statement of Cash Flows are included along with Notes to Financial Statements to clarify unique accounting policies and financial information.

The *Statement of Net Assets* provides information on all of the Authority assets and liabilities, with the difference reported as Net Assets. Net Assets may be an indicator of the overall pool financial status. The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing total revenue and expense and the resulting effect on Net Assets.

James P. Marta and Company, Certified Public Accountants has performed independent audit examinations of our financial statements for the past two years. His opinion on PARSAC's financial status as of June 30, 2004 is included in the Financial Section of this report.

### ANALYSIS OF OVERALL FINANCIAL POSITION

#### Condensed Balance Sheet

	June 30, 2004	Percentage	June 30, 2003	Percentage
Current assets	\$ 8,526,439	42%	\$ 6,660,385	36%
Non-current assets	12,012,911	58%	11,968,917	64%
<b>Total assets</b>	<b>20,539,350</b>	<b>100%</b>	<b>18,629,302</b>	<b>100%</b>
Current liabilities	2,051,356	17%	1,521,037	16%
Non-current liabilities	10,356,834	83%	7,732,107	84%
Total liabilities	12,408,190	100%	9,253,144	100%
Net Assets	8,131,160	100%	9,376,158	100%
Total liabilities and <b>Net Assets</b>	<b>\$20,539,350</b>	<b>100%</b>	<b>\$18,629,302</b>	<b>100%</b>

The investment market continued to experience declines during the year. Uncertainty over the War on Terrorism continues. This makes investing public funds a difficult task. Toward year-end financial indicators began to improve. One benchmark we look to is the LAIF Fund. During the fiscal year LAIF yields fell from 1.63% to 1.44%. The effective rate of return for the Authority's investment portfolio decreased from 2.14% to 2.06%. The ability of these funds to earn investment income has a direct effect on program rates, as this income is used pay future liabilities. When investments fall short of projections, additional funding may be required to meet actuarial estimates.

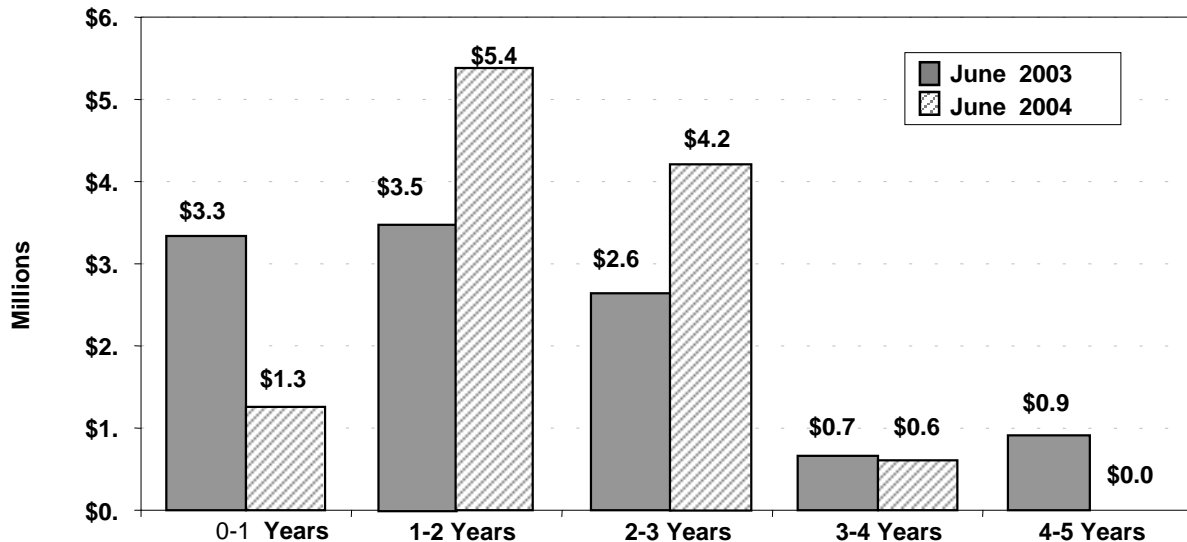
# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Any additional interest earnings are used to offset program costs whenever possible and reduce the required member contributions. Funds are invested in a manner that will protect principal, allow for cash flow needs, and optimize returns. The investment policy is in conformity with state statutes governing the investment of public funds. Funds needed for current operations are maintained in WestAmerica Bank and the Local Agency Investment Fund (LAIF) in Sacramento, which is administered by the State Treasurer's Office.

The graph below in Figure 1 groups individual investments by maturity dates at June 2003 and June 2004. It illustrates the portfolio's change in maturity distribution. Our investment advisor, PFM Asset Management, has taken advantage of the improving investment environment and extended the portfolio, purchasing more investments in the 2-3 year range. At the beginning of the year the majority of our investments were in the 1-2 year range.

**Figure 1 – Portfolio Maturity Distribution June 30, 2003 vs June 30, 2004**



Current liabilities increased by \$500,000 due to earlier invoicing of members for the 2004/05 year. Current payables increased as a result of a portion of the assessment by LAWCX and ERMA. Non-current liabilities increased by \$2.6 million. The increase is a result of the excess insurance assessment of \$800,000 and increase claims expense of \$2.6 million.

Dividends payable at June 30, 2004 were \$921,193. The Authority refers to dividends as Retrospective Premium Adjustments (RPAs). The Board declared a Liability Program RPA at the May 2004 Board Meeting. The actual release of these funds is scheduled for July 2004 in conjunction with the 2004/05 invoicing. Members were given the option of applying the RPA against their invoice or receiving the RPA check directly.

The Board approved a Workers' Compensation RPA policy. After reviewing the information, the Board elected to delay distribution of the funds. There was concern over the effect of recently enacted benefit changes on the programs financial position.

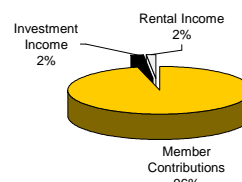
# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ANALYSIS OF OVERALL RESULTS OF OPERATIONS

Operating income consists almost entirely of contributions received from members. This revenue increased from \$6.8 million to \$7.5 million, primarily as a result of higher excess insurance charges. The expense category with the largest increase was Excess Insurance increasing by \$1.4 million. Non-operating income was reduced by \$456,123, most of which is due to declining market value of investments during the year.

**Figure 2 – Total Revenue**



Funding for the Liability and Workers' Compensation Programs is set at an actuarially determined 85% confidence level and 70% confidence level respectively, discounted to recognize the investment earnings. This increased funding level is designed to provide a cushion of funds to cover years with unfavorable claims experience.

The Authority reported a loss for the year even after funding at higher confidence levels. The loss was caused by increased claims and excess insurance costs. The Authority was also charged an assessment of \$1 million by the excess carriers for prior years.

### Condensed Statements of Revenue, Expense, and Changes in Net Assets

	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2003	Percentage Change
<b>Operating Revenue:</b>			
Member contributions	\$7,548,085	\$6,886,600	10%
Member dividend (RPA and CAT Fund)	(840,907)	(790,042)	6%
	<u>6,707,178</u>	<u>6,096,558</u>	<u>10%</u>
<b>Operating Expenses:</b>			
Claims Expense	3,870,892	4,188,444	(8%)
Excess Insurance expense	3,432,233	2,025,867	69%
Program services expense	273,480	243,714	12%
General Administrative expense	595,237	776,669	(23%)
Total Operating Expenses	<u>8,171,842</u>	<u>7,234,694</u>	<u>13%</u>
Operating Income (Loss)	<u>(1,464,664)</u>	<u>(1,138,136)</u>	<u>( 29%)</u>
<b>Non-Operating Income and (Expense):</b>			
Investment Income	147,622	629,706	(77%)
Rental Income	121,386	115,511	5%
Rental Expense	(49,342)	(69,428)	(29%)
Net Non-Operating Income	<u>219,666</u>	<u>675,789</u>	<u>(67%)</u>
Net Income (Loss)	<u>(1,244,998)</u>	<u>(462,347)</u>	<u>(169%)</u>
Beginning Net Assets	9,376,158	9,838,505	(5%)
Ending Net Assets	<u>\$8,131,160</u>	<u>\$9,376,158</u>	<u>(13%)</u>

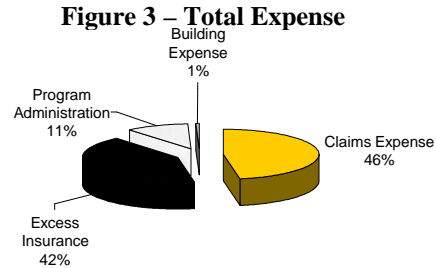
# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Excess Insurance Expense

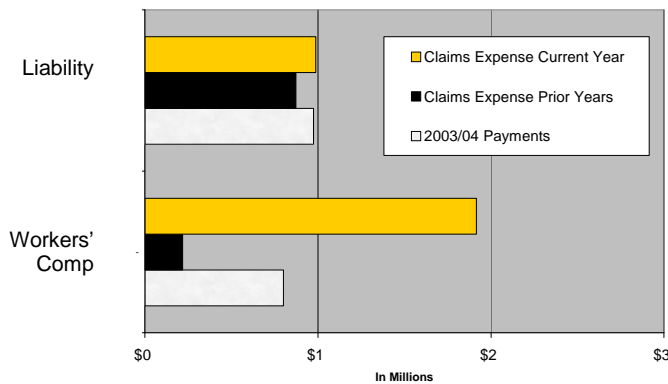
Because members require higher limits of coverage than are feasible through our pool, the Authority operates in an environment that is dependent on the insurance market. Historically, the insurance market has operated in 7 year cycles where rates will swing from the very high to the very low and back again. While the renewals for 2003/04 were difficult for many due to decreased capacity, poor investment results, and coverage limitations, PARSAC maintained coverage with cost increases mainly from the excess insurers.

This hard market is expected to continue for the near future because of the continued possible terrorist threat and resulting poorly performing investment market.



### Provision for Insured Events

**Figure 4 - Claim Activity**



Bickmore Risk Services prepares the annual actuarial valuations for the Liability & Workers' Compensation Programs. This report is used to project liabilities for future years, as well as evaluate the adequacy of funding levels for current and prior years.

Figure 4 illustrates the claims activity posted in the current year for the Authority's self-insured programs, identifying the claims expense of the current and prior years, and payments made in fiscal 03/04 for all program years. In both programs, the dark bar indicates the actuary's increased estimate of liabilities related to prior years.

### Member Dividends (RPAs)

The Authority refers to equity distributions as Retrospective Premium Adjustments (RPAs). Liability Program members have received RPAs. The calculation of the RPA is based on a formula outlined in the policy established by the Board. The process includes identifying revenue and allocated investment income for each program year and reducing that amount by all liabilities and expenses relating to that year. This calculation is prepared in December. A summary report indicating the RPA's available to return to members is submitted to the Board of Directors for approval. During the year, the Board declared \$840,907 available for return to members of the Liability Program. This amount represents an increase of 6% from the prior year.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

To stabilize the financial position of the Authority, a Funding Distribution Plan was established in the Liability Program. This Plan limits the RPAs available for return to members by setting a minimum overall confidence level requirement of 90%, delaying distribution until the completion of four years and returning a percentage of equity over a longer time. The criteria established for the plan better accommodates the claims development pattern of the program.

PARSAC developed an RPA policy for the Workers' Compensation Program which is similar to the single layer RPA model used by the Liability Program. At the May meeting, the Board delayed distribution of the RPA due to increasing claim expenses and changes in the Workers' Compensation laws.

### ANALYSIS OF SIGNIFICANT VARIATION BETWEEN ORIGINAL AND FINAL BUDGETS

	Original Budget	Final Budget	Budget Variance	Actual Results	Budget v Actual Variance
Revenue:					
Member contributions	\$ 7,695,028	\$ 7,454,892	-3%	\$ 7,548,085	1%
Member dividends (RPAs)	0	0		(840,907)	
Total Operating Revenue	7,695,028	7,454,892	-3%	6,707,178	-10%
Operating Expenses:					
Claims Expense	3,478,000	3,478,000	0%	3,870,892	11%
Excess Insurance Expense	2,777,736	2,363,796	-15%	3,432,233	45%
Program Service Expense	262,944	289,944	10%	273,480	-6%
General Administrative Expense	793,988	840,988	6%	595,237	-29%
Total Operating Expense	7,312,668	6,972,728	-5%	8,171,842	17%
Non-Operating Income					
Investment Income	600,000	600,000	0%	147,622	-75%
Rental Income	119,232	121,373	2%	121,386	0%
Rental Expense	(97,335)	(97,335)	0%	(49,342)	-49%
Net Non-operating Income	621,897	624,038	0%	219,666	-65%
Change in Net Assets	\$1,004,257	\$1,106,202	10%	(\$1,244,998)	-213%

The PARSAC Board annually approves the budget and establishes rates and funding levels for all programs. The preliminary budget is brought to the Executive Committee in March, with a final budget approved by the Board in May. Budget adjustments may be made during the year. Below is a summary of the original and adjusted budget with a comparison to actual amounts.

# PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Member dividends** are calculated in March and declared available in May. The budget was not adjusted for the declaration of dividends. **Claims expense** is budgeted based on the actuary's projection of expenses for the year. The budget was not adjusted for the increase in the claims costs which occurred near year end. The budget for **excess insurance** was reduced during the year. At year-end we were notified of assessments of prior years by ERMA and LAWCX JPAs. (See Financial Highlights section for more information.) This caused the actual costs to increase by \$1 million. Actual **general and administrative expenses** were lower than the budget because of a vacancy in the permanent General Manager position and decreased consultant projects. Increases to the general and administrative budget were for accounting assistance related to allocation of program equity and consulting work on the Workers' Compensation Program RPA policy. The budget was not reduced for the decrease in **investment income** of \$420,000. The investments earned \$576,000 in interest income during the year. Investment income was reduced by market value losses on the portfolio. Actual **rental expense** was less than budgeted because of a decrease in depreciation expense and reclassification of Capital Replacement Fund to an equity account.

### **DESCRIPTION OF FACTS OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON FINANCIAL POSITION OR RESULTS OF OPERATIONS**

PARSAC's General Manager resigned in May 2003. Until the new General Manager is selected, the Executive Committee designated Kin Ong, the Risk Analyst as the Interim General Manager. The Executive Committee expects to fill the position by December 2004.

## **FINANCIAL SECTION**

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<u><b>2004</b></u>	<u><b>2003</b></u>
Current Assets		
Cash & Equivalents	\$ 7,370,364	\$ 5,269,881
Interest Receivable	106,215	126,665
Member Receivable	739,532	722,079
Excess Receivable	290,248	-
Prepaid Expenses	20,080	541,760
Total Current Assets	<u>8,526,439</u>	<u>6,660,385</u>
Noncurrent Assets		
Investments	11,065,278	10,989,288
Property and Equipment, net	947,633	979,629
Total Noncurrent Assets	<u>12,012,911</u>	<u>11,968,917</u>
<b>Total Assets</b>	<u><u>\$ 20,539,350</u></u>	<u><u>\$ 18,629,302</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Payables	\$ 252,535	\$ 134,326
Prefunded Deposit	9,936	9,936
Accrued Expenses	12,354	14,122
Dividends Payable	921,193	806,379
Deferred Revenue	855,338	556,274
Total Current Liabilities	<u>2,051,356</u>	<u>1,521,037</u>
Noncurrent Liabilities		
Excess Premium Assessment Due	817,099	-
Claim Liabilities	9,539,735	7,732,107
Total Noncurrent Liabilities	<u>10,356,834</u>	<u>7,732,107</u>
Total Liabilities	<u>\$ 12,408,190</u>	<u>\$ 9,253,144</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	947,633	979,629
Unrestricted	7,183,527	8,396,529
Total Net Assets	<u>8,131,160</u>	<u>9,376,158</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 20,539,350</u></u>	<u><u>\$ 18,629,302</u></u>

See accompanying notes to financial statements

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>REVENUES</b>		
Premium Contributions	\$ 7,548,085	\$ 6,886,600
Retrospective Adjustment	<u>(840,907)</u>	<u>(790,042)</u>
Total Revenues	6,707,178	6,096,558
<b>EXPENSES</b>		
Claims Expense	3,870,892	4,188,444
Excess Insurance	3,432,233	2,025,867
Program Administration	206,308	148,599
Risk Management	67,172	95,115
Professional Fees	125,765	192,011
Salaries	316,755	414,185
Travel and Meetings	61,467	59,730
Other General Administrative	<u>91,250</u>	<u>110,743</u>
Total Expenses	<u>8,171,842</u>	<u>7,234,694</u>
Net Operating Income (Loss)	<u>(1,464,664)</u>	<u>(1,138,136)</u>
<b>OTHER INCOME</b>		
Investment Income	147,622	629,706
Rent and Other Income	121,386	115,511
Rental Expense	<u>(49,342)</u>	<u>(69,428)</u>
Total Other Income	219,666	675,789
<b>Net Income (Loss)</b>	(1,244,998)	(462,347)
Net Assets		
Beginning of Period	<u>9,376,158</u>	<u>9,838,505</u>
End of Period	<u>\$ 8,131,160</u>	<u>\$ 9,376,158</u>

**PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA**

**STATEMENT OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows From Operating Activities:</b>		
Contributions Received	\$ 6,698,541	\$ 4,640,665
Salaries and Benefits Paid	(318,523)	(417,066)
Return to Members	114,814	274,947
Claims Expenses Paid	(2,063,264)	(2,069,217)
Premiums Paid	(2,093,454)	(2,025,867)
General & Administrative Expenses Paid	(388,965)	(579,033)
<b>Net Cash Flows Provided (Used) by Operating Activities</b>	<u>1,949,149</u>	<u>(175,571)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Sale of Fixed Assets	-	-
Purchase of Fixed Assets	(30,738)	(67,453)
<b>Net Cash Flows Provided (Used) by Financing Activities</b>	<u>(30,738)</u>	<u>(67,453)</u>
<b>Cash Flows From Investing Activities:</b>		
Investment Income Received	588,610	683,944
Purchase of Investments	(16,356,736)	(12,572,394)
Proceeds from Sales and Maturities of Investments	15,860,208	12,038,383
Rent and Other Income Received	121,386	115,511
Rental Expenses paid	(31,396)	(36,297)
<b>Net Cash Flows Provided (Used) by Investing Activities</b>	<u>182,072</u>	<u>229,147</u>
Net Increase (Decrease) in Cash	2,100,483	(13,877)
Beginning Cash and Equivalents	<u>5,269,881</u>	<u>5,283,758</u>
Ending Cash and Equivalents	<u>\$ 7,370,364</u>	<u>\$ 5,269,881</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ (1,464,664)	\$ (1,138,136)
Adjustments to Reconcile Net Income to Cash		
Provided by Operations:		
Depreciation included in operating expenses	18,332	18,992
(Increase) Decrease in:		
Member Receivable	(17,453)	(641,601)
Excess Receivable	(290,248)	-
Prepaid Expenses	521,680	24,583
Increase (Decrease) in:		
Unearned Contributions	299,064	(814,292)
Accounts Payable	144,665	(16,410)
Accrued Liabilities	(1,768)	(2,881)
Return to Members	114,814	274,947
Excess Premium Assessments	817,099	-
Claims Liability	1,921,628	1,709,227
Claims Liability - ULAE	(114,000)	410,000
Net Cash Provided by Operating Activities	<u>\$ 1,949,149</u>	<u>\$ (175,571)</u>
<b>Supplemental Disclosures</b>		
Noncash Investing and Financing Activities		
Increase(decrease) in Fair Market Value of Investments	<u>\$ (420,538)</u>	<u>\$ (41,838)</u>

See accompanying notes to financial statements

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

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### **1. GENERAL INFORMATION**

#### **A. 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 statewide agency providing California municipalities risk management services including a variety of risk sharing and joint purchase coverage programs.

A Board of Directors governs PARSAC and each member 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:

#### **Liability Program**

The Liability Program, implemented in 1986, provides comprehensive general and automobile liability coverage along with public officials errors and omissions. PARSAC is self-insured to \$1 million and the California Affiliated Risk Management Authorities (CARMA) excess pool provides \$3 million excess coverage above the \$1 million self-insured retention (S.I.R.). Additionally, members of CARMA have purchased \$6 million in commercial reinsurance above the CARMA pool coverage of \$4 million. CARMA then pools \$5 million above \$10 million, bringing the total limit of coverage to \$15 million. Within PARSAC's self-insured coverage, each member has a choice of selecting its self-insured retention option of \$50,000, \$100,000, \$250,000 or \$500,000.

#### **Workers' Compensation Program**

The Workers' Compensation Program, implemented on July 1, 1990, provides \$50 million of 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 to \$2 million are covered through the Local Agency Workers' Compensation Excess Pool (LAWCX). LAWCX joined an excess pool California Public Entity Insurance Authority (CPEIA) which pools \$3 million in excess of the \$2 million and purchases reinsurance of \$45 million. PARSAC's 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 participate in the Program at first

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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dollar, with exception of the City of Rancho Cucamonga, the City of Ridgecrest, the City of Grass Valley, the City of Calistoga and the City of Watsonville.

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 purchased jointly with other public agencies throughout the nation and is brokered through an insurance carrier.

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

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".

The Authority 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 Authority 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 Authority that would result in PARSAC being considered a component unit of that entity.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. BASIS OF ACCOUNTING**

These statements are prepared on the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been rendered. The Authority applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations, except where superceded by GASB pronouncements. Liabilities for reserves for open claims and claims incurred but not reported have been recorded in the Authority's financial statements.

The Authority maintains one insurance fund, however, separate program accounting is maintained for each program's revenues, expenses, and related reserves. The claims program funds are considered proprietary/enterprise fund type.

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **B. FUND ACCOUNTING**

The accounts of the Authority are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Authority's funds have been combined for the presentation of the financial statements. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Authority maintains two funds that are considered Proprietary-Enterprise Funds. Proprietary funds are used to account for activities similar to those found in the private sector, where determination of net income is necessary or useful to sound financial administration.

### **C. STATEMENT OF CASH FLOWS**

For purposes of this statement, the Authority considers interest on investments to be an integral part of operations and relies on it to meet claim payments and administrative expense obligations.

### **D. CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, cash and cash equivalents include all checking and savings accounts; cash in bank and all highly liquid debt instruments purchased with original maturity of three months or less.

### **E. RECEIVABLES**

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of June 30, 2004 and 2003, the total accounts receivable portfolio was considered collectible. Interest on investments is recorded in the year the interest is earned.

### **F. CONTRIBUTION INCOME**

Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. Contributions are recognized as revenues in the period for which insurance protection is provided. If the Authority's Board of Directors determines that the insurance funds for a program are insufficient to pay losses, the Authority may impose a supplemental assessment on all participating members. Supplemental assessments are recognized as income in the period assessed. The activities of the Authority consist solely of risk management programs and claims management activities related to the coverages described above. The reporting entity does not include any other component units with the criterion prescribed by GAAP.

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **G. FIXED ASSETS & DEPRECIATION**

Fixed assets are carried at cost. Depreciation and amortization is provided for over the estimated useful lives of the assets using the straight-line method. The estimate useful life used for building and improvements is thirty years. The estimated useful lives used for furniture and equipment range from three to five years. The software is depreciated over five years. Depreciation expense was \$36,277 and \$57,487 for the fiscal years ended June 30, 2004 and June 30, 2003, respectively.

### **H. UNPAID CLAIM LIABILITIES (CLAIMS PAYABLE, CLAIMS INCURRED BUT NOT REPORTED, AND LIABILITY FOR UNALLOCATED LOSS ADJUSTMENT EXPENSES)**

Each program establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) 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 and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

### **I. INVESTMENTS**

Effective July 1, 1997, the Authority adopted GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. The Authority records its investments and cash in the Local Agency Investment Fund (LAIF) at fair market value. Changes in fair market value are reported as revenue in the statement of operations and net assets. The effect of recording investments and LAIF at fair market value is reflected as a net increase in the fair value of investments on the statement of operations and net assets.

Fair Market Value of investments and LAIF has been determined by the sponsoring government based on quoted market prices. The Authority's investments in LAIF have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **J. UNALLOCATED LOSS ADJUSTMENT EXPENSE (ULAE)**

The liability for ULAE includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim.

### **K. MANAGEMENT ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

### **L. COMPENSATED ABSENCES**

In accordance with the Authority's employee handbook, compensated absences for vacation are accrued at various numbers of hours per month depending on each employee's years of service. The liability for compensated absences at June 30, 2004 and 2003 was \$12,354 and \$14,122, respectively.

### **M. CATASTROPHIC LOSS FUND**

The Board established a Liability Program Catastrophic Loss fund in July 1988 to fund potential large losses. Members contributed 3% - 5% until July 1994 when the Board determined that the program had enough equity to cover these types of losses. The Board then returned to members this fund plus interest beginning in 2001/02 through 2003/04.

### **N. OPERATING REVENUES**

Operating revenues include all program contributions, related fees and assessments, which is integral to the financing of the insurance and risk management programs.

### **O. ALLOCATION OF INDIRECT EXPENSES**

Indirect expenses are allocated to programs in proportion to the estimated related cost of each program in proportion to total costs.

**PUBLIC AGENCY RISK SHARING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

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**3. 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>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$7,732,107	\$5,612,879
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,902,199	3,374,741
Increases (Decreases) in provision for insured events of prior fiscal years	<u>1,091,693</u>	<u>1,290,503</u>
Total incurred claims and claim adjustment expenses	3,993,892	4,665,244
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	369,440	646,671
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,816,824</u>	<u>1,899,345</u>
Total Payments	2,186,264	2,546,016
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u><u>\$9,539,735</u></u>	<u><u>\$7,732,107</u></u>

**4. RETROSPECTIVE PREMIUMS**

The Authority's Joint Powers Agreement requires periodic evaluation of each program's equity. The process is referred to as a Retrospective Premium Adjustment (RPA). The RPA has been calculated for the Liability Program since 1990. The Board of Directors approved an RPA for the Liability Program of \$854,598. This amount was made available to members who applied the RPA against their 2004/05 invoice or requested a check.

The procedure for calculating the Workers' Compensation Program RPA was approved in May 2004. The Board voted not to release funds pending a review of claims development in December.

**PUBLIC AGENCY RISK SHARING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

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**5. CASH AND INVESTMENTS**

**A. CASH AND EQUIVALENTS**

Cash consisted of the following at June 30, 2004:

	<u>2004</u>	<u>2003</u>
Balance Per Bank	\$ 1,570,951	\$ 3,471,987
Plus: Deposits in Transit	-	-
Less: Outstanding Checks	(131,552)	(52,472)
Balance Per Books	1,439,398	3,419,514
Cash on Hand	100	296
Cash on Hand and in Bank	1,439,498	3,419,810
Local Agency Investment Fund	5,930,866	1,850,071
Total Cash and Equivalents	<u>\$ 7,370,364</u>	<u>\$ 5,269,881</u>

The carrying amount of the Authority's cash is covered by federal depository insurance up to \$100,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

PARSAC 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 Board. 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 recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer. This fund currently yields approximately 1.44% interest annually. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office; 915 Capital 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.

**PUBLIC AGENCY RISK SHARING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

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**B. INVESTMENTS**

The Authority's investments are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

	<u>Risk Category</u>	<u>June 30, 2004 Market Value</u>	<u>June 30, 2003 Market Value</u>
Corporate Bonds	I	-	812,529
Mortgated Backed Securities	I	-	1,071,377
Govt. Bonds	I	10,751,279	8,994,216
Money market	I	<u>313,999</u>	<u>111,166</u>
Totals		<u><u>11,065,278</u></u>	<u><u>10,989,288</u></u>

Category I - Insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category II - Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Authority's name.

Category III- Uninsured or unregistered, with the securities held by the counter party, or by its trust department or agent but not in the Authority's name.

Under provisions of the Authority's Investment Policy, and in accordance with Section 53601 of the California Government Code, the Authority may invest in the following types of investments:

- Obligations of the US Government, its Agencies or instrumentality's
- Bankers Acceptances
- Commercial Paper
- Time Certificates of Deposit
- Passbook Savings Accounts
- Money Market Funds
- State of California Local Agency Investment Fund

**PUBLIC AGENCY RISK SHARING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

**6. FIXED ASSETS**

Fixed assets at June 30, 2004 consist of the following:

	<u>2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>2004</u>
Land	515,861	-	-	515,861
Building	531,769		-	531,769
Tenant Improvements	180,900	-	-	180,900
Equipment	<u>106,169</u>	<u>4,282</u>	<u>(328)</u>	<u>110,123</u>
Total Property & Equipment	1,334,699	4,282	(328)	1,338,653
Less Depreciation	<u>(355,070)</u>	<u>(36,278)</u>	<u>328</u>	<u>(391,020)</u>
Net Property & Equipment	<u><u>979,629</u></u>	<u><u>(31,996)</u></u>	<u><u>-</u></u>	<u><u>947,633</u></u>

**7. RENTAL INCOME**

PARSAC purchased an 8,753 square foot office building at 1525 Response Road in Sacramento on January 6, 1995. The Authority occupies approximately 2,150 square feet of the building and leases out the balance. For the period ended June 30, 2004 and 2003 the gross rent income was \$121,386 and \$115,506 with operating expenses of \$49,342 and \$69,428 for a net profit of \$72,043 and \$46,078, respectively.

The following is a schedule by years of minimum lease rentals on noncancelable rental leases as of June 30, 2004:

Year ending June 30:	
2005	\$ 122,958
2006	122,958
2007	<u>126,684</u>
Total minimum future rentals	<u><u>\$ 372,600</u></u>

The following schedule provides an analysis of property on operating leases by major classes as of June 30, 2004:

	<u>2004</u>	<u>2003</u>
Land	\$ 366,261	\$ 366,261
Building	377,556	377,556
Tenant Improvements	<u>180,900</u>	<u>180,900</u>
Total	924,717	924,717
Less: Accumulated Depreciation	<u>(252,997)</u>	<u>(234,247)</u>
Net	<u><u>\$ 671,721</u></u>	<u><u>\$ 690,470</u></u>

# PUBLIC AGENCY RISK SHARING AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

### 8. JOINT VENTURE

The Public Agency Risk Sharing Authority of California participates in a joint venture under a Joint Powers Agreement (JPA) with Local Agency Workers' Compensation Excess JPA (LAWCX), Employment Risk Management Authority (ERMA), and California Public Entities Insurance Authority (CPEIA). The relationship is such that LAWCX, ERMA, and CPEIA are not component units of PARSAC for financial reporting purposes.

LAWCX and CPEIA arrange for and provide excess compensation coverage while ERMA provides employer's liability coverage for its members. LAWCX and ERMA are governed by Boards consisting of a representative from each member agency. CPEIA is considered a component unit of CSAC Excess Insurance Authority (CSAC EIA) and is governed by elected members and members of CSAC EIA. Their respective Boards control the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. Each member agency pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation.

Condensed financial information of LAWCX, ERMA and CSAC EIA for the most recent fiscal year available is as follows:

	LAWCX	CSAC EIA	ERMA
	June 30, 2003	June 30, 2003	June 30, 2003
Total Assets	<u>\$ 8,780,503</u>	<u>\$ 159,580,049</u>	<u>\$ 2,443,992</u>
Total Liabilities	\$ 8,890,630	\$ 155,222,374	\$ 3,209,822
Net Assets (Deficit)	<u>(110,127)</u>	<u>4,357,675</u>	<u>(765,830)</u>
Total Liabilities and Net Assets	<u>\$ 8,780,503</u>	<u>\$ 159,580,049</u>	<u>\$ 2,443,992</u>
Total revenues	\$ 6,523,640	\$ 153,285,161	\$ 2,486,766
Total Expenses	<u>(5,237,955)</u>	<u>(168,919,519)</u>	<u>(3,434,477)</u>
Net Income (Loss)	<u>\$ 1,285,685</u>	<u>\$ (15,634,358)</u>	<u>\$ (947,711)</u>

### 9. EMPLOYEE RETIREMENT PLAN

#### A. PLAN DESCRIPTION

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority's retirement plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers

# **PUBLIC AGENCY RISK SHARING AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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within the State of California. A menu of benefit provisions, as well as other requirements, are established by State statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

### **B. FUNDING POLICY**

PARSAC contributes 7% (representing the employee portion of contribution) of active plan members' annual covered salary to the retirement plan. The Authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its employees. The actuarial methods and assumptions used are those by the CalPERS Board of Administration. The required employer contribution rate for fiscal years 2003/2004 is 12.818%, and 2002/2003 was 11.386%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

### **C. ANNUAL PENSION COST**

For fiscal year 2003/2004, the Authority's annual pension cost of \$54,073 was equal to the Authority's required and actual contribution. The required contribution for fiscal year 2003/2004 was determined as part of the June 30, 2002 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% depending on age, service, and type of employment, and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Authority's retirement plan'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 investment gains and/or losses. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 8 years.

**PUBLIC AGENCY RISK SHARING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

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**THREE YEAR TREND INFORMATION - AUTHORITY'S RETIREMENT PLAN**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$50,690	100%	\$0
6/30/03	\$55,971	100%	\$0
6/30/04	\$54,073	100%	\$0

**FUNDING STATUS OF PLAN**

<u>Actual Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Underfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Under/(Over) Funded Actuarial Liability as a Percentage of Covered Payroll</u>
6/30/00	\$420,205	\$338,065	\$82,140	80.5%	\$283,678	29.0%
6/30/01	\$491,272	\$400,298	\$90,974	81.5%	\$201,265	45.2%
6/30/02	\$545,544	\$430,629	\$114,915	78.9%	\$309,040	37.2%

## **SUPPLEMENTARY INFORMATION**

Public Agency Risk Sharing Authority of California

RECONCILIATION OF CLAIMS LIABILITIES

JUNE 30, 2004 AND 2003

	Liability		Workers Compensation		Totals	
	2004	2003	2004	2003	2004	2003
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$3,439,863	\$3,885,250	\$4,292,244	\$1,727,629	\$7,732,107	\$5,612,879
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	987,000	1,094,000	1,915,199	2,280,741	2,902,199	3,374,741
Increases (Decreases) in provision for insured events of prior fiscal years	<u>872,852</u>	<u>(723,116)</u>	<u>218,841</u>	<u>2,013,619</u>	<u>1,091,693</u>	<u>1,290,503</u>
Total incurred claims and claim adjustment expenses	1,859,852	370,884	2,134,040	4,294,360	3,993,892	4,665,244
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	70,099	17,965	299,341	628,706	369,440	646,671
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,075,772</u>	<u>798,306</u>	<u>741,052</u>	<u>1,101,039</u>	<u>1,816,824</u>	<u>1,899,345</u>
Total Payments	1,145,871	816,271	1,040,393	1,729,745	2,186,264	2,546,016
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$4,153,844</u>	<u>\$3,439,863</u>	<u>\$5,385,891</u>	<u>\$4,292,244</u>	<u>\$9,539,735</u>	<u>\$7,732,107</u>
Reported Claims	771,170	2,327,012	2,615,354	1,390,679	3,386,524	3,717,691
Claims Incurred But Not Reported	3,333,674	942,851	2,523,537	2,661,565	5,857,211	3,604,416
Liability for Unallocated Loss Adjustment Expense	<u>49,000</u>	<u>170,000</u>	<u>247,000</u>	<u>240,000</u>	<u>296,000</u>	<u>410,000</u>
Total	<u>4,153,844</u>	<u>3,439,863</u>	<u>5,385,891</u>	<u>4,292,244</u>	<u>9,539,735</u>	<u>7,732,107</u>

Public Agency Risk Sharing Authority of California

CLAIMS DEVELOPMENT INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

		Liability Program									
		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Total Required Contribution, Interest, and Ceded										
	Earned Contribution	3,417,472	3,553,884	3,311,902	3,178,690	2,956,143	3,044,084	203,022	242,004	4,478,302	4,513,947
	Investment Income	682,103	830,284	617,549	462,733	421,771	411,898	347,371	288,923	35,614	18,959
	Ceded	901,400	886,648	657,923	620,456	659,415	794,360	833,079	960,803	1,754,550	2,832,182
(1)	Net Earned Required Contribution and Investment Revenues	3,198,175	3,497,520	3,271,528	3,020,967	2,718,499	2,661,622	(282,686)	(429,876)	2,759,366	1,700,724
(2)	Unallocated Expenses	466,466	534,136	495,965	483,437	440,918	328,079	198,609	27,800	572,612	398,302
(3)	Estimated Incurred Claims and Expense										
	End of Year	1,034,600	1,093,352	1,228,077	1,191,544	1,269,585	1,012,640	1,119,921	846,197	2,848,550	3,819,182
	Ceded	901,400	886,648	657,923	620,456	659,415	794,360	833,079	960,803	1,754,550	2,832,182
	Net Incurred	1,936,000	1,980,000	1,886,000	1,812,000	1,929,000	1,807,000	1,953,000	1,807,000	1,094,000	987,000
(4)	Paid (Cumulative)										
	End of Year	4,242	5,885	0	0	9,206	12,161	11,270	10,348	17,965	70,099
	One Year Later	105,880	8,439	13,663	9,172	13,323	97,752	33,517	184,704	70,800	
	Two Years Later	863,329	738,652	887,287	106,661	703,726	382,936	245,475	550,232		
	Three Years Later	964,536	979,613	975,702	214,806	757,195	599,165	766,899			
	Four Years Later	974,815	1,074,552	1,014,577	215,825	751,261	606,916				
	Five Years Later	967,008	1,183,161	1,365,156	215,772	751,509					
	Six Years Later	967,421	1,581,307	1,046,787	215,772						
	Seven Years Later	967,231	1,869,587	1,046,921							
	Eight Years Later	967,421	1,869,587								
	Nine Years Later	967,421									
(5)	Re-Estimated Ceded Claims and Expenses	901,400	886,648	657,923	620,456	659,415	794,360	833,079	960,803	1,094,000	2,832,182
(6)	Re-Estimated Incurred Claims and Expense										
	End of Year	1,936,000	1,980,000	1,886,000	1,812,000	1,929,000	1,807,000	1,953,000	1,807,000	1,094,000	987,000
	One Year Later	1,500,000	1,450,000	1,094,000	1,193,000	1,048,000	1,606,000	1,018,000	1,082,000	919,000	
	Two Years Later	2,000,000	1,555,000	1,081,000	1,153,000	1,295,000	1,075,000	756,000	942,000		
	Three Years Later	846,000	609,000	661,000	922,000	1,051,000	739,000	1,161,000			
	Four Years Later	571,000	613,000	571,000	316,000	882,000	734,000				
	Five Years Later	421,000	641,000	1,357,000	406,000	760,000					
	Six Years Later	396,000	1,915,000	1,363,000	1,333,000						
	Seven Years Later	982,000	1,876,000	1,349,000							
	Eight Years Later	970,000	1,866,000								
	Nine Years Later	970,000									
(7)	Increase (Decrease) in Estimated Incurred Claims Expense from End of Policy Year	(966,000)	(114,000)	(537,000)	(479,000)	(1,169,000)	(1,073,000)	(792,000)	(865,000)	(175,000)	0

## Public Agency Risk Sharing Authority of California

## CLAIMS DEVELOPMENT INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

## Workers Compensation Program

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Required Contribution, Interest, and Ceded										
Earned Contribution	1,589,054	1,526,552	1,658,841	1,429,301	1,340,708	1,268,152	1,215,418	1,283,660	2,422,798	3,050,138
Investment Income	208,488	255,735	194,018	206,267	126,185	93,838	59,728	73,829	100,188	0
Ceded	59,421	127,712	32,186	50,859	30,224	46,000	69,265	96,182	354,519	586,395
(1) Net Earned Required Contribution and Investment Revenues	1,738,121	1,654,575	1,820,673	1,584,709	1,436,669	1,315,990	1,205,881	1,261,307	2,168,467	2,463,743
(2) Unallocated Expenses	178,170	377,739	261,113	188,586	137,668	126,469	49,252	42,231	271,032	244,106
(3) Estimated Incurred Claims and Expense										
End of Year	258,158	281,576	255,628	368,282	359,552	568,000	349,470	719,636	1,926,222	1,328,804
Ceded	59,421	127,712	32,186	50,859	30,224	46,000	69,265	96,182	354,519	586,395
Net Incurred	317,579	409,288	287,814	419,141	389,776	614,000	418,735	815,818	2,280,741	1,915,199
(4) Paid (Cumulative)										
End of Year	127,891	184,850	107,696	140,399	157,722	143,422	134,945	76,066	628,706	299,341
One Year Later	369,687	588,816	276,137	386,023	390,583	523,475	354,801	906,471	1,274,677	
Two Years Later	492,910	772,592	446,263	520,956	501,355	694,440	849,283	1,062,503		
Three Years Later	572,263	1,058,942	621,234	614,481	581,783	716,794	941,814			
Four Years Later	604,884	1,125,140	597,327	673,146	540,680	799,038				
Five Years Later	621,170	1,295,899	520,323	985,990	556,642					
Six Years Later	633,886	1,317,347	782,586	1,035,343						
Seven Years Later	637,329	1,242,051	818,425							
Eight Years Later	636,429	1,240,415								
Nine Years Later	642,191									
(5) Re-Estimated Ceded Claims and Expenses	59,421	127,712	32,186	50,859	30,224	46,000	69,265	96,182	354,519	586,395
(6) Re-Estimated Incurred Claims and Expense										
End of Year	377,000	537,000	320,000	470,000	420,000	660,000	488,000	912,000	2,280,741	1,915,199
One Year Later	576,000	713,000	428,000	562,000	369,000	507,000	687,000	1,770,280	2,814,480	
Two Years Later	605,000	966,000	532,000	799,000	512,000	944,000	1,200,153	1,977,210		
Three Years Later	650,000	1,038,000	704,000	1,099,000	775,000	1,110,342	1,225,204			
Four Years Later	627,000	1,232,000	696,000	1,084,000	712,026	1,018,000				
Five Years Later	654,000	1,253,000	745,000	1,176,179	633,000					
Six Years Later	649,000	1,336,000	920,395	1,148,000						
Seven Years Later	676,000	1,302,533	901,000							
Eight Years Later	734,186	1,305,000								
Nine Years Later	696,000									
(7) Increase (Decrease) in Estimated Incurred Claims Expense from End of Policy Year	378,421	895,712	613,186	728,859	243,224	404,000	806,469	1,161,392	533,739	0

**Public Agency Risk Sharing Authority of California**

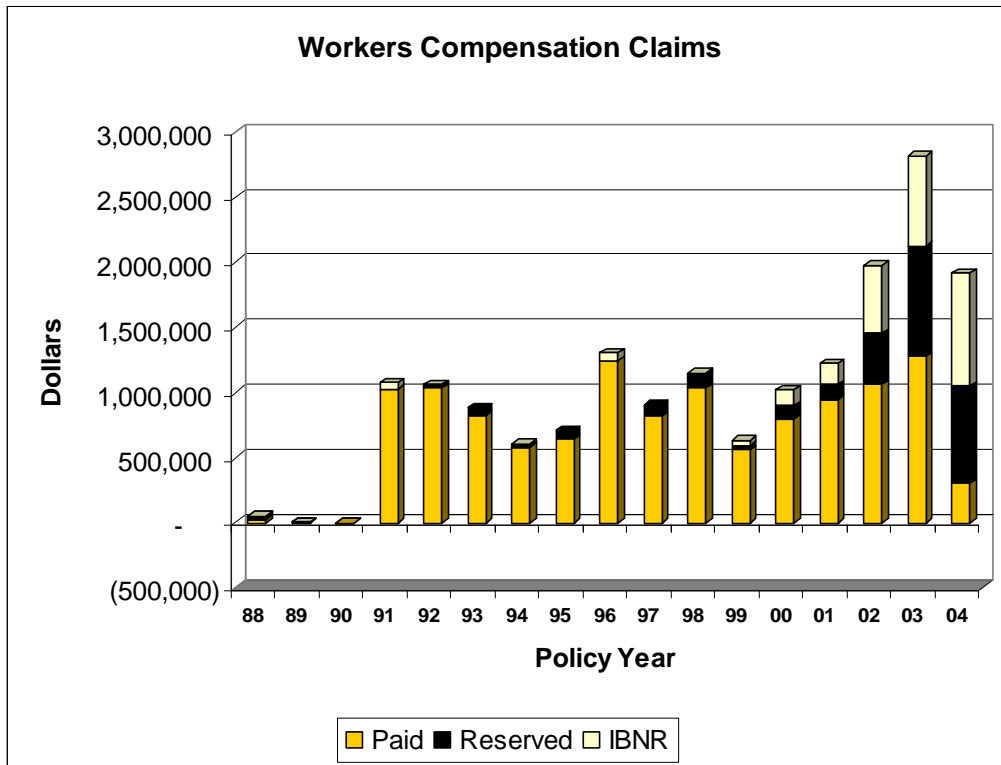
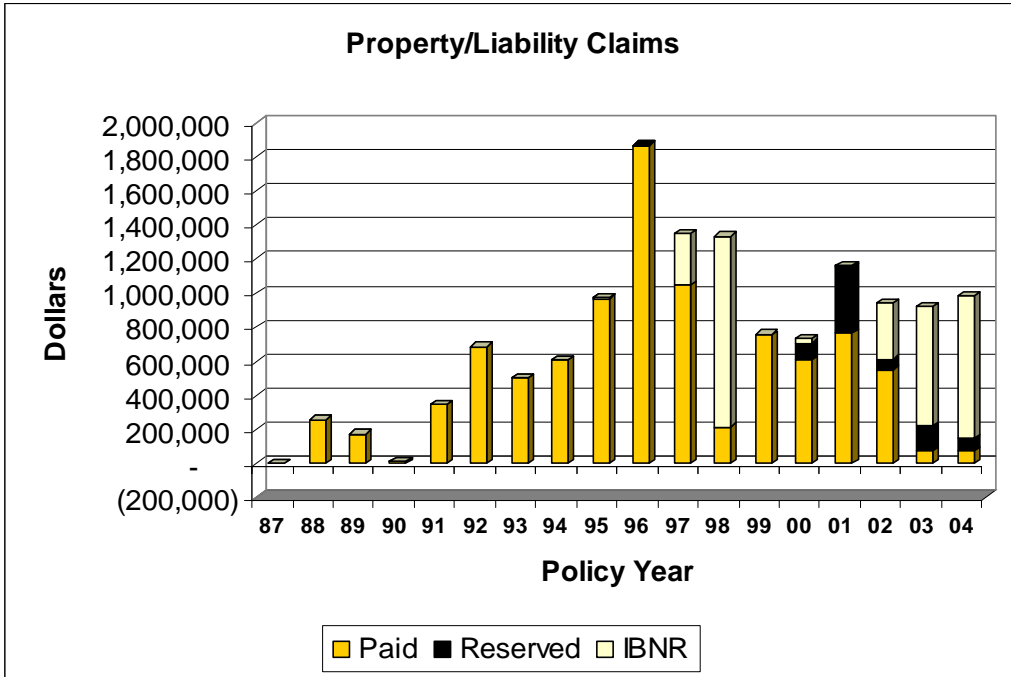
**CLAIMS DEVELOPMENT INFORMATION  
Cumulative from Inception through 2004**

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1. This line shows the total of each fiscal year's earned deposit premiums and cumulative 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.

**Public Agency Risk Sharing Authority of California**

**Summary of Claim Liabilities  
As of June 30, 2004**





**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 Public Agency Risk Sharing Authority of California as of and for the year ended June 30, 2004, and have issued our report thereon dated August 3, 2004. We conducted our audit in accordance with generally accepted auditing standards 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 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 board of directors and management and is not intended to be and should not be used by anyone other than these specified parties.

James P. Marta  
Certified Public Accountant  
August 3, 2004