

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 AND 2011**

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2012

Member	Representative	Office
Campbell Union School District	James Crawford	President
Evergreen School District	Nelly Yang	Vice President
Mountain View-Los Altos Union HS District	Joe White	Treasurer
Santa Clara County Office of Education	Barbara Coats	Secretary
Santa Clara Unified School District	Jim Luyau	Member-at-Large
Berryessa Union School District	Pam Becker	Member
Lakeside Joint School District	Elizabeth Bozzo	Member
Los Altos School District	Randy Kenyon	Member
Los Gatos-Saratoga Joint Union HS District	Thomas Woodruff	Member
Metropolitan Education District	Daniel Gilbertson	Member
Milpitas Unified School District	Phuong Le	Member
Mountain View-Whisman School District	Terese McNamee	Member

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

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James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Bay Area Schools Insurance Authority
Sacramento, California

We have audited the accompanying Statement of Net Assets of South Bay Area Schools Insurance Authority (the "Authority") as of June 30, 2012 and 2011, and the related Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for the years 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 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 South Bay Area Schools Insurance Authority as of June 30, 2012 and 2011 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, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Claims Development Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Graphical Summary of Claims is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Claims Development Information and the Graphical Summary of Claims are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "James Marta & Company". The signature is written in a cursive, flowing style.

James Marta & Company
Certified Public Accountants
November 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The following narrative provides an overview and analysis of the financial activities of South Bay Area Schools Insurance Authority (SBASIA) for the fiscal year ending June 30, 2012. It is provided in order to enhance the information in the financial audit and should be reviewed with that report.

Financial Highlights

- Total operating revenues were \$3,327,589, an increase of 2.3 percent over the prior year.
- Total interest income was \$32,501, a decrease of 6.9 percent from the prior year.
- Total expenses were \$2,738,975, a decrease of 23.8 percent from the prior year.
- Total assets increased by 3.72 percent to \$4,833,664.
- Total liabilities decreased by 17.24 percent to \$2,148,392.
- Total net assets (equity) increased by 30.9 percent to \$2,685,272.

Description of the Basic Financial Statements

SBASIA's financial statements are prepared in conformity with generally accepted accounting principles including amounts established based upon reliable estimates and judgments. The Statement of Net Assets presents the assets and liabilities with the difference representing the net assets. The Statement of Revenues, Expenses and Changes in Net Assets presents the revenue and expenses for the year and discloses the changes in net assets, or pool equity, during the fiscal year. All income and expenses are reported in the statement as soon as the underlying event causing a change occurs regardless of the related cash flow. Thus, uncollected income will be reflected in the Statement of Net Assets as an accounts receivable and an unpaid expense will be recognized as a liability.

The Statement of Cash Flows is being presented by listing the cash inflow by category and all cash outflow by category to achieve the change over the year in cash as well as the ending cash balance. The Statement of Cash Flows also reconciles operating income to operating cash flows.

James Marta & Company, Certified Public Accountants, performed an independent audit of SBASIA's financial statements and found them to be in accordance with accounting principles generally accepted in the United States of America. Bickmore Risk Services, Inc. provided an independent analysis of SBASIA claims and projected the outstanding liabilities for unpaid claims used in SBASIA's financial statements.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

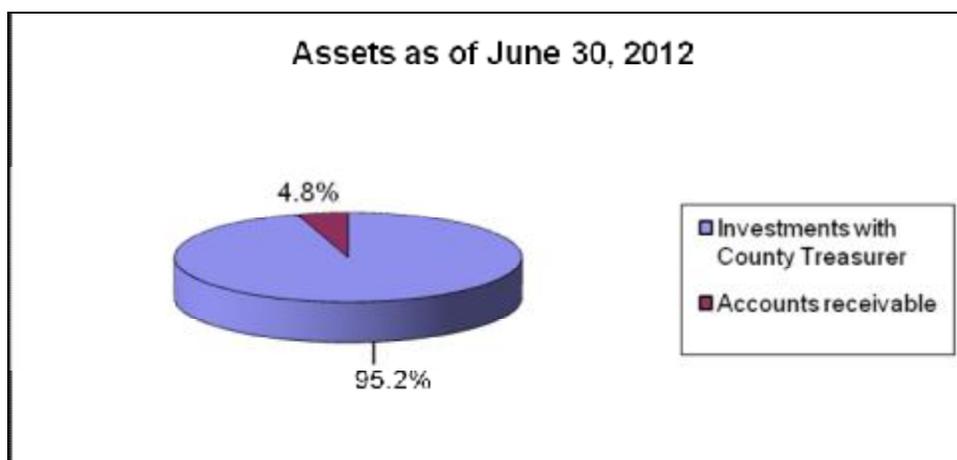
JUNE 30, 2012

Condensed Statement of Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>% Change June 30, 2011 to June 30, 2012</u>	<u>June 30, 2010</u>	<u>% Change June 30, 2010 to June 30, 2011</u>
Assets					
Total Assets	\$ 4,833,664	\$ 4,660,164	3.72%	\$ 4,219,514	10.44%
Liabilities					
Total Current Liabilities	903,621	657,200	30%	350,000	42.86%
Total Long Term Liabilities	<u>1,244,771</u>	<u>1,938,807</u>	-35.8%	<u>1,497,725</u>	29.45%
Retained Earnings					
Retained Earnings	<u>\$ 2,685,272</u>	<u>\$ 2,064,157</u>	30.9%	<u>\$ 2,371,789</u>	-12.97%

SBASIA Pool Assets

SBASIA assets are considered current assets and are invested through the investment pool run by the County of Santa Clara. The accounts receivable represents primarily deductibles that the members owe to SBASIA for claims incurred by the members. The types of assets as a percentage of the total assets are as follows:



Investments with the County Treasurer have increased by 3.81 percent from prior year, from \$4,443,972 to \$4,602,795.

Accounts receivable has increased by 2.07 percent from prior year, from \$226,192 to \$230,869.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

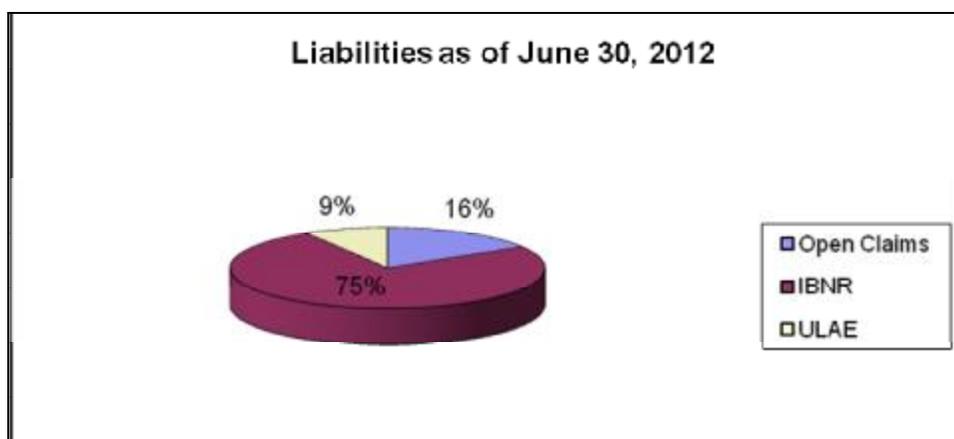
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

SBASIA Pool Liabilities

The pool liabilities consist primarily of expected future payments of claims. An actuarial study is performed to determine, as accurately as possible, the liabilities expected in the future. These liabilities are discounted to recognize the funds needed as of June 30, 2012 to meet the payments in the future from these funds plus interest earned on the funds prior to being expended. These liabilities are broken down into Open Claims, that is the amount anticipated by the claims adjuster needed before the claim is closed, ULAE (unallocated loss adjustment expenses such as claims adjusters' salaries), that is the amount to administer claims to final settlement which may be years in the future, and IBNR (incurred but not reported).

The following pie chart indicates the percentages that each liability represents to the total claims liabilities of \$1,894,771:



Open claims have decreased by 50.99 percent from the prior year, from \$630,885 to \$309,181. IBNR has decreased by 12.35 percent over prior year, from \$1,621,922 to \$1,421,590. ULAE has decreased by 11.83 percent over prior year, from \$186,000 to \$164,000.

Net Assets

The net assets as of June 30, 2012 were \$2,685,272 an increase of \$621,115. The net assets are segregated into Loss Control Reserves, Contingency Reserve, and Undesignated Reserve. The Loss Control Reserve is an amount set aside to fund programs believed to reduce the costs of claims in the future. The Contingency Reserve represents funds designated to fund an unexpected fiscal drain due to losses as well as to provide SBASIA the ability to react to escalating insurance costs by increasing the amount retained in the pool.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

	June 30, 2012	June 30, 2011	Change		% Change
			June 30, 2012	June 30, 2010	June 30, 2010 to June 30, 2011
Contingency Reserve	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -
Loss Control	96,439	96,439	-	96,439	-
Undesignated	88,833	(532,282)	621,115	(224,650)	(307,632)
Prior Period Adjustment	-	-	-	-	-
Total Retained Earnings	<u>\$ 2,685,272</u>	<u>\$ 2,064,157</u>	<u>\$ (307,632)</u>	<u>\$ 2,371,789</u>	<u>\$ (307,632)</u>

Condensed Statement of Revenues, Expenses & Changes in Net Assets

	June 30, 2012	June 30, 2011	% Change		% Change
			June 30, 2012	June 30, 2010	June 30, 2010 to June 30, 2011
Revenue					
Total Revenues	\$ 3,360,090	\$ 3,288,291	2.2%	\$ 3,069,491	7.13%
Expenses					
Total Expenses	<u>2,738,975</u>	<u>3,595,923</u>	23.8%	<u>2,480,186</u>	44.99%
Net Income	<u>\$ 621,115</u>	<u>\$ (307,632)</u>	301.9%	<u>\$ 589,305</u>	-152.20%

Revenue and Expenses

Revenues consist primarily of member contributions, with interest income only representing about .97 percent of the total revenues. The revenues exceeded expenses by \$621,115. Total Operating Revenues increased by approximately 2.3 percent from prior year's revenues, while Total Operating Expenses decreased by 23.8 percent.

Claims expenses decreased by 93% percent from last year's claims expenses. Claims expenses for the year can be broken down into four different components. First is the actual cash payments for claims. This year the amount paid was \$597,230. The second component is the change in reserves established on known claims. This year the reserves decreased by \$321,703. The third component is the change in receivables for member deductibles. This year the receivables increased by \$5,414. Finally, the fourth component is the change in actuarially determined amounts in excess of known reserves to recognize the unanticipated changes in known claims as well as recognition of claims incurred but not yet reported. This change was a decrease of \$200,332. The total costs of claims for the year ending June 30, 2012 was \$75,194.

Self-insurance Program Structure

The program of SBASIA provides liability, property and crime insurance to its members and itself. SBASIA self-insures a portion of the losses and purchases excess coverage to protect the pool against unusually large or catastrophic claims. To put some direct financial impact to the members and to eliminate the pool oversight of smaller claims, SBASIA's program instituted deductibles of \$5,000 for liability, \$10,000 for property and \$1,000 for crime. Thus, the structures of the coverages in the program can be depicted as follows:

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

LIABILITY	PROPERTY	CRIME
<p align="center"><i>California State Association of Counties- Excess Insurance Authority (CSAC-EIA)</i></p> <p align="center">EXCESS II \$24,000,000 EXCESS OF \$1,000,000</p>	<p align="center"><i>Public Entity Property Insurance Program (PEPIP)</i></p> <p align="center">\$1,000,000,000 EXCESS OF \$500,000</p>	<p align="center"><i>Hartford Fire Insurance Company</i></p> <p align="center">\$1,000,000 Employee Theft Per Loss</p> <p align="center">\$1,000,000 Depositors Forgery or Alteration</p>
<p align="center"><i>Genesis Insurance Company</i></p> <p align="center">EXCESS I</p> <p align="center">\$700,000 EXCESS OF \$300,000</p>	<p align="center">INCLUDES BOILER & MACHINERY \$100,000,000</p> <p align="center">REPLACEMENT COST SBASIA Shared Risk* \$490,000 over Deductible</p>	<p align="center">\$500,000 Theft, Disappearance and Destruction</p> <p align="center">\$500,000 Computer and Funds Transfer Fraud SBASIA Shared Risk \$4,000 over Deductible</p>
<p align="center">SBASIA Shared Risk \$295,000 over Deductible</p>		
<p align="center">District Deductible \$5,000</p>	<p align="center">District Deductible \$10,000</p>	<p align="center">District Deductible \$1,000</p>

*Shared Risk does not apply to Boiler & Machinery

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Conclusion

SBASIA funds to not only meet the requirements of expected future liabilities based on actuarial projections, but to include a safe margin of error at a minimum 70 percent confidence level. SBASIA investments are liquid since they are invested through the investment pool provided by the County of Santa Clara. Further, there are no anticipated external or internal events in the near future that would affect this funding in any significant manner.

FINANCIAL STATEMENTS

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENTS OF NET ASSETS

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,602,795	\$ 4,433,972
Accounts receivable	230,869	226,192
Total Assets	<u>4,833,664</u>	<u>4,660,164</u>
LIABILITIES		
Current Liabilities		
Accounts payable	3,621	7,200
Dividends payable	250,000	150,000
Current portion of claim liabilities	650,000	500,000
Total Current Liabilities	<u>903,621</u>	<u>657,200</u>
Noncurrent Liabilities		
Claim liabilities	<u>1,244,771</u>	<u>1,938,807</u>
Total Liabilities	<u>2,148,392</u>	<u>2,596,007</u>
NET ASSETS		
Net Assets	<u>\$ 2,685,272</u>	<u>\$ 2,064,157</u>

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Contributions	<u>\$ 3,327,589</u>	<u>\$ 3,253,371</u>
Operating Expenses		
Insurance premiums	2,182,455	2,113,183
Claims expense	75,194	1,074,335
Contract administration	196,039	215,903
Other operating expenses	35,287	42,502
Dividend expense	250,000	150,000
Total Operating Expenses	<u>2,738,975</u>	<u>3,595,923</u>
Operating Income/(Loss)	588,614	(342,552)
Nonoperating Income		
Interest income	<u>32,501</u>	<u>34,920</u>
Change in Net Assets	621,115	(307,632)
Beginning Net Assets	2,064,157	2,371,789
Ending Net Assets	<u><u>\$ 2,685,272</u></u>	<u><u>\$ 2,064,157</u></u>

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENT OF CASH FLOWS

JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Contributions received	\$ 3,322,912	\$ 3,248,011
Claims and claim adjustment expenses paid	(619,230)	(483,253)
Insurance premiums paid	(2,182,455)	(2,113,183)
General and administrative expenses paid	(134,905)	(108,405)
Dividends paid	(250,000)	(150,000)
Net Cash Flows Provided (Used) by Operating Activities	136,322	393,170
 Cash Flows From Investing Activities		
Interest income received	32,501	34,920
Net Cash Flows Provided by Investing Activities	32,501	34,920
 Beginning Cash and Cash Equivalents	4,433,972	4,005,882
Ending Cash and Cash Equivalents	\$ 4,602,795	\$ 4,433,972
 Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities		
Operating income (Loss)	\$ 588,614	\$ (342,552)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
(Increase) decrease in:		
Accounts receivable	(4,677)	(12,560)
Increase (decrease) in:		
Accounts payable	-	7,200
Dividends payable	96,421	150,000
Claims liabilities	(544,036)	591,082
Net Cash Provided (Used) by Operating Activities	\$ 136,322	\$ 393,170

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The South Bay Area Schools Insurance Authority (The “Authority”) was organized in accordance with Title I, Division 7, Chapter 5, Article I of the Government Code of the State of California. The purpose of the Authority is to jointly establish, operate, and maintain a self-insurance program for liability and property damage protection.

The participating districts as of June 30, 2012 are as follows:

Berryessa Union School District
Campbell Union School District
Evergreen School District
Lakeside Joint School District
Los Altos School District
Los Gatos-Saratoga Joint Union High School District
Metropolitan Education District
Milpitas Unified School District
Mountain View-Los Altos Union High School District
Mountain View-Whisman School District
Santa Clara County Office of Education
Santa Clara Unified School District

B. Admission and Withdrawal of Members

Under the Authority’s Joint Powers Agreement, new members may be admitted by a majority vote of the Board of Directors. Upon entry into the Authority, members may not voluntarily withdraw for a period of three years. Members must submit a written notice of preliminary intent to withdraw by October 1 of the calendar year prior to the effective date of withdrawal and provide a written final notice of withdrawal prior to December 15 following the preliminary notice. In all cases, withdrawal shall be effective on the following June 30. Members may be expelled by a majority vote. The effect of withdrawal does not terminate the responsibility of the member for any unpaid premiums and debts or assessments levied against its years of participation.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

C. Description of Programs

Pursuant to a Joint Powers Agreement authorized under California Government Code sections 990, 990.4, 990.8 and 6500-6515 between the Member Districts, South Bay Area Schools Insurance Authority was established to provide for pooling of liability, property and crime coverage.

Property: JPA Retained Limit - \$490,000 over member deductible of \$10,000
PEPIP - \$1,000,000,000 excess of \$500,000

Liability: JPA Retained Limit - \$295,000 over member deductible of \$5,000
Genesis - \$700,000 excess of \$300,000
CSAC-EIA - \$24,000,000 excess of \$1,000,000

Crime: JPA Retained Limit - \$4,000 over member deductible of \$1,000
Hartford - \$1,000,000 Employee Theft excess of \$5,000

All limits are on a per occurrence basis.

D. Reporting Entity

The Authority's reporting entity includes all activities (operations of its officers and board of directors as they relate to the Authority) considered to be part of (controlled by or dependent on) the Authority. This includes financial activity relating to all of the membership years of the Authority. In determining its reporting entity, the Authority considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in the financial statements principally because the Authority does not exercise oversight responsibility over any members.

E. Basis of Accounting

These statements are prepared on the economic resources measurement focus and 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 received, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements. Since the Authority discounts claims liabilities, the pool considers anticipated investment income in determining if a premium deficiency exists.

The Authority applies all applicable FASB pronouncements issued after November 30, 1989 in accounting and reporting for its proprietary operations, except where superseded by GASB pronouncements.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

F. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents include all checking and savings accounts and cash in the county treasury.

G. Receivables

Deductibles are paid by the Authority on behalf of each member when claims are paid. Members are charged for these deductibles on an annual basis. All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2012 and 2011, the total member receivable was considered collectible.

H. Investment in Pooled Funds

The Authority records cash with the Santa Clara County Treasurer at fair value. The effect of recording investments at fair market value is reflected as a net increase (decrease) in the fair value of investments on the Statements of Revenues, Expenses and Changes in Net Assets.

I. Unpaid Claim Liabilities (Claims Payable, Claims Incurred But Not Reported)

Claims liabilities are established 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.

Claim liabilities are recomputed periodically 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.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

J. Operating and Nonoperating Revenues

Operating revenues result from exchange transactions associated with the principal activity of the organization. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating revenues is comprised of premium contributions, administration income and related fees and assessments which are an integral part of the operations. All other revenues, including investment income, are classified as nonoperating.

K. 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. The activities of the Authority consist solely of risk management programs and claims management activities related to the coverages described above.

Member contributions are based upon each member's average daily attendance, exposure, total insured value (TIV), and claims experience. The allocation shall be actuarially sound. Member contributions are recognized as revenues in the period for which insurance protection is provided. Each year, the Authority evaluates the pool's financial risk position, defined as contributions less expenses, claims reserves, and IBNRs. If the JPA's Board of Directors determines that the insurance funds, including anticipated investment income, for a program are insufficient to pay losses, the JPA may impose a supplemental assessment on all participating members. Supplemental assessments are recognized as income in the period assessed.

L. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

M. Income Taxes

The Authority's income is exempt from federal income taxes under Internal Revenue Service Section 115, which excludes income derived from the exercise of any essential governmental function and accruing to a state political subdivision.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Cash with County Treasury	\$ 4,541,881	\$ 4,331,279
Cash with Carl Warren	33,401	102,693
Cash with Bank of America	<u>27,513</u>	
Total Cash and Cash Equivalents	<u>\$ 4,602,795</u>	<u>\$ 4,433,972</u>

A. Investment in County Treasury

The Authority is considered to be an involuntary participant in an external investment pool as the Authority is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The Authority's investment in the pool is reported in the accounting financial statements at amortized cost which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

B. Cash with Carl Warren

Carl Warren holds an amount in trust for SBASIA. This amount is used to pay claims for one month then is reimbursed by SBASIA.

C. Cash in Bank

Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The excess over the insured amount 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.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

3. UNPAID CLAIM AND CLAIM ADJUSTMENT EXPENSES

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

	2012	2011
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 2,438,807	\$ 1,847,725
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	864,000	908,660
Changes in provision for insured events of prior fiscal years	(788,806)	165,675
Total incurred claims and claim adjustment expenses	75,194	1,074,335
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	2,774	57,905
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	616,456	425,348
Total payments	619,230	483,253
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 1,894,771	\$ 2,438,807
<u>Components</u>		
Reserve for Open Claims	\$ 309,181	\$ 630,885
Claims Incurred But Not Reported (IBNR)	1,421,590	1,621,922
ULAE	164,000	186,000
Total Claim Liabilities	\$ 1,894,771	\$ 2,438,807
Current Portion	\$ 650,000	\$ 500,000
Long Term Portion	1,244,771	1,938,807
Total Claim Liabilities	\$ 1,894,771	\$ 2,438,807

At June 30, 2012 and 2011, \$2,023,583 and \$2,588,055 of unpaid claims and claim adjustment expenses were presented at their net present value of \$1,894,771 and \$2,438,807, respectively. These claims were discounted at an annual rate of 3%.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. RELATED PARTIES

Santa Clara Unified School District (SCUSD) is a member of SBASIA and also served as the fiscal agent of the Authority until December 31, 2011. SCUSD's responsibilities involve establishing and maintaining the books and records of SBASIA and quarterly reports to the Board. SBASIA incurred accounting and administrative expenses for services provided by SCUSD in the amount of \$11,500 and \$23,000 for the years ending June 30, 2012 and 2011, respectively.

7. JOINT VENTURE

The South Bay Area Schools Insurance Authority participates in a joint venture under a Joint Powers Agreement (JPA) with California State Association of Counties Excess Insurance Authority (CSAC-EIA). The relationship is such that CSAC-EIA is not a component unit of SBASIA for financial reporting purposes. South Bay Area Schools Insurance Authority previously participated under a Joint Powers Agreement with Schools Excess Liability Fund (SELF), but withdrew from SELF effective July 1, 2011.

CSAC-EIA arranges for and provides excess liability coverage. It is governed by a board consisting of representatives from participating members. This board controls the operations of CSAC-EIA 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.

The audited financial statements for the JPA can be obtained from its administrators.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

The most recent available information for CSAC-EIA obtained from the financial statements are as follows:

A. <u>Entity</u>	<u>CSAC-EIA</u>
B. <u>Purpose</u>	To provide excess liability insurance coverage
C. <u>Participants</u>	54 member counties and 155 public entity organizations
D. <u>Governing Board</u>	54 representatives from the participating counties and 7 representatives from public entities.
E. <u>Expenses Incurred for the Current Year</u>	<u>\$ 370,824</u>
F. <u>Condensed Financial Information</u>	<u>June 30, 2012</u>
Total Assets	<u>\$ 573,863,821</u>
Total Liabilities	468,312,000
Net Assets (Deficit)	<u>105,551,821</u>
Total Liabilities and Net Assets	<u>\$ 573,863,821</u>
Total Revenues	\$ 516,181,640
Total Expenses	<u>(514,944,457)</u>
Net Income (Loss)	<u>\$ 1,237,183</u>
<u>Member Agency's Share of Net Assets</u>	**

** *Has not been calculated.*

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

5. SUBSEQUENT EVENTS

The Authority's management evaluated its June 30, 2012 financial statements for subsequent events through November 19, 2012, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

**CLAIMS DEVELOPMENT INFORMATION
PROPERTY/ LIABILITY**

JUNE 30, 2012

	Fiscal and Policy Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Premiums and Investment Revenue										
Earned	\$ 1,480,000	\$ 1,644,000	\$ 1,690,000	\$ 1,914,000	\$ 2,100,000	\$ 2,369,000	\$ 2,415,828	\$ 3,069,491	\$ 3,288,291	\$ 3,360,090
Ceded	948,000	960,000	956,000	1,077,000	1,170,000	1,330,000	1,476,992	1,932,528	2,113,183	2,182,455
Net earned	532,000	684,000	734,000	837,000	930,000	1,039,000	938,836	1,136,963	1,175,108	1,177,635
2. Unallocated expenses	242,180	205,691	214,045	276,746	188,408	183,988	1,055,327	277,544	408,405	481,326
3. Estimated incurred claims and expense, end of policy year										
Incurred	381,000	300,000	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	381,000	300,000	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000
4. Paid (cumulative) as of:										
End of policy year	49,000	61,000	55,000	76,000	152,000	101,000	39,991	66,178	57,905	2,774
One year later	194,000	99,000	252,000	376,000	285,000	645,850	492,697	94,630	43,973	
Two years later	441,000	258,000	263,000	439,000	269,359	785,260	670,779	95,753		
Three years later	478,000	261,000	286,000	604,777	397,559	837,211	816,169			
Four years later	478,000	325,000	313,366	652,772	407,914	998,225				
Five years later	501,000	338,999	476,334	703,195	423,245					
Six years later	490,473	338,999	476,334	904,271						
Seven Years Later	490,473	338,999	466,630							
Eight Years Later	490,473	337,742								
Nine Years Later	648,631									
5. Reestimated ceded claims and expenses:	3,426	8,551,598	724,465	719,814	-	3629102	223079	-	-	-
6. Reestimated net incurred claims and expenses:										
End of policy year	381,000	300,000	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000
One year later	475,000	535,000	366,000	57,000	450,000	1,662,939	720,000	850,000	590,000	
Two years later	498,000	535,000	360,000	44,000	770,200	1,140,000	865,804	244,514		
Three years later	498,000	534,000	355,000	853,605	582,300	1,077,831	927,398			
Four years later	498,000	325,000	353,007	827,510	582,300	1,096,000				
Five years later	501,000	338,999	476,334	822,754	439,300					
Six years later	490,473	338,999	476,334	982,781						
Seven years later	490,473	338,999	466,630							
Eight Years Later	490,473	337,742								
Nine Years Later	648,631									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 267,631	\$ 37,742	\$ (329,370)	\$ 680,781	\$ 82,300	\$ 146,000	\$ 26,048	\$ (605,486)	\$ (385,000)	\$ -

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

**NOTES TO SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION**

JUNE 30, 2012

The table illustrates the Authority's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of the year.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's a) gross earned contributions revenue and investment revenue, b) the amount of contributions revenue ceded to reinsurers, and c) the amount of net earned contributions revenue and investment revenue.
2. This line shows the total of each policy year's a) gross incurred claims and allocated claim adjustment expense (both paid and accrued); b) the loss assumed by excess insurers or reinsurers, and c) the net amount of incurred claims and allocated claim adjustment expenses as originally reported at the end of the year.
3. This line shows the Authority's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the year.
4. This section shows the cumulative amounts paid as of the end of the year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each insured year.
6. This annual reestimation results from new information received on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated incurred claim amount to the amount originally established (line 3) and shows whether this later estimate of claims cost is greater or less than originally estimated.

SUPPLEMENTARY INFORMATION

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

GRAPHICAL SUMMARY OF CLAIMS

JUNE 30, 2012

