

GOLDEN STATE RISK MANAGEMENT AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2009 AND 2008**

GOLDEN STATE RISK MANAGEMENT AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2009

BILL BOONE – PRESIDENT
School Districts

JOHN VIEGAS - VICE PRESIDENT
Glenn County Supervisor

MIKE MURRAY - MEMBER
Glenn County Supervisor

REGGIE OLNEY - MEMBER
City of Orland

EUGENE KAUFFMAN - MEMBER
Public Cemetery Alliance

JOHN EAKER - MEMBER
Fire Districts

KIM VANN - MEMBER
Special Districts

SCOTT SCHIMKE, ARM - RISK MANAGER
Golden State Risk Management Authority

GOLDEN STATE RISK MANAGEMENT AUTHORITY

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James Marta & Company

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Golden State Risk Management Authority
Willows, California

We have audited the accompanying Statement of Net Assets of Golden State Risk Management Authority (“the Authority”) as of June 30, 2009 and 2008, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller 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 audits provide 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 Golden State Risk Management Authority as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted 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 October 30, 2009 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information are not required parts of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. The Graphical Presentation of Claims is provided for purposes of additional analysis and are not required parts 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.

A handwritten signature in black ink that reads "James Marta". The signature is written in a cursive style with a large, prominent initial "J".

James Marta & Co., CPA's
October 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

As management of the Golden State Risk Management Authority (GSRMA), we offer readers of the GSRMA's financial statements this narrative overview and analysis of the financial activities of the GSRMA for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the additional information in the fiscal audit contained herein.

BACKGROUND

The Golden State Risk Management Authority (GSRMA) was originally formed on July 1, 1979 under the name Glenn County Joint Powers Authority (GCJPA). It was created as a direct result of the "hard" insurance market Public Agencies dealt with in the mid 1970's. It was established and is governed by Government Code Section 6500, et. sec.

In response to continued inquiries by public agencies physically located outside of Glenn County, GCJPA was renamed Golden State Risk Management Authority (GSRMA), effective July 1, 2000. This name was adopted by the Board to better identify the JPA with its current and future membership.

A seven (7) person Board, as established in its by-laws, governs GSRMA. The Board is comprised of two members from the Glenn County Board of Supervisors (John Viegas and Mike Murray), one member from the Orland City Council (Reggie Olney), one member from the Board of Trustees of a member School District (Bill Boone, Hamilton Unified School District), one member from the Board of Directors from a member cemetery that belongs to the Public Cemetery Alliance (Eugene Kauffman, Sutter Cemetery District), one member from the Board of Directors of a member fire protection district (John Eaker, Trinity Center Community Service District) and one member from the Boards of Directors of any other member special district (Kim Vann, Colusa First Five).

The Risk Manager and staff conduct the day-to-day administration and operation of policies and procedures as set forth by the Authority's Joint Powers Agreement, By-Laws, and Board of Directors.

FINANCIAL HIGHLIGHTS

Total operating revenues for 2008/2009 were \$5.3 million, an increase of 7% (about \$300K) from 2007/2008. This increase was due to increased contributions. The increased contributions were mostly due to increased payrolls. This, combined with a 22% increase in claims costs, a 24% increase in general and administrative expense and a \$300,000 dividend, reduced operating income to negative \$177K. Even with that, the increase in net assets was \$206K.

GSRMA assets of \$13.7 million exceeded its liability of \$8.5 million at June 30, 2009 by \$5.27 million – an increase over the June 30, 2008 net of \$5.06 million. The \$5.27 million of fund equity may be used to meet the Authority's ongoing obligations to members, claimants and creditors.

INSURANCE MARKET CONDITIONS AND OUTLOOK

As a "primary coverage" pool, GSRMA relies heavily on "excess coverage" pools and reinsurance to transfer its risks to them. Currently, GSRMA uses CSAC Excess Insurance Authority (CSAC-EIA) and, to a lesser extent, Schools Excess Liability Fund (SELF) for excess coverage. These excess programs are greatly influenced by a number of conditions.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

GSRMA, and its excess insurance providers, are facing an “upward” phase of the insurance market. Though several factors have helped keep workers’ compensation insurance costs in check, it is likely that the industry is moving back into a hard market cycle.

An indication of this was the California’s Workers’ Compensation Insurance Rating Bureau’s (WCIRB’s) recommendation that the pure premium rate be increased 22.8% effective January, 2010.

A significant reason for this cycle is the financial collapse of AIG. AIG underwrites the bulk of the excess insurance purchased by the CSAC-EIA. AIG costs will go up as their non-insurance revenues decrease with the net affect expected to be that the rates they charge will increase. So, CSAC-EIA will be paying more for coverage either due to increased pricing through AIG or through what, until now, have been higher priced competitors.

Additionally, all insurance companies have been affected by the dramatic declines in the stock markets and need to rely on increased premium rather than investment returns for profitability. The excess pools to which we belong have also suffered from poor returns on investments up to and including the loss of value in some, what had been highly rated investments, whose rating has decreased significantly. The excess carriers may need to increase their member contribution levels to off-set lower returns or even possible losses.

GSRMA and its members should see excess rates increasing while coverage shrinks as this hardening phase continues. Also, health costs continue to increase at a rate of 10% to 15% annually which directly affects claims costs. Lastly, the California Courts and the Legislature continue to chip away at gains made in claims cost savings that have resulting from the implementation of SB 899.

On the other hand, due to the State’s fiscal crises, California State Government has postponed discussions on legislation that could significantly increase workers’ compensation costs.

The likelihood of shrinking payrolls for public entities could affect costs both positively and negatively. Lower payrolls, be it lower salaries or less employees, lowers the exposure to individual members and pools. However, workplace stress and fear of job loss can actually result in an increase in claims. Also, a significant decrease in payroll can affect the leverage used by insurance pools – especially excess pools such as CSAC-EIA and SELF – in negotiating the lowest rates with insurance companies.

More specifically to our fire safety members, the current drought conditions in California and the re-occurrence of devastating fires means that fire personnel increasingly will be in the field and increasingly in more danger of injury.

At this time, GSRMA is in solid financial position as is its excess pools, CSAC-EIA and SELF. However, GSRMA will need to continue to be vigilant and conservative to maintain this position during this period.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

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JUNE 30, 2009

MEMBERSHIP

As of June 30, 2009, GSRMA had one-hundred seventy (170) member agencies. Current membership categories include: Counties, Cities, School Districts, Fire Districts, Cemetery Districts, and Special Districts. During the fiscal year 2008/2009, GSRMA added eleven new members. Existing membership in GSRMA has been extremely stable. During 2003/2004 GSRMA entered into a long-term arrangement with the Public Cemetery Alliance (PCA). This arrangement resulted in a significant number of new members and additional contributions and continues to be a source for potential members. The management of GSRMA has identified additional potential member sources including fire departments, irrigation districts and various types of special districts and expects new member growth in 2009/2010 to be 10%.

SERVICES AND PROGRAMS

Loss Prevention and Training

GSRMA is a strong proponent of Loss Prevention and Safety Training activities. Safety officer Mark Marshall has provided numerous on-site inspections and trainings for the membership during 2008/2009.

GSRMA provides its members with the Loss Prevention Subsidy Fund (LPSF), a grant program to help its members offset their third-party loss prevention and safety training. Another GSRMA program, the Loss Prevention Incentive Program (LPIP), provides contribution reduction incentives to member agencies as a result of specific loss prevention activities that they complete. Fiscal year 2008/2009 was the fourth year of the LPIP and twelve member districts received credits totaling over \$78,000.

Safety Officer Mark Marshall continues to expand and improve various safety and training programs within GSRMA. Annually, GSRMA provides its membership with an extensive Orientation and Training day. For 2009/2010, the training day was held in Corning, California in conjunction with the Public Cemetery Alliance annual meeting. Randy Pennington, a nationally renowned speaker and writer, was the featured speaker.

Membership Communication

GSRMA provides its membership with an informative and useful Website, www.gsrma.org. The site content is updated regularly. Forms, a calendar, contact information and more are available online. Implementation is underway for a member only side to the site that will allow members to review their specific information such as description of coverage, property inventories, etc. A professional quality newsletter is delivered to members quarterly. The GSRMA Member Services Director and Safety Officer have been very active in on-site visits and inspections.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

General Liability Program

The General Liability program started in 1979 as a Self-Insured program. Currently all claims covered under GSRMA Memorandum of Coverage and Certificates of Coverage are adjusted in-house by staff. The program has several excess layers in place. Specifically, GSRMA places excess coverage through CSAC-Excess Insurance Authority (CSAC-EIA). GSRMA places some of its school-related coverage through the Schools Excess Liability Fund (SELF).

Program contribution rates are presented at the March Board of Directors meeting. They are formally adopted at the May Board of Directors meeting. Rates are calculated based on an annual actuarial study, the fiscal needs of the pool, the loss experience of each individual member agency, and loss exposure indicators such as number of employees and payroll.

Workers' Compensation Program

The Workers' Compensation program was created on July 1, 1979. Currently all claims covered under GSRMA Memorandum of Coverage and Certificate of Coverage are adjusted in-house by staff.

Program contribution rates are presented at the March Board of Directors meeting and formally adopted at the May Board of Directors meeting. Rates are calculated based on an annual actuarial study of the financial needs of the pool, the loss experience of each individual member agency, and loss exposure indicators such as number of employees, job classifications and payroll.

GSRMA procures its excess workers' compensation through CSAC-EIA. The 2008/2009 Self Insured Retention (SIR) was \$200K per occurrence. GSRMA utilizes the Workers' Compensation Program to cover all member agency employees and volunteers who are injured during the course and scope of their employment. The coverage includes payment for:

- Medical Costs
- Temporary Disability
- Permanent Disability

GSRMA uses the "OUR System," an early return to work system for the County of Glenn and other members that have shown interest. The program has been successful and is available to all GSRMA members. Additionally, the Company Nurse program has been fully implemented and is in use by most members. Company Nurse allows members to call a nurse-on-call service when a workplace injury occurs. The nurse triages the injury, suggests treatment options and then completes the forms that otherwise would need to be completed by the member. The service then forwards the forms to GSRMA. This process greatly improves efficiency and quality of service to our members.

Property Program

The Property Program was created in 1979. It is a group purchase program that combines the insured values of all member agencies to obtain the broadest coverages at the lowest cost. Currently GSRMA participates in CSAC-EIA's Property Program that has a combined total insured value in excess of \$16 billion.

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The program allows GSRMA to offer its members an "All-risk" full replacement cost Property Program with \$600 million per occurrence in limits at a cost that is far below typical market rates. GSRMA's deductible is \$5,000 per occurrence and its member agencies have a \$1,000 per occurrence deductible. Rates are calculated based on relative amount of property covered for each member.

Miscellaneous Coverage

GSRMA provides its membership several outstanding miscellaneous insurance programs on a Group Purchase basis. This includes Special Events and Course of Construction Coverage.

These miscellaneous programs are placed through CSAC-EIA program. They are very competitively priced for today's insurance market.

Employee Benefits

Beginning in July, 2007, GSRMA offers its members employee insurance products including health insurance, group dental and vision, life and disability. These are part of a program delivered through CSAC-EIA; a program that has over 6,000 participants enrolled. Twelve GSRMA members are currently participating.

Services

GSRMA has put a Special Events Program in place. This program allows member agencies the ability to offer Liability coverage to any individual or organization wanting to use their district facilities. This is an excellent risk transfer program with limits of \$1 million per occurrence.

MemberLink is the GSRMA branded version of Target Safety's online training, certification tracking and member communication Web-based application. Roughly 3,000 classes are completed by member employees annually.

WeTip is an anonymous crime reporting system. It helps in the identification and resolution of crimes against our members and acts as a significant crime deterrent. The service has been instrumental in recovering member property and solving crimes.

CAJPA ACCREDITATION

GSRMA voluntarily undergoes a thorough review of all operations through California Association of Joint Powers Authorities' (CAJPA's) Accreditation process. This is a very detailed audit conducted by an independent consultant and subject to CAJPA's exacting standards. Since 1992 GSRMA has maintained CAJPA'S highest award: "Accreditation With Excellence." GSRMA will soon go through this tri-annual process again as it seeks re-accreditation in Spring, 2010.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

FINANCIAL MANAGEMENT AND CONTROL

GSRMA management is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted principles.

GSRMA has adopted a conservative investment policy according to State guidelines designed to optimize the rate of return on available assets not required for current operations while still keeping these assets readily available.

Budgetary control is provided by verification of budgeted amounts prior to expenditures and analysis of all account totals compared to budgeted amounts. Detailed reports of the budget-to-actual comparisons are provided to the JPA Board annually. In addition an Income Statement, Balance Sheet and Checking Account Disclosure Report are reviewed bi-monthly by the GSRMA Board of Directors.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the GSRMA basic financial statements. Generally Accepted Accounting Principles require financial statements to distinguish functions of the government that are principally supported by taxes and intergovernmental revenues, referred to as "governmental activities" from other functions that are intended to recover all, or a significant portion, of their cost through user fees and charges, referred to as "business-type activities." All of the activities of GSRMA are classified as "business-type activities." These activities include the development and operation of a public entity risk pool and the purchase of insurance and services for members.

GSRMA's financial statements are prepared in conformity with generally accepted accounting principles and include amounts based upon reliable estimates and judgments. The Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows are included along with Notes to the Financial Statements to clarify unique accounting policies and financial information. The *Statements of Net Assets* provides information on all 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 *Statements of Revenues, Expenses, and Changes in Net Assets* presents information showing total revenue and expense and the resulting effect on Net Assets. The *Statements of Cash Flows* presents information about the cash receipts and cash payments during the year.

James Marta & Company, Certified Public Accountants, has performed independent audit examinations of our financial statements. His opinion on the Authority's financial status as of June 30, 2009 is included in page 1 of this report.

GSRMA maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial account for its one risk management and insurance pool.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Condensed versions of the financial statements on the next page are provided by management and comply with GASB requirements to show three years of comparisons.

Condensed Statements of Net Assets

June 30, 2009, 2008, 2007

			Increase/(Decrease)		Increase/(Decrease)	
	June 30, 2009	June 30, 2008	2008 to 2009	June 30, 2007	2007 to 2008	
Assets:						
Current Assets	\$ 10,754,040	\$ 8,166,649	\$ 2,587,391	\$ 5,448,320	\$ 2,718,329	
Non-Current Assets	2,970,030	3,998,955	(1,028,925)	5,451,187	(1,452,232)	
Total Assets	13,724,070	12,165,604	1,558,466	10,899,507	1,266,097	
Liabilities:						
Current Liabilities	3,150,727	2,490,099	660,628	2,190,009	300,090	
Noncurrent Liabilities	5,303,286	4,611,711	691,575	4,626,056	(14,345)	
Total Liabilities	8,454,013	7,101,810	1,352,203	6,816,065	285,745	
Net Assets	\$ 5,270,057	\$ 5,063,794	\$ 206,263	\$ 4,083,442	\$ 980,352	

Total assets increased \$1.5 million from \$12.2 million at June 30, 2008, to \$13.7 million at June 30, 2009. This increase was similar to last year though less than recent past years indicating a reduction in contribution (e.g. vs. claims expense.) The growth of assets results from new membership, return on investments, and increased contribution amounts due to increased payrolls.

Claim liabilities increased a significant \$1 million from \$6.5 million to \$7.5 million. GSRMA paid out and reserved \$2.7 million for claims for the year ended June 30, 2009 in comparison to \$2.2 million in 2008 and \$2.0 million in 2007. Net claims paid out rose slightly while claims liabilities, especially IBNR (Incurred But Not Reported) in the Liability program, is responsible for a majority of the increase.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Condensed Statements of Revenue, Expenses, and Changes in Net Assets

Fiscal year ended June 30, 2009

			Increase/(Decrease)		Increase/(Decrease)	
	June 30, 2009	June 30, 2008	2008 to 2009	June 30, 2007	2007 to 2008	
Operating Income						
Operating Revenues	\$ 5,258,069	\$ 4,939,545	\$ 318,524	\$ 4,816,718	\$ 122,827	
Operating Expenses	5,434,944	4,576,212	858,732	3,978,177	598,035	
Operating income (loss)	(176,875)	363,333	(540,208)	838,541	(475,208)	
Non-operating revenue - investment income	383,138	617,019	(233,881)	611,160	5,859	
Increase (decrease) in net assets	206,263	980,352	(774,089)	1,449,701	(469,349)	
Net assets - beginning of year	5,063,794	4,083,442		2,633,741		
Net assets - end of year	\$ 5,270,057	\$ 5,063,794		\$ 4,083,442		

Revenues. Total contribution revenues increased 6.5% or \$319K over 2007/2008 which, for reference, was 2% or \$123K over 2006/2007. The increase was principally due to the average increase in payroll for the entire pool. The payroll increase was offset by a decrease in the overall cost of the Workers' Compensation program. Contribution revenues are projected to possibly decrease in 2009/2010 due to a decrease in member payrolls unless this decrease is offset by the addition of members. Investment income decreased significantly from \$617K in 2007/2008 to \$383K in 2008/2009. We do not expect this to increase as bond prices remain flat.

Insurance. Insurance expenses are dependent on the cyclical insurance market. Beginning in 2001 the market "hardened", and rates increased over the next few years. The last few years had seen a softening of the market where rates declined while coverage increased. Currently, however, we expect that for all lines (Workers' Compensation, Liability and Property), rates will likely begin an upward slope over the next year based on difficulties in the insurance industry in general.

Claims Expense. Claims expense includes both the amount paid this year for claims as well as a management estimate of the cost of insured claims. This estimate is based on a variety of actuarial and statistical techniques considering claims history, claim payment history, claim frequency, changes in doctrines of legal liability, inflation and other economic and social factors. Claim cost estimates are constantly reevaluated. Changes to prior year claim cost are adjusted as they occur. The bulk of the increase in \$500K claims expense is due an increase in this estimate.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Other Operating Expenses. The increase in other operating expenses is mainly due to an increase in administration fees. Administration fees are calculated based on a certain percentage of total contribution revenues and as total contribution revenues increase, so do administration fees. Additionally, general and administrative costs have increased due to the addition of third party services such as MemberLink and WeTip.

During the 2008/2009 fiscal year, GSRMA's financial position improved though not significantly. Its overall assets increased to \$13.7 million which was 13% similar to 2007/2008's increase of 12%. GSRMA's equity position increased \$200K or 4%. These increases are a result of increased contribution levels, new membership and only moderate increase in claims experience. Though not as significant as in recent years reflecting the stresses imposed by current economic woes, this improvement is in line with GSRMA's long-term funding plan.

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

There are several current and immediate future conditions that may have a negative effect on GSRMA's financial position.

First is the ongoing erosion of gains made through SB 899. The California State Legislation passed SB 899 in 2004. Since its implementation, case law and subsequent legislative activity has occurred that will weaken the positive financial impact of the bill. This is especially true as it relates to fire and police. This will affect long term case reserves of workers' compensation claims. Though legislative attacks on SB 899 provisions were mostly thwarted last year, as they may likely be this year as well, they are expected to continue in future legislative sessions.

GSRMA's excess insurance is provided, through the Excess Insurance Authority, by AIG. The financial condition of AIG will affect GSRMA's excess insurance costs in one of two ways. It is expected that AIG's pricing will increase as its costs increase. So, if the EIA continues to use AIG as a carrier, it will surely be at a higher cost. If the EIA moves to another carrier, experience suggests that it will be at a higher cost as well. In addition, the instability of AIG has "hardened" the insurance industry in general.

Plummeting interest rates are eroding the amount of additional funds generated by investments that help off-set claims and administrative costs. This should have significant impact in 2009/2010 as most excess funds are kept in safe but low yielding cash accounts. An increase in rates is not expected until the current fiscal crisis is resolved. In addition, the decline in financial markets will force carriers to increase their prices as their return from investments is reduced.

The State's fiscal crisis may affect funding levels of special districts including the members of GSRMA. This could negatively affect the budgets of these districts including the number of employees and the total payroll amounts. A decline in payroll could result in higher contribution rates (i.e. per employee or payroll dollar) and lower total contribution to GSRMA.

Additionally, there are numerous conditions that may or will have a positive impact on the financial position of GSRMA.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

It appears that the legislature's focus on California's fiscal crisis and the Governor's inclination to veto damaging legislation are working to stem legislative attacks on SB 899 gains. Though court case law seems to be chipping away at these gains, implementation of SB 899 continues to drive workers' compensation claim costs down.

Improved administrative processes will continue to streamline the operation of this pool. The revision of the JPA Agreement and Bylaws will be implemented for the 2009/2010 fiscal year as well. These things, in turn, will make the pool more efficient.

An increased use of loss prevention and training services such as MemberLink, the online training program and WeTip, the anonymous claims reporting program, should have a positive effect on the number and severity of claims.

Our membership continues to grow. GSRMA saw the addition of 11 new members resulting in an increase of contribution of about \$90,000. Growth adds to the efficiency and stability of the pool. This level of growth should continue due to our marketing and member services efforts as well as our reputation as an exceptionally well run pool.

BASIC FINANCIAL STATEMENTS

GOLDEN STATE RISK MANAGEMENT AUTHORITY

STATEMENTS OF NET ASSETS

JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,037,451	\$ 7,501,686
Interest receivable	56,119	92,276
Investments maturing within one year	2,516,656	499,735
Accounts receivable	14,866	37,340
Prepaid expenses	128,948	35,612.00
Total Current Assets	10,754,040	8,166,649
Noncurrent Assets		
Investments, at market	2,970,030	3,998,955
Total Assets	13,724,070	12,165,604
LIABILITIES		
Current Liabilities		
Accounts payable	60,856	111,520
Deferred revenue	589,871	378,582
Dividends payable	300,000	99,997
Current portion of unpaid claims and claim adjustment expense	2,200,000	1,900,000
Total Current Liabilities	3,150,727	2,490,099
Noncurrent Liabilities		
Unpaid claims and claim adjustment expense	5,303,286	4,611,711
Total Liabilities	8,454,013	7,101,810
NET ASSETS		
Total Net Assets	\$ 5,270,057	\$ 5,063,794

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES		
Member contributions	\$ 5,238,718	\$ 4,919,322
Other income	19,351	20,223
Total Operating Revenues	<u>5,258,069</u>	<u>4,939,545</u>
OPERATING EXPENSES		
Provision for unpaid claims and claim adjustment expenses	2,728,598	2,219,509
Excess insurance	1,188,819	1,133,536
Claims administration	338,618	323,576
General and administrative expenses		
Professional services	243,289	197,251
Loss control services	172,525	175,800
Risk management services	381,019	364,221
Other administrative expenses	82,076	62,322
Dividends expenses	300,000	99,997
Total general and administrative expenses	<u>1,178,909</u>	<u>899,591</u>
Total Operating Expenses	<u>5,434,944</u>	<u>4,576,212</u>
Operating Income (Loss)	(176,875)	363,333
NONOPERATING REVENUES		
Investment income	<u>383,138</u>	<u>617,019</u>
Change in Net Assets	206,263	980,352
Net Assets, Beginning of Period	<u>5,063,794</u>	<u>4,083,442</u>
Net Assets, End of Period	<u>\$ 5,270,057</u>	<u>\$ 5,063,794</u>

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities		
Contributions received	\$ 5,491,832	\$ 4,731,382
Claims expenses paid	(2,075,641)	(2,207,430)
Dividends paid	(99,997)	-
Insurance premiums paid	(1,282,155)	(1,092,481)
General and administrative expenses paid	(929,573)	(767,153)
Net Cash Flows Provided by Operating Activities	1,104,466	664,318
 Cash Flows From Investing Activities		
Investment income received	422,255	655,768
Payments for purchases of investments	(2,710,279)	(6,724,803)
Proceeds from sales and maturities of investments	1,719,323	10,905,807
Net Cash Flows Provided (Used) by Investing Activities	(568,701)	4,836,772
 Net Increase in Cash	535,765	5,501,090
 Beginning Cash and Cash Equivalents	7,501,686	2,000,596
Ending Cash and Cash Equivalents	\$ 8,037,451	\$ 7,501,686
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ (176,875)	\$ 363,333
Adjustments to Reconcile Net Income to Cash Provided by Operations:		
(Increase) Decrease in:		
Member receivable	22,474	(25,815)
Prepaid expenses	(93,336)	41,055
Increase (Decrease) in:		
Accounts payable	(50,664)	32,441
Dividends payable	200,003	99,997
Deferred revenue	211,289	(182,348)
Claims liability	991,575	335,655
Net Cash Provided by Operating Activities	\$ 1,104,466	\$ 664,318
 Supplementary Information		
Noncash Investing and Financing Transactions		
Change in fair market value of investments	\$ (2,960)	\$ (11,301)

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Golden State Risk Management Authority (the Authority) was established by a Joint Powers Agreement (JPA) on April 1979 in accordance with Title I, Division 7, Chapter 5, Article I, Section 6500 of the California Government Code for the purpose of providing Property, Liability, and Workers' Compensation coverage to its members.

Membership

As of June 30, 2009, membership of the various programs is as follows:

	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>
Counties	1	1	1
Cities	1	1	1
Fire districts	23	19	19
Schools	10	10	10
Special districts	39	27	18
Cemetery districts	94	83	80
Total	<u>168</u>	<u>142</u>	<u>129</u>

Admission

Governmental entities may join the group upon approval of the Board of Directors. Entities joining the group must remain members for a minimum of three years.

Withdrawal

Members may withdraw from the JPA upon advance written notice twelve months prior to the close of the fiscal year. The effect of withdrawal (or termination), for the pooling programs, does not terminate the responsibility of the members to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

B. DESCRIPTION OF PROGRAMS

Workers' Compensation

The Workers' Compensation Fund was established in 1979 to account for the payment of workers' compensation claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

Self-insured coverage at June 30, 2009:

<i>JPA's SIR:</i>	\$200,000
<i>Excess Carrier:</i>	\$200,001 to Statutory Limits

Property/Liability

Liability

The Liability Program was established in 1979 to account for the payment of liability claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

<i>Member Deductible:</i>	\$0 liability per occurrence.
<i>GSRMA SIR:</i>	\$250,000 per occurrence.
<i>Excess:</i>	\$250,001 to \$35 million per occurrence non-school members. \$250,001 to \$50 million per occurrence school district members.

Property

The Property Program was established in 1979 to account for the payment of property claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

<i>Member Deductible:</i>	\$1,000 per occurrence.
<i>JPA's SIR:</i>	\$1,001 to 5,000 per occurrence.
<i>Excess Insurance:</i>	\$5,001 to Total Insured Value (TIV) up to \$600 million per covered loss

C. REPORTING ENTITY

The Authority's reporting entity includes all activities (operations of its administrative staff, officers, executive committee and board of directors) as they relate to the Authority. This includes financial activity relating to all of the membership years.

The Authority has developed criteria to determine whether other entities with activities that benefit the Authority should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationship).

The Authority has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in these financial statements. In addition, GSRMA is not aware of any entity that would exercise such oversight responsibility that would result in the Authority being considered a component unit of that entity. In determining its reporting entity, the Authority considered all governmental units that were members of the Authority since inception. The criteria did not require that inclusion of these entities in these financial statements principally because the Authority does not exercise oversight responsibility over any members.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

D. BASIS OF ACCOUNTING

These statements are prepared on the economic resources measurement focus and accrual basis of accounting. Under this method, revenues are from contributions and interest and 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.

The Authority applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations, except where superceded by GASB pronouncements.

E. 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.

F. CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, cash and cash equivalents include cash in bank, cash with the Local Agency Investment Fund (LAIF), Certificate of Deposits (CD's) and all highly liquid debt instruments purchased with an original maturity of three months or less.

G. RECEIVABLES

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, 2009 and 2008, the total accounts receivable portfolio was considered collectible. Interest on investments is recorded in the year the interest is earned.

H. INVESTMENTS

The Authority records its investments and cash in LAIF at fair market value. Changes in fair market value are reported as revenue in the Statements of Revenues, Expenses, and Changes in 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 Statements of Revenues, Expenses, and Changes in Net Assets and on the Statements of Net Assets. Fair market values of investments and LAIF have 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.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

I. DEFERRED REVENUE/PREPAID EXPENSES

The policy year-end for the property, liability, and workers' compensation programs is June 30. As such, certain revenues collected prior to the beginning of the fiscal year are treated as deferred and certain expenses benefiting the subsequent year as prepaid. This is to reflect a proper matching of revenues and expenses for the fiscal year-end financial statements.

J. UNPAID CLAIMS LIABILITIES (CLAIMS RESERVES AND CLAIMS INCURRED BUT NOT REPORTED)

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 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.

K. UNALLOCATED LOSS ADJUSTMENT EXPENSE

The liability for unallocated loss adjustment expense includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. Management has estimated the accrual based on past experience and the amount is included in general and administrative expense.

L. EXCESS INSURANCE

The Authority purchases specific occurrence excess insurance from commercial carriers for the property and liability programs. The coverage for losses above the corresponding policy year's specified self-insured retention (SIR) is limited to that policy year's excess coverage limit.

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 accrues to a state political subdivision.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

N. OPERATING AND NONOPERATING REVENUES

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. 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 nonexchange transactions or ancillary activities. Since the Golden State Risk Management Authority (GSRMA) discounts claims liabilities, the pool considers anticipated investment income in determining if a premium deficiency exists. Operating revenue includes member contributions and fees, which are an integral part of the operations and financing of the covered risks and activities. Nonoperating income includes material activities that are not part of the core risk financing activities of the entity and investment income.

Revenues mainly consist of premium contributions from members. 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. The reporting entity does not include any other component units with the criterion prescribed by GAAP.

O. MEMBER CONTRIBUTIONS

Member contributions are recognized as revenues in the period for which insurance protection is provided. If the JPA's Board of Directors determines that the insurance funds for a program, including any anticipated investment income, are insufficient to pay losses, the JPA may impose a supplemental assessment on all participating members. Anticipated investment income is considered in determining supplemental assessments. Supplemental assessments are recognized as income in the period assessed.

P. ALLOCATION OF INDIRECT EXPENSES

Indirect expenses are allocated among insurance programs in the percentage management estimates each program bears on administration costs.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

2. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Balance Per Bank	\$ 721,714	\$ 3,171,702
Less: Outstanding Checks	(189,842)	(71,633)
Balance Per Books	531,872	3,100,069
Money Market Accounts	3,221,328	1,088,228
Certificate of Deposits	1,016,527	-
LAIF	3,267,724	3,313,389
Total Cash and Equivalents	<u>\$ 8,037,451</u>	<u>\$ 7,501,686</u>

The carrying amount of the Authority's cash is covered by federal depository insurance up to \$250,000. 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.

Local Agency Investment Fund

The Authority is a voluntary participant in Local Agency Investment Fund (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, which approximates cost, 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 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. 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.

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. This fund currently yields approximately 1.377% interest annually and has an average life of 235 days. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

B. INVESTMENTS

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
- Local Agency Investment Fund (California State Treasurer's Pool)
- Medium-term corporate notes
- Passbook savings account demand deposits
- State agency obligations
- Certain bankers acceptances
- Commercial paper "prime"
- Certificates of deposit
- Repurchase or reverse repurchase agreements

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from changes in interest rates, the Authority's investment policy limits its investment portfolio maturities to no more than five years from purchase date to maturity date. Purchases of securities with maturities of greater than five years may be made only with prior approval of the Board of Directors.

As of June 30, 2009, the Authority had the following investments held in a managed portfolio:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>< 1yr</u>	<u>1-3 yrs</u>	<u>>3 yrs</u>
Federal Government Agency	\$ 1,040,315	\$ -	\$ 1,040,315	\$ -
Corporate Notes	1,929,715	-	1,929,715	-
Certificates of Deposits	2,516,656	2,516,656	-	-
Total Investments	<u>\$ 5,486,686</u>	<u>\$ 2,516,656</u>	<u>\$ 2,970,030</u>	<u>\$ -</u>

Credit Risk

The primary investment objective of the Authority's Investment Policy is to preserve capital by investing in securities in accordance with the Government Code while maintaining an appropriate level of risk. It limits investments in medium-term corporate notes to A-AAA ratings issued by nationally recognized statistical ratings organizations. As of June 30, 2009, the Authority's investments in corporate notes were rated by Standard and Poor's. On the following page is the rating by Standard and Poor's:

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

	<u>Market Value</u>	<u>Minimum Legal</u>	<u>S&P Rating</u>
Federal Home Loan Bank Bonds	\$ 1,040,315	N/A	AAA
Goldman Sachs Group Inc	513,755	A	A
Morgan Stanley Bonds	506,550	A	A
Citigroup Incorporated Senior Notes	489,625	A	A
International Lease Fin Corp Notes	414,630	A	BBB+

Concentration of Credit Risk

The Authority's investment policy places investment limits at the time the investment decision is made on certain securities as follows:

	<u>Limit</u>	
	<u>Per Institution</u>	<u>Per Type of Investment</u>
Federal Home Loan Banks	N/A	40%
Federal National Mortgage Association	N/A	30%
Federal Home Loan Mortgage Corporation	N/A	40%
Medium Term Corporate Notes	10%	30%
Time CDs	15%	50%

Investments in debt securities of any one issuer consisting of 5% or more of total investments (including LAIF) are as follows:

	<u>Fair Value</u>	<u>% of Portfolio</u>
Certificate of Deposit, Umpqua	\$ 1,508,986	28%*
Certificate of Deposit, TriCounties	1,007,670	18%*
Federal Home Loan Bank Bonds	1,040,315	19%
Goldman Sachs Group Inc	513,755	9%
Morgan Stanley Bonds	506,550	9%
Citigroup Incorporated Senior Notes	489,625	9%
International Lease Fin Corp Notes	414,630	8%

*Amounts are deposited under the Certificate of Deposit Account Registry Service (CDARS), a program that places funds into multiple Certificates of Deposit through one financial institution. All amounts are fully insured and therefore meet the company investment policy.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

3. UNPAID CLAIMS LIABILITIES

The following represents changes in claims liabilities for the Authority during the years ended June 30, 2009 and 2008:

	Totals	
	2009	2008
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 6,511,711	\$ 6,176,056
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,446,421	1,967,677
Changes in provision for insured events of prior fiscal years	282,177	251,832
Total incurred claims and claim adjustment expenses	2,728,598	2,219,509
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	397,324	302,686
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	1,339,701	1,581,168
Total payments	1,737,025	1,883,854
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 7,503,286	\$ 6,511,711

The components of unpaid claims and claim adjustment expenses as of June 30, 2009 and 2008 were as follows:

Claim Reserves	\$ 3,896,064	\$ 3,115,266
Claims Incurred But Not Reported	2,911,756	2,793,266
Unallocated Loss Adjustment Liability	695,465	603,179
Total Claims Liability	\$ 7,503,286	\$ 6,511,711
Current Portion	\$ 2,200,000	\$ 1,900,000
Noncurrent Portion	5,303,286	4,611,711
Total Claims Liability	\$ 7,503,286	\$ 6,511,711

At June 30, 2009 and 2008, \$7,608,702 and \$7,126,460 of unpaid claims and claim adjustment expenses were presented at their net present value of \$7,503,286 and \$6,511,711, respectively. These claims were discounted at an annual rate of 5%.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

4. JOINT POWERS AGREEMENT

The Authority participates in a joint venture under a Joint Powers Agreement (JPA) with CSAC Excess Insurance Authority (CSAC-EIA) and Schools Excess Liability Fund (SELF). The relationship between the Authority and CSAC-EIA and SELF is such that CSAC-EIA and SELF is not a component unit of the Authority for financial reporting purposes.

A. <u>Entity</u>	CSAC-EIA	SELF*
B. <u>Purpose</u>	To provide excess insurance coverage for its members counties and member entities	To pool excess liability and workers compensation coverage to protect against catastrophic loss.
C. <u>Participants</u>	One hundred sixty-six members including cities, schools districts, special districts and JPA's	Twenty joint power authorities.
D. <u>Governing Board</u>	One representative board member from each participating member agency.	Seventeen representatives employed by members.
E. <u>Payments for the Current Year</u>	\$ 1,149,545	\$ 39,274
F. <u>Condensed Financial Information</u> (Most recent financials available)		
	June 30, 2008 (Audited)	June 30, 2008 (Audited)
Total Assets	\$ 539,919,072	\$ 238,680,000
Total Liabilities	\$ 402,208,251	\$ 189,962,000
Net Assets (Deficit)	137,710,821	48,718,000
Total Liabilities and Net Assets	\$ 539,919,072	\$ 238,680,000
Total Revenues	\$ 407,735,801	\$ 41,599,000
Total Expenses	(381,129,117)	(22,991,000)
Net Income (Loss)	\$ 26,606,684	\$ 18,608,000

* GSRMA withdrew from SELF Workers' Compensation program effective July 1, 2003; however, GSRMA has a continuing obligation related to potential policy year deficits and related future assessments. GSRMA still participates in SELF excess liability program.

Copies of the financial statements can be obtained by visiting: www.selfjpa.org and www.CSAC-EIA.org.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

5. NET ASSETS

Designations of the ending net assets indicate the portions of net assets segregated for a specific future use. The Designation for Catastrophe Losses reflects the portion of net assets designated for premium stabilization in the event of unusually large losses. Designations of the ending net assets indicate plans for financial resource utilization in a future period.

Unpaid claims and claim adjustment expense – 85% confidence level	\$ 8,396,000
Liability for unpaid claims and claims adjustment expense – expected level	<u>(7,503,286)</u>
Amount to be provided for losses to the 85% confidence level	892,714
Net Assets Available	<u>5,270,057</u>
Net Assets needed to meet 85% target / (met)	<u><u>\$ (4,377,343)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

GOLDEN STATE RISK MANAGEMENT AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

	<u>Workers' Compensation</u>		<u>Property & Liability</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 5,333,082	\$ 4,884,551	\$ 1,178,629	\$ 1,291,505	\$ 6,511,711	\$ 6,176,056
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,589,861	1,362,484	856,560	605,193	2,446,421	1,967,677
Changes in provision for insured events of prior fiscal years	90,828	481,184	191,349	(229,352)	282,177	251,832
Total incurred claims and claim adjustment expenses	<u>1,680,690</u>	<u>1,843,668</u>	<u>1,047,909</u>	<u>375,841</u>	<u>2,728,598</u>	<u>2,219,509</u>
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	317,233	219,466	80,091	83,220	397,324	302,686
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,186,234</u>	<u>1,175,671</u>	<u>153,467</u>	<u>405,497</u>	<u>1,339,701</u>	<u>1,581,168</u>
Total payments	<u>1,503,467</u>	<u>1,395,137</u>	<u>233,558</u>	<u>488,717</u>	<u>1,737,025</u>	<u>1,883,854</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 5,510,305</u>	<u>\$ 5,333,082</u>	<u>\$ 1,992,980</u>	<u>\$ 1,178,629</u>	<u>\$ 7,503,286</u>	<u>\$ 6,511,711</u>
The components of unpaid claims and claim adjustment expenses as of June 30, 2009 and 2008 were as follows:						
Claim Reserves	\$ 2,793,331	\$ 2,632,760	\$ 1,102,733	\$ 482,506	\$ 3,896,064	\$ 3,115,266
Claims Incurred But Not Reported	2,175,979	2,254,750	735,777	538,516	2,911,756	2,793,266
Unallocated Loss Adjustment Liability	540,995	445,572	154,470	157,607	695,465	603,179
Total Claims Liability	<u>\$ 5,510,305</u>	<u>\$ 5,333,082</u>	<u>\$ 1,992,980</u>	<u>\$ 1,178,629</u>	<u>\$ 7,503,286</u>	<u>\$ 6,511,711</u>
Current Portion	\$ 1,700,000	\$ 1,400,000	\$ 500,000	\$ 500,000	\$ 2,200,000	\$ 1,900,000
Noncurrent Portion	<u>3,810,305</u>	<u>3,933,082</u>	<u>1,492,980</u>	<u>678,629</u>	<u>5,303,286</u>	<u>4,611,711</u>
Total Claims Liability	<u>\$ 5,510,305</u>	<u>\$ 5,333,082</u>	<u>\$ 1,992,980</u>	<u>\$ 1,178,629</u>	<u>\$ 7,503,286</u>	<u>\$ 6,511,711</u>

GOLDEN STATE RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – WORKERS COMPENSATION

AS OF JUNE 30, 2009

	Fiscal and Policy Year Ended June 30:									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Required contribution and investment revenue:										
Earned	\$ 1,214,247	\$ 1,398,608	\$ 1,160,264	\$ 1,646,451	\$ 2,466,205	\$ 2,671,626	\$ 3,134,266	\$ 3,399,046	\$ 3,197,735	\$ 3,131,991
Ceded	91,176	121,767	49,686	114,952	309,435	275,227	178,127	339,678	462,223	413,525
Net earned	1,123,071	1,276,841	1,110,578	1,531,499	2,156,770	2,396,399	2,956,139	2,956,139	2,956,139	2,956,139
2. Unallocated expenses	236,814	308,441	223,824	262,700	451,313	520,120	593,826	794,796	675,616	832,708
3. Estimated incurred claims and expense, end of policy year										
Incurred	1,081,176	1,241,767	1,194,905	1,407,882	1,976,526	2,000,166	1,887,575	1,747,003	1,824,707	2,003,386
Ceded	91,176	121,767	49,686	114,952	309,435	275,227	178,127	339,678	462,223	413,525
Net Incurred	990,000	1,120,000	1,145,219	1,292,930	1,667,091	1,724,939	1,709,448	1,407,325	1,362,484	1,589,861
4. Paid (cumulative) as of:										
End of policy year	-	337,432	131,993	157,598	195,366	197,451	333,065	414,862	219,466	317,233
One year later	295,454	379,149	340,740	547,065	411,949	429,324	686,940	898,806	508,226	
Two years later	715,555	487,503	468,652	848,818	624,744	590,200	856,581	1,421,741		
Three years later	823,321	605,186	551,977	1,044,267	717,371	682,300	1,036,045			
Four years later	962,514	721,487	585,517	1,148,393	801,466	720,284				
Five years later	1,059,008	776,672	611,308	1,192,726	896,413					
Six years later	1,120,682	786,609	655,500	1,245,901						
Seven Years Later	1,149,537	738,464	669,635							
Eight Years Later	1,102,672	798,852								
Nine Years Later	1,157,279									
5. Reestimated ceded claims and expenses:	-	-	-	323,836	74,791	-	-	270,087	462,223	413,525
6. Reestimated net incurred claims and expenses:										
End of policy year	990,000	1,120,000	1,145,219	1,292,930	1,667,091	1,724,939	1,709,448	1,407,325	1,362,484	1,589,861
One year later	910,000	1,060,852	1,093,922	1,387,475	1,535,194	1,679,783	2,015,024	2,003,469	1,396,009	
Two years later	1,073,542	969,065	932,409	1,448,656	1,438,804	1,454,047	1,768,033	2,336,564		
Three years later	1,145,208	919,842	875,245	1,467,867	1,201,407	1,235,660	1,743,008			
Four years later	1,205,820	1,001,936	811,486	1,497,028	1,153,404	1,109,145				
Five years later	1,236,353	954,905	793,289	1,491,977	1,140,179					
Six years later	1,265,925	898,252	764,664	1,474,025						
Seven years later	1,259,387	852,688	755,464							
Eight Years Later	1,285,195	879,365								
Nine Years Later	1,217,222									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 227,222	\$ (240,635)	\$ (389,755)	\$ 181,095	\$ (526,912)	\$ (615,794)	\$ 33,560	\$ 929,239	\$ 33,525	\$ -

GOLDEN STATE RISK MANAGEMENT AUTHORITY
CLAIMS DEVELOPMENT INFORMATION – LIABILITY

AS OF JUNE 30, 2009

	Fiscal and Policy Year Ended June 30:									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Required contribution and investment revenue:										
Earned	\$ 715,813	\$ 782,384	\$ 699,133	\$ 914,766	\$ 1,417,635	\$ 1,244,111	\$ 1,514,543	\$ 1,953,920	\$ 2,198,271	\$ 2,243,763
Ceded	53,749	68,116	213,245	233,882	377,223	327,467	421,916	530,538	514,421	511,412
Net earned	662,064	714,268	485,888	680,884	1,040,412	916,644	1,092,627	1,423,382	1,683,850	1,732,351
2. Unallocated expenses	139,605	172,542	134,869	158,293	271,945	313,406	357,819	478,915	545,472	681,660
3. Estimated incurred claims and expense, end of policy year										
Incurred	513,749	621,116	703,434	700,378	873,280	953,624	967,145	1,131,249	1,119,614	1,367,972
Ceded	53,749	68,116	213,245	233,882	377,223	327,467	421,916	530,538	514,421	511,412
Net Incurred	460,000	553,000	490,189	466,496	496,057	626,157	545,229	600,711	605,193	856,560
4. Paid (cumulative) as of:										
End of policy year	-	66,581	40,179	22,253	50,412	95,335	141,617	118,962	83,220	80,091
One year later	187,386	326,586	189,799	119,946	210,106	160,639	409,023	266,544	313,015	
Two years later	596,940	377,688	449,179	206,970	312,748	240,509	569,649	368,729		
Three years later	590,451	402,927	489,618	242,629	369,438	240,804	572,656			
Four years later	595,940	403,449	524,217	242,629	489,479	240,804				
Five years later	395,940	403,629	524,217	242,629	489,480					
Six years later	595,940	403,269	524,217	242,629						
Seven Years Later	595,940	403,629	524,217							
Eight Years Later	595,940	403,629								
Nine Years Later	595,940									
5. Reestimated ceded claims and expenses:	2,058	-	-	509,895	386,649	-	672,488	113,347	514,421	511,412
6. Reestimated net incurred claims and expenses:										
End of policy year	513,749	621,116	490,189	466,496	496,057	626,157	545,229	600,711	605,193	856,560
One year later	539,000	655,930	525,652	406,303	689,816	551,492	892,876	618,754	1,072,950	
Two years later	722,178	432,011	622,578	312,399	403,409	428,452	781,823	565,137		
Three years later	645,443	441,111	535,513	307,298	507,397	302,081	821,389			
Four years later	595,940	403,449	548,168	242,629	520,473	252,239				
Five years later	595,940	419,258	524,217	242,629	489,480					
Six years later	595,940	403,629	524,217	242,629						
Seven years later	595,940	403,629	524,217							
Eight Years Later	595,940	403,629								
Nine Years Later	595,940									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 135,940	\$ (149,371)	\$ 34,028	\$ (223,867)	\$ (6,577)	\$ (373,918)	\$ 276,160	\$ (35,574)	\$ 467,757	\$ -

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2009

1. RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

The schedule represents the changes in claims liabilities for the past year for the Authority's property and liability program and workers compensation program.

2. CLAIMS DEVELOPMENT INFORMATION

The tables illustrate 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 earned contribution revenues and investment revenues.
2. This line shows each fiscal year's other operating costs of the Authority including overhead and claims expense not allocable to individual claims. All unallocable administration expenses are charged to the current 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 claim, 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.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This is the third year of the presentation and development of this information. In subsequent years as this information is developed, comparative years and reestimations will be presented.

SUPPLEMENTARY INFORMATION

GOLDEN STATE RISK MANAGEMENT AUTHORITY

GRAPHICAL SUMMARY OF CLAIMS

AS OF JUNE 30, 2009

