NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2019 and 2018

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INSURANCE AUTHORITY

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Northern California Special Districts Insurance Authority
Elk Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of Northern California Special Districts Insurance Authority as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Northern California Special Districts Insurance Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern California Special Districts Insurance Authority, as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Reconciliation of Claims Liability by Type of Contract, the Claims Development Information, the Schedule of the Authority's Proportionate Share of the Net Pension Liability and the Schedule of the Authority's Contributions on pages 25 through 29 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 27, 2020 on our consideration of Northern California Special Districts Insurance Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern California Special Districts Insurance Authority's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Sacramento, California
January 27, 2020

The following discussion and analysis of the financial performance of Northern California Special Districts Insurance Authority (the "Authority" or "NCSDIA") provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2019. Please read it in conjunction with the Authority's financial statements, which follow this section.

BACKGROUND

Northern California Special Districts Insurance Authority was originally formed on July 1, 1979. It was created as a direct result of the "hard" insurance market public agencies dealt with in the mid-1970s. It was established and is governed by Government Code Section 6500, et seq.

A thirteen person board consisting of one representative from each member agency meets several times per year to provide direction and oversight to the Authority.

The Executive Director and staff, which are contracted by the Authority, conduct the day-to-day administration and operation of policies and procedures as set forth by NCSDIA's Joint Powers Agreement, Bylaws and Board of Directors.

MEMBERSHIP

NCSDIA has thirteen (13) member agencies as of June 30, 2019. However, one of the smaller member districts is withdrawing from the pool as of July 1, 2019. Current membership includes fire districts (paid and volunteer), community service districts and special districts. The membership in NCSDIA has been stable for the last several years.

SERVICES AND PROGRAMS

Workers' Compensation Program

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

Program contribution rates are presented at the April Board of Directors meeting and formally adopted at the June Board of Directors meeting. Rates are calculated based on an annual actuarial study using prior year member payroll amounts, the financial needs of the pool, the loss experience of each individual member agency, and their historical premiums.

NCSDIA procures its excess Workers' Compensation coverage through the CSAC Excess Insurance Authority (CSAC-EIA). The CSAC-EIA provides statutory limits with a $300K Self Insured Retention (SIR) per occurrence for all members. NCSDIA utilizes the Workers' Compensation Program to cover all member agency employees and volunteers who are injured during the course and scope of their employment. This coverage includes payment for medical costs, temporary disability and permanent disability.

Miscellaneous Coverages

NCSDIA provides its membership several outstanding miscellaneous insurance programs on a group purchase basis. This includes General Liability, Property, Auto, Boiler and Machinery, and Crime Bond. Currently, three members take advantage of this benefit.

Other Services

NCSDIA contracts with Company Nurse which provides nurse-on-call services for NCSDIA members 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 NCSDIA. This process greatly improves our efficiency and quality of service and has been overwhelmingly embraced by all members.

NCSDIA also provides the use of TargetSolutions to its members. TargetSolutions is an online training service that has been proven in other entities to help reduce losses as well as the cost of training and continuing education for member employees. Though this is not used uniformly among all members, the members who do use it receive great benefit.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2019, the Authority's net position increased by 17% or $123K. This essentially reversed last year's decrease of 15% or $125K in net position. The Board approved raising the pools SIR (Self Insured Retention) from $200K to $300K for the 2018-19 coverage year. This resulted in a decrease of excess insurance cost and contributed to an increase in the provision for claims expense, which relies on an actuarial estimate of the future cost of claims. Mandated fees were down 44% while net return from investments was up significantly.
- Operating revenue was $2.79 Million, an increase of 6.1% or $161K from 2017/2018. This was primarily due to an increase in rates.
- Total expenses were $2.92 Million, an increase of 5.2%, totaling $145K, from 2017/2018. This is an offset of the prior year's 17.5% decrease. While claims expense increased 60% or $601K, insurance expense decreased 24% or $221K, State mandated fees decreased 54% or $88K and admin costs decreased 21% or $148K.
- NCSDIA assets of $7.69 Million exceeded its liabilities of $6.9 Million at June 30, 2019 by $845K. This amount increased $123K or 17% mainly due to the decreases in expenses and the increase in investment appreciation of $232K. The $845K of fund equity may be used to meet NCSDIA's ongoing obligation to members, claimants and creditors.

OPERATIONAL HIGHLIGHTS

- The fair market value of investments overall increased significantly due to the maturing of older investments and their replacement by more valuable investments. Interest earned actually decreased slightly from last year but net value of investments increased. Overall market value should continue to improve as returns continue to increase.
- Though claims management and processing is now being contracted and the Authority no longer has employees, employee retirement and health benefit costs for former employees will continue to impact the bottom line of the risk pool. Expense estimate for PERS retirement expense was significantly lower than last estimate as projected total cost decreases. GASB 68 requires the Authority to account for the actuarial estimate of total pension liability. While health insurance costs are increasing and projected total PERS retirement costs increase as well, the change was significantly smaller the prior year's $323K increase.

- The significant decrease in State mandated fees was primarily due to the prior year's settlement of a single large claim. The Department of Workers' Compensation calculates its fees based on the total amount of indemnity (i.e. non-medical/legal/expense costs) paid in the prior year. An unusually large claim was settled in 2017-18 for nearly $3 Million and resulted in a large one-time increase in fees. These fees going forward should be similar to 2018-19 fees and experience only incremental increases.
- A $1.05M decrease in current assets was offset by a $1.51M increase in Non-current assets. This resulted from moving a significant amount of investment funds from LAIF to be invested in longer term bonds and managed by our investment advisor.

USE OF FINANCIAL STATEMENTS TO ANALYZE THE AUTHORITY'S CONDITION

Financial statements can be used to answer the question, "Is an agency better off or worse off as a result of this year's activities?" The financial statements report information about the Authority's activities in a way that helps answer this question. The statements are prepared on the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. An explanation of each of the statements and the information they report follows.

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years, June 30, 2019 and June 30, 2018. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information which shows how the Authority's net position changed during the fiscal year. The statement measures the success of the Authority's operations during the year and determines whether the Authority has recovered its costs through member contributions, its only revenue source other than de Minimis interest earnings.

The changes in net position for the fiscal years shown in this report agree with the differences in net position shown at June 30, 2019 and 2018 in the below mentioned Statement of Net Position.

THE STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the Authority's cash receipts and disbursements during the fiscal years. Cash activity is grouped in the following two categories: operations and investing. These statements differ from the Statements of Revenues, Expenses and Changes in Net Position, because they only account for transactions that result in cash receipts or disbursements. For example, the amount shown as receipts from customers on the first line of the statements represents cash received during the fiscal year, rather than revenue earned.

THE NOTES TO FINANCIAL STATEMENTS

The Notes to Financial Statements provide a description of accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles of the United States that are not otherwise present in the financial statements.

FINANCIAL ANALYSIS

NCSDIA's basic financial statements are comprised of two components: 1) entity-wide financial statements, and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.
Entity-wide financial statement. The entity-wide financial statements are designed to provide readers with a broad overview of NCSDIA finances, in a manner similar to a private-sector business.

The Statement of Revenues, Expenses, and Change in Net Position presents information showing total revenue and expenses and how NCSDIA's Net Position changed during the most recent fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., claims incurred but not paid, and unrealized market gains on investments).

Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

NET POSITION

The Authority's net position at June 30, 2019 totaled $844,784 compared with $721,680 at June 30, 2018. A summary of the Authority's asset, liability and net position balances at the end of the current and prior fiscal years appears on the following chart.

Condensed Statements of Net Position
June 30, 2019, 2018, 2017

	June 30, 2019	June 30, 2018	Increase/(Decrease) 2018 to 2019	%	June 30, 2017	Increase/(Decrease) 2017 to 2018	%
Assets							
Current Assets	$3,029,838	$4,079,896	$ (1,050,058)	-25.7%	$3,570,872	$ 509,024	14.3%
Non-Current Assets	4,664,341	3,153,697	1,510,644	47.9%	3,680,141	(526,444)	-14.3%
Total Assets	7,694,179	7,233,593	460,586	6.4%	7,251,013	(17,420)	-0.2%
Deferred Outflows of Resources	75,137	87,101	(11,964)	4.6%	44,310	42,791	100.0%
Liabilities							
Current Liabilities	1,661,024	1,482,238	178,786	12.1%	1,377,660	104,578	7.6%
Noncurrent Liabilities	5,208,480	5,058,249	150,231	3.0%	5,066,000	(7,751)	-0.2%
Total Liabilities	6,869,504	6,540,487	329,017	5.0%	6,443,660	96,827	1.5%
Deferred Infolows of Resources	55,028	58,527	(3,499)	79.3%	5,320	53,207	100.0%
Total Net position	844,784	$ 721,680	$ 123,104	17.1%	$ 846,343	$ (124,663)	-14.7%

REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the Authority's revenue, Expenses and Changes in net assets appears in the table below.

Condensed Statements of Revenue, Expenses, and Changes in Net Position
Fiscal year ended June 30, 2019

	June 30, 2019	June 30, 2018	Increase/(Decrease) 2018 to 2019	%	June 30, 2017	Increase/(Decrease) 2017 to 2018	%
Operating Income							
Operating Revenues - Contr	$2,789,409	$2,628,626	$ 160,783	6.1%	$2,669,426	$ (40,800)	-1.5%
Provision for insured events	1,601,214	1,000,210	601,004	60.1%	2,026,942	(1,026,732)	-50.7%
Insurance expense	683,723	904,486	(220,763)	-24.4%	731,379	173,107	23.7%
Program and credit	73,158	160,752	(87,594)	-54.5%	52,237	108,515	207.7%
General admin services	563,011	710,618	(147,607)	-20.8%	554,564	156,054	28.1%
Operating Expenses	2,921,106	2,776,066	145,040	5.2%	3,365,122	(589,056)	-17.5%
Operating income (loss)	(131,697)	(147,440)	15,743	-10.7%	(695,696)	548,256	-78.8%
Non-operating income	254,801	22,777	232,024	1018.7%	7,944	14,833	186.7%
Increase (decrease) in net position	123,104	(124,663)	247,767	-198.7%	(687,752)	563,089	-81.9%
Net position - beginning of year	721,680	846,343	(124,663)		1,534,095	(687,752)	-44.8%
Net position - end of year	$844,784	$721,680	$123,104	17.1%	$ 846,343	(124,663)	-14.7%

Insurance Premiums. Insurance premium, both expense and income, are dependent on the cyclical nature of the insurance market. After leveling for a year or two, the market is showing signs of hardening. Claims costs directly related to medical costs and administrative costs, due to increased reporting and regulatory compliance, result in increased premium over time. The forecast for continued low return for investment of public agency reserves does little to offset these increasing costs. Rates for safety personnel continue to increase due to their special exposure. Due to the large amount of its members' payroll being made up of safety personnel, NCSDIA should expect to see excess rates continue to increase.

While total payroll for the pool increased slightly from 2017/2018 to 2018/2019, excess insurance cost decreased significantly due to the pool's increased self-insured retention as it elects to take on more of its own risk. Excess insurance cost for entities with significant safety personnel exposure has accelerated. The Authority's primary exposure is fire personnel and, therefore, will suffer from this increased cost in subsequent years.

Provision for Insured Events. The provision for insured events is 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 re-evaluated. Changes to prior year claim cost are adjusted as they occur. The provision increased significantly over the past year due the pool's increased self-insured retention. Ideally, over time, this increase will be offset by the decrease in excess insurance costs.

Budgetary Highlights. Each year the Board of Directors adopts an operating budget in June. In a comparison of the budget vs. actual, there were differences in Claims Paid, Claims Paid Recoveries and Claims Adjustment. These figures can vary widely from year to year and are difficult to estimate. However, the net claims expense was close to the budgeted amount.

Financial Summary

During the fiscal year 2018/2019, the overall financial picture of NCSDIA increased enough to offset the prior year's decrease. Increased claims expense was off-set by decreased insurance, program and admin expense and an increase in investment revenue. Adjustments to the SIR and the positive net financial outcome for 2018-19 did improve the pools confidence level to between 70% and 75% from last year's confidence level below 70%. The pool will need to closely monitor its estimated liability for unpaid claims to maintain and improve this level of funding.

Capital Assets

At June 30, 2019, the Authority had no net capital assets. With claims process being contracted externally, there is no need for NCSDIA to maintain an office and, therefore, no capital assets are required.

ECONOMIC FACTORS

INSURANCE MARKET CONDITIONS AND OUTLOOK

NCSDIA is a primary coverage Joint Powers Authority. It provides its membership with a first-dollar-coverage Workers' Compensation program. As such, NCSDIA is impacted by the insurance market on an excess and group purchase basis.

NCSDIA and its excess insurance provider, CSAC-EIA, continue to see signs of a hardening workers' compensation insurance market as it relates to safety personnel exposure. A number of items, mostly minor on their own, combine to push workers' compensation rates up. For example, auto- increases in indemnity payments were built into recent legislative reforms. Also, California's Office of Self-Insured Plans continues to increase its annual fees. In addition, medical costs continue to increase and negatively affect the costs of many claims. A larger issue for our pool is the increasing costs of workers' compensation coverage for safety personnel. Presumptives (where it is presumed, by law, that serious illnesses such as heart conditions and cancer are work related for safety personnel even after retirement) are resulting in significant increases in costs for these employee classes. Most recently, SB 542 allows for post-traumatic stress disorder to be presumed to be an occupational injury for first responders.

Many special districts in California continue to struggle financially - including the members of NCSDIA. In particular, the need to shift operating funds toward underfunded retirement systems and increasingly expensive employee benefits is putting significant pressure on many districts. These struggles could continue to negatively affect the budgets of these members including their employee counts and total payroll amounts as well as their ability to pay their contributions to the pool.

It is expected that state, federal and business partner reporting requirements will continue to increase in both the amount of data required and the complexity of the reporting requirements. This increases costs due to changes and additions of software and systems to meet these requirements as well as contractor time to manage them. In addition, these agencies are increasing the fees they charge our industry in order to finance their increased activity.

Our excess pool, CSAC-EIA, continues the phasing in of the segregation of rates for safety personnel exposures which will increase the cost of excess coverage for NCSDIA since much of its covered payroll is this type of exposure. NCSDIA recently experienced a surge in claims reserves as a handful of claims have experienced significant negative development.

NCSDIA will continue to benefit from its recent contracting out of its claims processing functions. Though the total expense will not lower significantly initially, costs can be better contained going forward and, most importantly, pension and OPEB (Other Post-Employment Benefits) liability will not steadily continue to increase at its prior rate.

The returns for safe investment vehicles continue to hold steady and make some impact in offsetting increasing costs. The Local Agency Investment Fund (LAIF) is returning over 2% and, while this return is expected to decrease slightly, it should stay well above recent year rates. Our investment advisors continue to use an aggressive investment strategy while remaining within the State guidelines and we expect to see continuing positive results from their efforts.

The State budget has recovered and revenue continues to exceed budgeted amounts. This continues to relieve some pressure on member budgets and has allowed them to restore some of their lost payroll funding. Pending significant economic downturn, public entity funding in California is stronger than it has been in some time.

NCSDIA excess costs will benefit going forward from the increase of its Self-Insured Retention (SIR) amount. By increasing its SIR from $200K to $300K for the 2018-19 year, the Authority benefited from an immediate decrease in excess insurance costs. Actuarial analysis suggested that the increased exposure to claims costs would be less than the excess savings therefore resulting in a net savings to the Authority. However, this will need to be monitored going forward to verify that the savings are not offset by increased claims costs.

At this time, due to the diligence and fiscally conservative nature of their governing boards, NCSDIA, and its excess pool, CSAC-EIA, are in solid financial condition. The increase in net assets is a hopeful indication that the pool is reversing its downward trend in funding level. The NCSDIA board and management will need to continue to be vigilant and conservative to maintain its financial health during these challenging times.

FINANCIAL STATEMENTS

NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 2,930,788	$ 2,742,343
Investments maturing within one year (Notes 3 and 4)	1,217,183	1,286,980
Receivables	55,246	29,075
Prepaid expenses	2,416	1,560
Interest receivable	41,388	19,938
Total current assets	4,247,021	4,079,896
Noncurrent assets:		
Investments with maturities in excess of one year (Notes 3 and 4)	3,447,158	3,153,697
Total assets	7,694,179	7,233,593
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources – pensions (Note 6)	75,137	87,101
LIABILITIES		
Current liabilities:		
Accounts payable	-	4,687
Unearned revenue	-	5,551
Current portion of unpaid claims and claim adjustment expenses (Note 5)	1,661,000	1,472,000
Total current liabilities	1,661,000	1,482,238
Noncurrent liabilities:		
Net pension liability (Note 6)	316,962	323,049
Unpaid claims and claim adjustment expenses (Note 5)	4,891,542	4,735,200
Total noncurrent liabilities	5,208,504	5,058,249
Total liabilities	6,869,504	6,540,487
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources – pensions (Note 6)	55,028	58,527
NET POSITION		
Unrestricted	$ 844,784	$ 721,680

See accompanying notes to financial statements.

NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Member contributions	$ 2,789,409	$ 2,628,626
Operating expenses:		
Provision for claims and claim adjustment expenses, net of recoveries ($153,776 for 2019 and $344,942 for 2018) (Note 5)	1,601,212	1,000,210
Insurance premiums	683,723	904,486
Fraud, safety and user fees	73,158	160,752
Salaries and benefits	44,029	209,980
Professional fees	234,896	222,558
Services and supplies	284,087	278,080
Total operating expenses	2,921,105	2,776,066
Operating loss	(131,696)	(147,440)
Non-operating revenue (expenses):		
Interest income	43,768	54,784
Change in fair value of investments (Note 4)	210,972	(32,082)
Other income	60	75
Total non-operating revenue	254,800	22,777
Change in net position	123,104	(124,663)
Net position, beginning of year	721,680	846,343
Net position, end of year	$ 844,784	$ 721,680

See accompanying notes to financial statements.

NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from members	$ 2,757,687	$ 2,559,519
Cash paid for claims	(1,255,870)	(937,010)
Cash paid for insurance premiums	(683,723)	(904,486)
Cash paid to vendors	(597,684)	(661,124)
Cash paid to employees for services	(41,651)	(37,515)
Net cash provided by operating activities	178,759	19,384
Cash flows from investing activities:		
Investment purchases	(2,828,244)	(2,536,696)
Investment sales	2,815,552	2,485,822
Interest received	22,318	49,304
Other income	60	75
Net cash provided by (used in) investing activities	9,686	(1,495)
Net increase in cash and cash equivalents	188,445	17,889
Cash and cash equivalents, beginning of year	2,742,343	2,724,454
Cash and cash equivalents, end of year	$ 2,930,788	$ 2,742,343
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (131,696)	$ (147,440)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in receivables	(26,171)	61,141
Increase in prepaid expenses	(856)	(1,560)
Decrease (increase) in deferred outflows of resources	11,964	(42,791)
(Decrease) increase in accounts payable	(4,687)	1,826
Decrease in unearned revenue	(5,551)	(130,248)
Increase in unpaid claims and claim adjustment expenses	345,342	63,200
(Decrease) increase in net pension liability	(6,087)	162,049
(Decrease) increase in deferred inflows of resources	(3,499)	53,207
Net cash provided by operating activities	$ 178,759	$ 19,384

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Northern California Special Districts Insurance Authority (the "Authority") is a public entity originally formed in July 1978 as the Fire District Insurance Authority of Sacramento County. The Authority was reorganized on July 1, 1986 with the same member districts pursuant to a Joint Powers Agreement (JPA) and Section 6500 of the California Government Code. The Authority provides workers' compensation self-insurance for its member districts. In accordance with the JPA, all special districts within California are eligible to participate. The program's general objectives are to formulate, develop and administer, on behalf of the member districts, a program of insurance, to obtain lower costs for that coverage and to develop a comprehensive loss control program.

Districts joining the Authority must remain members for a minimum of one year. Districts applying for membership in the Authority may do so on a majority vote of the Board of the Authority. Insurance underwriting and required premiums are established after consultation with independent actuaries. Member districts may be assessed supplemental premiums at the discretion of the Authority in the event of premium deficiencies.

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and the related liabilities are recognized when the obligation is incurred.

Excess Insurance: The Authority enters into excess insurance agreements, whereby, it cedes various amounts of risk to other insurance companies. Risks ceded to insurance companies are treated as though they were not risks for which the Authority is liable. Settlements have not exceeded insurance coverage in each of the past three years.

Excess workers' compensation policies were purchased with the following retentions:

Fiscal Years	Retention	
1978/79 – 1981/82	$	500,000
1982/83	$	300,000
1983/84 – 1984/85	$	200,000
1985/86 – 1986/87	$	250,000
1987/88	$	300,000
1988/89	$	350,000
1989/90 – 1996/97	$	375,000
1997/98	$	325,000
1998/99 – 2000/01	$	300,000
2001/02 – 2002/03	$	150,000
2003/04 – 2006/07	$	250,000
2007/08 – 2017/18	$	200,000
2018/19	$	300,000

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Investment Pools: The Authority records its investments in debt securities are measured at fair value in the statement of net position. The Authority records its investment in the Local Agency Investment Fund (LAIF) at fair value. The fair values of investment in the Local Agency Investment Fund as an external investment pool, at June 30, 2019 and 2018 approximated their carrying value and have been determined by the sponsoring government based on quoted market prices. Change in fair value is reported as non-operating revenue in the statement of revenues, expenses and change in net position.

Cash and Cash Equivalents: Cash and cash equivalents are investments, including LAIF, which are readily convertible into known amounts of cash with original maturities of less than three months.

Deferred Outflows/Inflows of Resources: In addition to assets, the statements of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The Authority has recognized a deferred outflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position.

In addition to liabilities, the statements of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The Authority has recognized a deferred inflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position.

Provision for Unpaid Claims and Claim Adjustment Expenses: The Authority establishes unpaid claims and claim adjustment expenses based on estimates of the ultimate cost of claims (including future claim adjustment expenses) 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 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 unpaid claims and claim adjustment expenses does not necessarily result in an exact amount. Unpaid claims and claim adjustment expenses are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency 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 reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to unpaid claims and claim adjustment expenses are charged or credited to expenses in the periods in which they are made. The current portion of unpaid claims and claim adjustment expenses is based on current claims information.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous 2% at 55 Risk Pool under the California Public Employees' Retirement System (CalPERS) Public Employers Retirement Fund C and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Pool. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: Member contributions are recognized as revenue when earned based upon the coverage period of the related insurance. To the extent that allocated losses exceed contributions previously paid, interest and other income, the Authority can assess its members' additional contributions. Operating revenues and expenses include all activities necessary to achieve the objectives of the Authority. Non-operating revenues include investment activity and other non-essential activity. Operating and non-operating revenues are recognized as revenue when earned.

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

Deferred Compensation Plan: The Authority offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salaries until future years. Participants can elect to contribute 25% of their annual compensation, not to exceed $18,000. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death. The plan assets are held in trust for the exclusive benefit of plan participants and their beneficiaries and, therefore are excluded from the accompanying financial statements.

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash, and cash equivalents at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash and cash equivalents:		
Cash in bank	$ 941,050	$ 1,088,666
Cash in money market	11,128	1,396,030
Local Agency Investment Fund	1,978,610	257,647
Total cash and cash equivalents	$ 2,930,788	$ 2,742,343

Custodial Credit Risk – Cash in Bank: The Authority limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2019 and 2018, the carrying amount of the Authority's accounts were $952,178 and $2,484,696 and the bank balances were $983,934 and $2,516,225, respectively, of which $722,806 and $2,266,225 was uninsured but collateralized. The carrying values and the bank balances differ due to deposits in transit and outstanding checks.

(Continued)

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Local Agency Investment Fund: Northern California Special Districts Insurance Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity and yield are not jeopardized.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

As of June 30, 2019 and 2018, the carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the relatively short maturities of these financial instruments or the associated variable rates of interest.

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value: The following table presents information about the Authority's assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	Fair Value Measurements at June 30, 2019, Using			
	Total	Level 1	Level 2	Level 3
Investment Securities:				
United States Corporate	$ 1,259,991	$ -	$ 1,259,991	$ -
United States Agency	1,935,888	-	1,935,888	-
United States Treasury	1,193,451	-	1,193,451	-
Supranational	115,101	-	115,101	-
Asset Backed Securities	159,910	-	159,910	-
Total	$ 4,664,341	$ -	$ 4,664,341	$ -

	Fair Value Measurements at June 30, 2018, Using			
	Total	Level 1	Level 2	Level 3
Investment Securities:				
United States Corporate	$ 1,237,184	$ -	$ 1,237,184	$ -
United States Agency	1,756,491	-	1,756,491	-
United States Treasury	1,185,096	-	1,185,096	-
Supranational	111,355	-	111,355	-
Asset Backed Securities	150,551	-	150,551	-
Total	$ 4,440,677	$	$ 4,440,677	$ -

Fair value for these investment securities was provided by a third party pricing source which generally uses models or matrices to price these type of investments. The significant inputs used to determine valuation for these types of assets, listed in approximate order of priority for use when available, include benchmark yields, reported trades, broker/dealer quotes, issuer spreads and reference data including market research publications.

NOTE 4 – INVESTMENTS

Realized and Unrealized Gains and Losses: The Authority had realized gains on investments sold of $87,566 and unrealized gains on investments held of $136,098 for a total increase in fair value of investments for the year ended June 30, 2019 of $210,972. The Authority had realized gains on investments sold of $27,231 and unrealized losses on investments held of $59,313 for a total decrease in fair value of investments for the year ended June 30, 2018 of $32,082. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods.

(Continued)

NOTE 4 – INVESTMENTS (Continued)

Investment Interest Rate Risk: The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair losses arising from increasing interest rates. Maturities of investments held at June 30, consist of the following:

Maturities of investments held at June 30, 2019 consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year through Five Years
Investment maturities:			
United States Corporate	$ 1,259,991	$ 454,113	$ 805,878
United States Agency	1,935,888	638,193	1,297,695
United States Treasury	1,193,451	124,372	1,069,079
Supranational	115,101	-	115,101
Asset Back Securities	159,910	505	159,405
Total investments	$ 4,664,341	$ 1,217,183	$ 3,447,158

Maturities of investments held at June 30, 2018 consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year through Five Years
Investment maturities:			
United States Corporate	$ 1,237,184	$ 333,780	$ 903,404
United States Agency	1,756,491	705,697	1,050,794
United States Treasury	1,185,096	243,671	941,425
Supranational	111,355	-	111,355
Asset Back Securities	150,551	3,832	146,719
Total investments	$ 4,440,677	$ 1,286,980	$ 3,153,697

Investment Credit Risk: The Authority's investment policy limits monies invested to those not required for the immediate operations of the Authority, in compliance with Section 6509.5 of the California Government Code, in such securities as allowed by Article 1 of Chapter 4 of Part 1 of Division 2 of that code. The policy limits investment choices to obligations of the United States Treasury, its agencies and instrumentalities, corporate medium-term notes, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances and repurchase agreements. At June 30, 2019 and 2018, all investments represented governmental securities which were issued, registered and held by the Authority's agent in the Authority's name.

(Continued)

NOTE 4 – INVESTMENTS (Continued)

Concentration of Investment Credit Risk: The Authority does not place limits on the amount it may invest in any one issuer. At June 30, 2019, the Authority had the following investments that represent more than 5% of the Authority's net investments:

	2019	2018
US Treasury	26%	27%
Federal Home Loan Bank	20%	14%
Federal National Mortgage Association	9%	13%
Federal Farm Credit Bank	8%	6%
Federal Home Loan Mortgage Corp	4%	6%

NOTE 5 – UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

As discussed in Note 1, the Authority establishes a liability for both reported and unreported insured events. The following represented changes in aggregate liabilities during the years ended June 30, 2019 and 2018:

	2019	2018
Unpaid claims and claim adjustment expenses at beginning of the year	$ 6,207,200	$ 6,144,000
Incurred claims and claim adjustment expenses:		
Provisions for covered events of the current year	1,510,537	1,285,895
Change in provision for covered events of prior years	90,675	(285,685)
Total incurred claims and claim adjustment expenses	1,601,212	1,000,210
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	150,487	213,609
Claims and claim adjustment expenses attributable to covered events of prior years	1,105,383	723,401
Total payments	1,255,870	937,010
Unpaid claims and claim adjustment expenses at end of the year	$ 6,552,542	$ 6,207,200

(Continued)

NOTE 5 – UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES (Continued)

The components of the unpaid claims and claim adjustment expenses as of June 30, 2019 and 2018 were as follows:

	2018	2017
Reported claims	$ 4,149,596	$ 4,163,702
Claims incurred but not reported	1,443,374	1,060,141
Unallocated loss adjustment expenses (ULAE)	959,572	983,357
	6,552,542	6,207,200
Less current portion	(1,661,000)	(1,472,000)
	$ 4,891,542	$ 4,735,200

At June 30, 2019 and 2018, the liability was reported at the present value using an expected future investment yield assumption of 2.5% and 2.5%, respectively. The undiscounted liability was $7,110,925 and $6,743,524 at June 30, 2019 and 2018, respectively.

NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND

General Information about the Public Employer's Retirement Fund

Plan Description: The Authority contributes to the Miscellaneous 2% at 55 Risk Pool under the California Public Employees' Retirement System (CalPERS) California Employer's Retirement Fund C (PERF C), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2018.pdf.

Benefits Provided: The benefits for the defined benefit plans are based on plan members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible plan members or beneficiaries. Plan members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from plan members and employers, and earnings from investments. Plan member and employer contributions are a percentage of applicable plan member compensation. Plan member contribution rates are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the Pool, are credited with a market value adjustment in determining contribution rates.

(Continued)

NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND (Continued)

Required contribution rates for active plan members and employers as a percentage of payroll were as follows:

Plan Members – The plan member contribution rate was 7.00% of applicable plan member earnings for fiscal years 2017-18 and 2018-19.

Employers – The employer contribution rate was 8.892% and 8.418% of applicable plan member earnings for the years ended June 30, 2019 and 2018, respectively.

The Authority's contribution to CalPERS for the fiscal years ending June 30, 2019, 2018 and 2017, were $16,650, $12,694, and $8,178, respectively, and equal 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Authority reported a liability of $316,962 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The JPA's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating agencies. At June 30, 2018, the Authority's proportion was 0.003%, which was no change from its proportion measured as of June 30, 2017.

At June 30, 2018, the Authority reported a liability of $323,049 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The JPA's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating agencies. At June 30, 2017, the Authority's proportion was 0.003%, which was a decrease of 0.002% from its proportion measured as of June 30, 2016.

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense of $19,029 and $185,512. At June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 12,161	$ 4,138
Changes of assumptions	36,135	8,856
Net differences between projected and actual earnings on investments	1,567	-
Differences between JPA contributions and proportionate share of contributions	-	38,032
Changes in proportion	8,624	4,002
Contributions made subsequent to measurement date	16,650	-
Total	$ 75,137	$ 55,028

(Continued)

NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND (Continued)

$16,650 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30,		
2020	$	14,228
2021	$	5,908
2022	$	(13,826)
2023	$	(2,851)

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 455	$ 6,513
Changes of assumptions	56,408	4,301
Net differences between projected and actual earnings on investments	12,757	-
Differences between JPA contributions and proportionate share of contributions	-	33,359
Changes in proportion	4,787	14,354
Contributions made subsequent to measurement date	12,694	-
Total	$ 87,101	$ 58,527

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is four years as of the June 30, 2018 and 2017 measurement dates. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments, changes in assumptions and changes in proportion are netted and amortized over a closed five-year period.

(Continued)

NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND (Continued)

Actuarial methods and assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	1997 to 2015
Actuarial Cost Method	Varies by entry age and service
Investment Rate of Return	7.15%
Consumer Price Inflation	2.50%
Wage Growth	3.00%
Post-retirement Benefit Increases	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power

The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. For more details on this table, please refer to the 2015 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Long-Term % Assumed Asset Allocation	Expected Real Rate of Return Years 1-10**	Expected Real Rate of Return Years 11+***
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00	1.00	2.62
Inflation Assets	0.00	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Estate	13.00	3.75	4.93
Liquidity	1.00	-	(0.92)

** An expected inflation of 2.00% used for this period.
*** An expected inflation of 2.92% used for this period.

NOTE 6 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND (Continued)

Discount rate: At June 30, 2019 and 2018, the discount rate used to measure the total pension liability was 7.15 and 7.15 percent, respectively. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS' website.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: For the year ended June 30, 2019 and 2018, the following presents the JPA's proportionate share of the net pension liability calculated using the discount rate of 7.15 and 7.15 percent, respectively, as well as what the JPA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	2019		
	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Authority's proportionate share of the net pension liability	$ 510,721	$ 316,962	$ 157,018

	2018		
	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Authority's proportionate share of the net pension liability	$ 508,985	$ 323,049	$ 169,054

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2019 and 2018

	2019	2018
Unpaid claims and claim adjustment expenses at beginning of the year	$ 6,207,200	$ 6,144,000
Incurred claims and claim adjustment expenses:		
Provisions for covered events of the current year	1,510,537	1,285,895
Change in provision for covered events of prior years	90,675	(285,685)
Total incurred claims and claim adjustment expenses	1,601,212	1,000,210
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	150,487	213,609
Claims and claim adjustment expenses attributable to covered events of prior years	1,105,383	723,401
Total payments	1,255,870	937,010
Unpaid claims and claim adjustment expenses at end of the year	$ 6,552,542	$ 6,207,200

See accompanying note to Required Supplemental Information.

The table that follows illustrates how the Authority's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each previous ten years. The rows of the table are defined as follows:

1. Total of each fiscal years' gross earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. Each fiscal years' other operating costs of the Authority including overhead and loss adjustment expenses not allocable to individual claims.

3. Gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. Cumulative net amounts paid as of the end of successive years for each policy year.

5. The latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

6. Each policy year's net incurred claims increase or decrease as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.

7. Compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive policy years.

(Continued)

NORTHERN CALIFORNIA SPECIAL DISTRICTS INSURANCE AUTHORITY
WORKERS' COMPENSATION
CLAIMS DEVELOPMENT INFORMATION
June 30, 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1) Required contribution and investment revenue:										
Earned	$ 1,928,591	$ 2,017,734	$ 1,988,377	$ 2,777,158	$ 2,157,338	$ 2,463,717	$ 2,721,230	$ 2,599,783	$ 2,651,403	$ 3,044,209
Ceded	(289,134)	(278,462)	(356,318)	(362,228)	(472,008)	(561,322)	(716,111)	(731,379)	(904,486)	(683,723)
Net earned	$ 1,639,457	$ 1,739,272	$ 1,632,059	$ 2,414,930	$ 1,685,330	$ 1,902,395	$ 2,005,119	$ 1,868,404	$ 1,746,917	$ 2,360,486
(2) Unallocated expenses	$ 507,172	$ 422,668	$ 454,346	$ 586,918	$ 506,618	$ 540,141	$ 445,786	$ 963,201	$ 898,727	$ 825,194
(3) Estimated claims and expense end of policy year:										
Incurred	$ 803,979	$ 944,986	$ 766,875	$ 932,211	$ 956,875	$ 966,062	$ 928,526	$ 1,199,081	$ 1,116,426	$ 1,312,228
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 803,979	$ 944,986	$ 766,875	$ 932,211	$ 956,875	$ 966,062	$ 928,526	$ 1,199,081	$ 1,116,426	$ 1,312,228
(4) Net paid (cumulative) as of:										
End of policy year	$ 164,643	$ 266,401	$ 182,600	$ 411,588	$ 142,731	$ 89,511	$ 85,223	$ 139,351	$ 213,609	$ 150,487
One year later	$ 470,401	$ 363,344	$ 575,945	$ 544,632	$ 372,799	$ 291,768	$ 247,123	$ 364,774	$ 463,583	
Two years later	$ 656,940	$ 432,865	$ 507,784	$ 686,533	$ 543,864	$ 353,119	$ 302,567	$ 362,806		
Three years later	$ 773,815	$ 463,061	$ 610,451	$ 747,810	$ 635,720	$ 428,711	$ 583,107			
Four years later	$ 844,222	$ 471,517	$ 592,760	$ 831,247	$ 727,934	$ 545,962				
Five years later	$ 967,643	$ 489,349	$ 601,023	$ 893,950	$ 801,780					
Six years later	$ 912,977	$ 520,527	$ 664,596	$ 912,813						
Seven years later	$ 963,576	$ 554,492	$ 687,984							
Eight years later	$ 950,101	$ 608,829								
Nine years later	$ 991,753									
(5) Reestimated ceded claims and expenses	$ -	$ -	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(6) Reestimated net incurred claims and expenses:,										
End of policy year	$ 803,979	$ 944,986	$ 766,875	$ 932,211	$ 956,875	$ 966,062	$ 928,526	$ 1,199,081	$ 1,116,426	$ 1,312,228
One year later	$ 1,031,357	$ 856,182	$ 855,296	$ 1,225,002	$ 881,359	$ 803,878	$ 763,323	$ 1,113,732	$ 1,423,227	
Two years later	$ 1,115,702	$ 879,839	$ 876,532	$ 1,184,844	$ 1,004,825	$ 717,600	$ 800,309	$ 1,010,895		
Three years later	$ 1,119,936	$ 693,255	$ 874,421	$ 1,308,879	$ 1,142,301	$ 763,178	$ 961,870			
Four years later	$ 1,108,978	$ 658,518	$ 808,475	$ 1,114,162	$ 1,101,267	$ 808,797				
Five years later	$ 1,104,902	$ 605,615	$ 814,012	$ 1,101,403	$ 1,181,228					
Six years later	$ 979,939	$ 824,016	$ 765,085	$ 1,105,943						
Seven years later	$ 1,065,528	$ 836,501	$ 772,021							
Eight years later	$ 1,052,591	$ 902,084								
Nine years later	$ 1,079,499									
(7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ 275,520	$ (42,902)	$ 5,146	$ 173,732	$ 224,353	$ (157,265)	$ 33,344	$ (188,186)	$ 306,801	$ -

See accompanying note to Required Supplemental Information.

Public Employer's Retirement Fund C
Last 10 Fiscal Years

	2015	2016	2017	2018	2019
Authority's proportion of the net pension liability	0.008%	0.005%	0.005%	0.003%	0.003%
Authority's proportionate share of the net pension liability	$ 189,823	$ 121,017	$ 161,000	$ 323,049	$ 316,962
Authority's covered payroll	$ 132,000	$ 131,000	$ 185,021	$ 125,000	$ 150,760
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	143.81%	92.38%	87.02%	258.44%	210.06%
Plan fiduciary net position as a percentage of the total Pension liability	79.89%	81.13%	78.61%	75.40%	77.69%

The amounts presented for each fiscal year were determined as of year-end that occurred one year prior.

All years prior to 2015 are not available.

SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
For the Year Ended June 30, 2019

Public Employer's Retirement Fund C
Last 10 Fiscal Years

	2015	2016	2017	2018	2019
Contractually required contribution	$ 14,529	$ 15,749	$ 8,178	$ 12,694	$ 16,650
Contributions in relation to the contractually required contribution	(14,529)	(15,749)	(8,178)	(12,694)	(16,650)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 131,000	$ 185,021	$ 125,000	$ 150,760	$ 187,247
Contributions as a percentage of covered payroll	11.09%	8.51%	6.55%	8.42%	8.89%

All years prior to 2015 are not available.

See accompanying note to Required Supplemental Information.

Schedule of the Authority's Proportionate Share of the Net Pension Liability: The Schedule of the Authority's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the Authority's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of the Authority's Contributions: The Schedule of the Authority's Contributions is presented to illustrate the Authority's required contributions relating to the pension. There is a requirement to show information for 10 years. However, until a full 10- year trend is compiled, governments should present information for those years for which information is available.

Changes of Benefit Terms: There are no changes in benefit terms reported in the Required Supplementary Information.

Changes of Assumptions: The discount rate for Public Employer's Retirement Fund C was 7.50 7.65, 7.65, 7.15 and 7.15 percent in the June 2013, 2014, 2015, 2016 and 2017 actuarial reports, respectively.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors and Members
Northern California Special Districts
Insurance Authority
Elk Grove, California

We have audited, in accordance with the 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, the financial statements of Northern California Special Districts Insurance Authority which comprise the statement of net position as of June 30, 2019, and the related statement of revenues, expenses and change in net position, and statement of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern California Special Districts Insurance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern California Special Districts Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern California Special Districts Insurance Authority's internal controls.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Sacramento, California
January 27, 2020