SANDPIPA

San Diego Pooled Insurance Program Authority
c/o Alliant Insurance Services, Inc.
2180 Harvard Street STE 460, Sacramento, CA 95815
Corporation Insurance License No. 0C36861

SPECIAL BOARD OF DIRECTORS AGENDA

LEGEND: A - Action may be taken
I - Information
1 - Included
2 - Handout
3 - Separate
4 - Verbal

JPA: **SPECIAL BOARD OF DIRECTORS TELECONFERNECE MEETING**

DATE: Wednesday, December 21, 2016
TIME: 1:30 PM
MEETING LOCATION: TELECONFERENCE

1. 276 Fourth Ave, Chula Vista, CA, 91910
2. 1825 Strand Way, Coronado, CA, 92118
3. 1050 Camino Del Mar, Del Mar, CA, 92014
4. 505 S. Vulcan Ave, Encinitas, CA, 92024
5. 201 N. Broadway, Escondido, CA, 92025
6. 825 Imperial Beach Blvd, Imperial Beach, CA, 91932
7. 3232 Main Street, Lemon Grove, CA, 91945
8. 1243 National City Blvd, National City, CA, 91950
9. 300 N. Coast Highway, Oceanside, CA, 92054
10. 10601 Magnolia Ave, Santee, CA, 92071
11. 635 S. Highway 101, Solana Beach, CA, 92075
12. 200 Civic Center Drive, Vista, CA, 92084

Per Government Code section 54954.2, persons requesting disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, are requested to contact Michelle Minnick at (916) 643-2715, 24 hours in advance of the meeting. Access to some buildings may require routine provision of identification to building security. However, SANDPIPA does not require any member of the public to register his or her name, or to provide other information, as a condition to attendance at any public meeting and will not inquire of building security concerning information so provided. See Government Code section 54953.3.

PAGE

A. CALL TO ORDER

B. ROLL CALL

C. PUBLIC COMMENT
This time is reserved for members of the public to address the Board of Directors on matters of SANDPIPA that are of interest to them.

D. FINANCIAL REPORT

Pg. 2 *1* **1.** FY 2015/16 Financial Audit (*Draft*) (A)
The Board of Directors will review the FY 2015/16 program year audit and may take action to approve and file or give direction.

E. CLAIMS COMMITTEE BUSINESS (A)

a) CLOSED SESSION - Pursuant to Government Code 54956.95
Members will review the following Closed Session Items
i) Flores v. National City

UPCOMING MEETINGS –
Claims Committee Meeting – January 12, 2017 9:30 am
Executive Committee Meeting – January 12, 2017 at 11:00 am

F. ADJOURNMENT (A)

SANDPIPA

San Diego Pooled Insurance Program Authority
2180 Harvard Street, STE 460
Sacramento, CA 95815
(916) 643-2700

Item No. D.1.
Special Board of Directors
December 21, 2016

FY 2015/16 FINANCIAL AUDIT (*DRAFT*)

ACTION ITEM

ISSUE: SANDPIPA's annual financial audit was recently completed by the accounting firm of Davis Farr. The Board of Directors will be presented with the year ended June 30, 2016 Financial Audit findings.

RECOMMENDATION: Review, accept and file the FY 15/16 Financial Audit as presented or modified.

FINANCIAL IMPACT: None.

BACKGROUND: SANDPIPA is required to have a financial audit conducted annually. The audit is filed with the California State Controller's Office and the County in which its primary office is located.

ATTACHMENT: *Draft* Audited Financial Report for Fiscal Year Ended June 30, 2016

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Financial Statements

Year Ended June 30, 2016

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Financial Statements

Year Ended June 30, 2016

Table of Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	12
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	15
Required Supplementary Information:	
Claims Development Information	33
Pension Liability Information	35
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performied in Accordance with *Government Auditing Standards*	37

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Pooled Insurance Program Authority
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Pooled Insurance Program Authority (the "Authority"), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9 to the financial statements, the Authority's Board voted to accept and file each members' City Council resolutions approving the termination of the Authority. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the financial statements of the Authority as of and for the year ended June 30, 2015 and expressed an unmodified opinion on those statements in our report dated October 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ____________, 2016 on our consideration of the 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 the Authority's internal control over financial reporting and compliance.

Irvine, California
_______________, 2016

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Management's Discussion and Analysis

June 30, 2016 and 2015

The following report reflects the financial condition of the San Diego Pooled Insurance Program Authority (SANDPIPA) for the fiscal years ended June 30, 2016 and 2015. It is being provided for the purpose of enhancing the information in the financial audit, and should be reviewed in concert with that report.

Financial Highlights

- Total operating revenue for the year ended June 30, 2015 was $8,809,992 an increase of $451,498 compared to the year ended June 30, 2014 of $8,358,494. Operating revenue for the year ended June 30, 2013 was $8,323,767.

- Total non-operating revenues were $319,258 for the year ended June 30, 2015, a decrease of 20% from the year ended June 30, 2014 of $398,051. Non-operating revenues in 2013 were $20,354. These changes were due to recorded changes in investment income, and to changes in the fair market value of investments held by SANDPIPA at the close of each fiscal year.

- Total expenses were $7,306,042 for the year ended June 30, 2015, an increase of 5% from $6,976,333 for the year ended June 30, 2014. Total expenses for the year ended June 30, 2013 were $8,421,967. The change in 2015 is due primarily to an increase in Dividends Expense. The rest of the changes from one year to the next are due to the increase/decrease in claim activity and the cost of insurance.

- Outstanding claim liabilities for the program decreased $1,116,755 from $6,987,270 at June 30, 2014 to $5,870,515 at the close of this fiscal year. This decrease was primarily due to a lower actuarial projection of ultimate losses for the current year along with increased claim payments.

- Total net position at June 30, 2014 was restated to $22,808,783 due to the implementation of GASB 68. At June 30, 2015 there was an increase in the net position of $1,823,208, or 8%, to $24,631,991.

- Total assets increased $815,310 from $30,725,184 as of June 30, 2014, to $31,540,494 on June 30, 2015.

- With the implementation of GASB 68 for the year ended June 30, 2015, the Statements of Net Position include pension-related Deferred Outflow of Resources of $35,563, Deferred Inflow of Resources of $71,500, and a Net Pension Liability of $325,778 as of June 30, 2015.

Description of the Basic Financial Statements

SANDPIPA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and they necessarily include amounts based upon reliable estimates and judgments. Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows are included along with Notes to Financial Statements, in order to clarify unique accounting policies and financial information.

The *Statements of Net Position* provides a "snapshot" at June 30 of information on all SANDPIPA program assets, deferred outflows of resources, liabilities, deferred inflows of resources, and ending net position. Net Position may be an indicator of the overall pool financial changes across years.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information for the activities of the fiscal year, showing total revenues less total expenses, and the resulting effect on net position.

The *Statements of Cash Flows* presents information about the cash receipts and cash payments during the fiscal year and reconciles operating income to operating cash flows.

The financial statements are provided along with supplementary information. The assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues, and expenses are reported on a full accrual basis. At June 30, 2015, SANDPIPA implemented the accounting provisions of GASB 68. Accordingly, a net pension liability is now reflected on SANDPIPA's financial statements.

Davis Farr LLP, has performed an independent audit examination of our financial statements in accordance with generally accepted auditing standards. This firm's opinion is included in the Financial Section of this report. This report also includes information from SANDPIPA's previous audit, which was performed for the fiscal year ended June 30, 2015 by Davis Farr LLP.

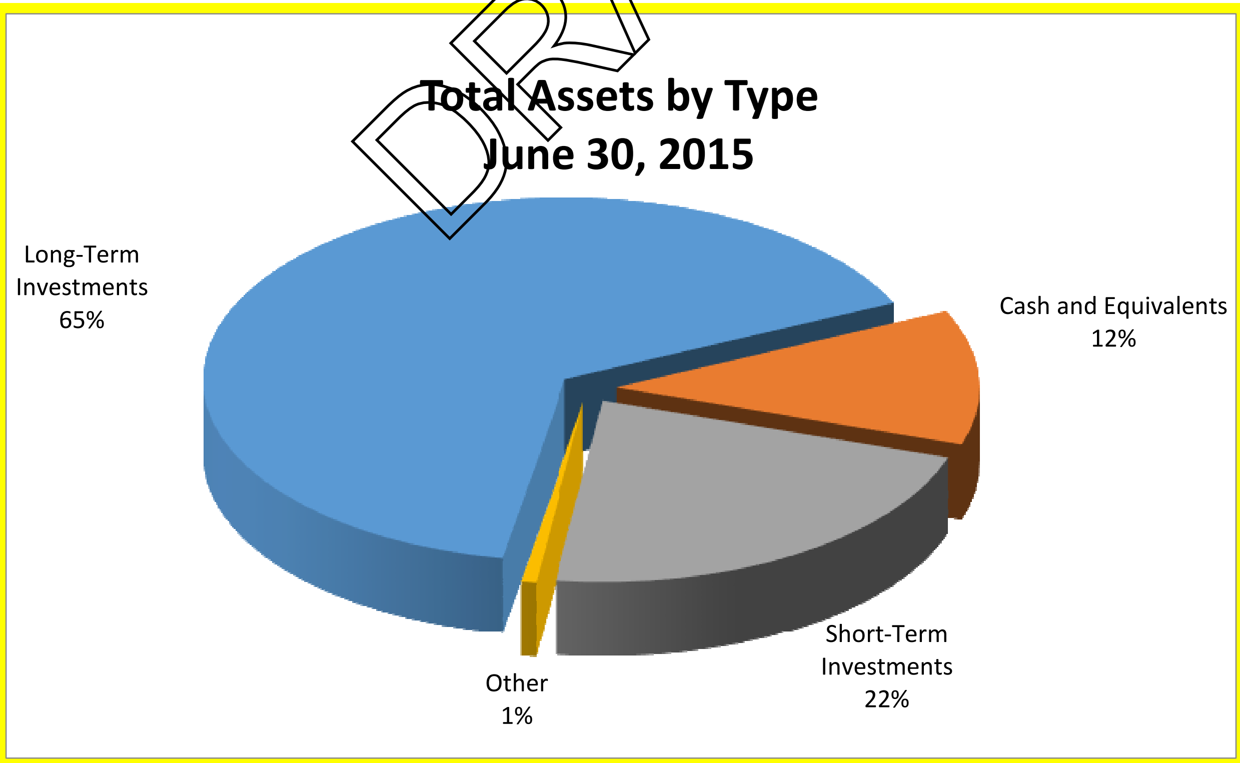
SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Management's Discussion and Analysis

(Continued)

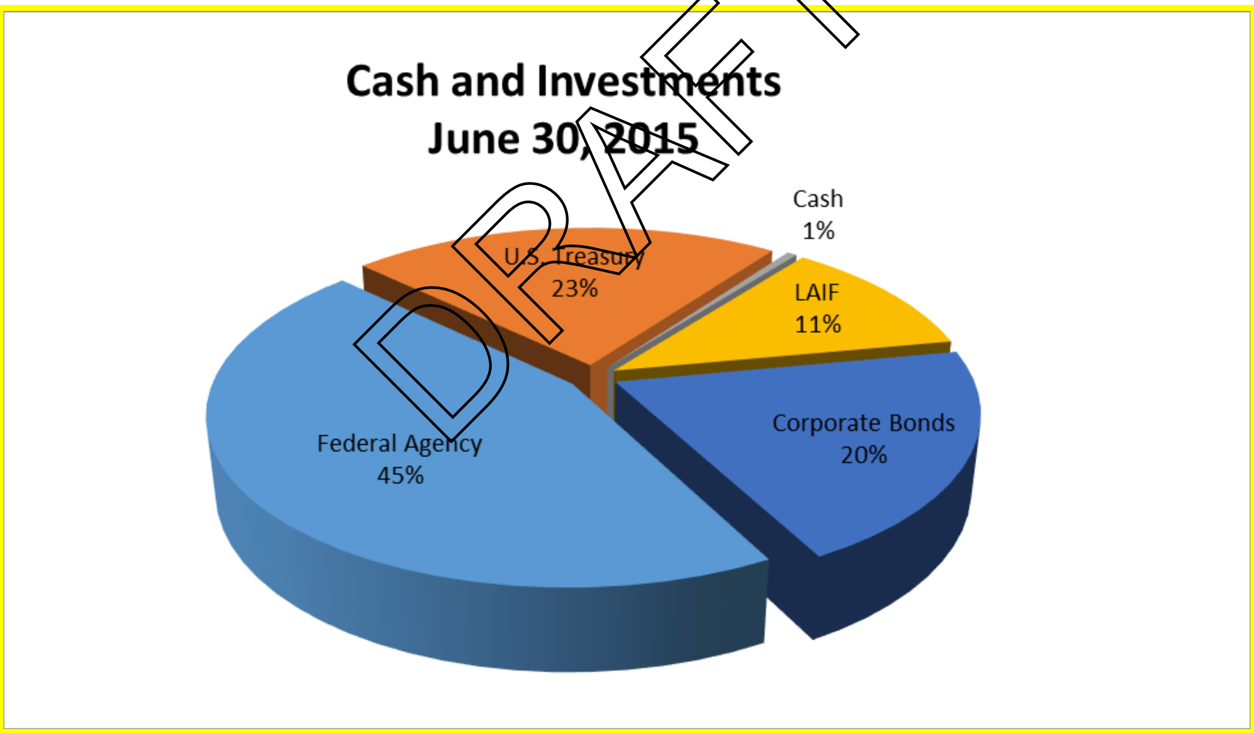
Pool Financial Analysis
San Diego Pooled Insurance Program Authority

	June 30, 2016	June 30, 2015	June 30, 2014
Current Assets	$ -	$ 10,934,542	$ 7,537,415
Noncurrent Assets	-	20,605,952	23,187,769
Total Assets	$ -	$ 31,540,494	$ 30,725,184
Deferred Outflows	$ -	$ 35,563	$ -
Current Liabilities	$ -	$ 2,437,698	$ 2,601,979
Noncurrent Liabilities	-	4,434,868	4,948,236
Total Liabilities	$ -	$ 6,872,566	$ 7,550,215
Deferred Inflows	$ -	$ 71,500	$ -
Net Position	$ -	$ 24,631,991	$ 23,174,969



Investment revenues are used to offset program costs and reduce the required member contributions. The overall cash and investments of the pool, increased in 2014-15 from $30,443,655 as of June 30, 2014 to $31,327,779 as of June 30, 2015. SANDPIPA invests those funds not immediately necessary for the payment of claims to optimize the rate of return. Funds are invested in a manner that will protect principal, allow for cash flow needs, and optimize returns, and that is in conformity with all federal, state, and local statutes governing such investment of public funds. Those assets needed for current operations are maintained in the Local Agency Investment Fund (LAIF) in Sacramento, which is administered by the California State Treasurer's Office.

The investment market has continued to deteriorate this past year. For example, the LAIF fund yielded 0.22% for the quarter ended June 30, 2014 and 0.22% for the quarter ended June 30, 2015. The ability of these funds to earn investment income has a direct effect on program rates, as this income is used to fund future liabilities. When investments fall short of projections, additional funding may be required to meet actuarial estimates.



Pool Liabilities

Total current liabilities decreased from $2,601,979 at June 30, 2014 to $2,437,698 at June 30, 2015. As a result of the implementation of GASB 68, noncurrent liabilities at June 30, 2015 include $325,778 of Net Pension liability.

Within the Administrative budget of SANDPIPA the pool maintains an annual training and loss control budget. This budget is used for chemical inventory management, safety training, attendance at risk management conferences and seminars, and training on a variety of safety topics provided by the Pacific Safety Council and other safety training consultants.

Revenues and Expenses

Pool operating revenues consist of contributions received from members. These revenues increased from $8,358,494 for the year ended June 30, 2014 to $8,809,992 for the year ended June 30, 2015. Total operating revenues exceeded total operating expenses by $1,503,950 in 2015 and $1,382,161 in 2014.

Statements of Revenue, Expenses, and Changes in Net Position

	June 30, 2016	June 30, 2015	% Change	June 30, 2014	% Change
Operating Revenues	$ -	$ 8,809,992	5%	$ 8,358,494	0%
Provision for Claims	$ -	$ 198,206	-49%	$ 388,658	-82%
Insurance Premiums	-	3,580,467	3%	3,476,122	10%
Dividends	-	1,918,742	30%	1,473,689	-9%
Administration	-	1,608,627	-2%	1,637,864	8%
Total Expenses	$ -	$ 7,306,042	5%	$ 6,976,333	-17%
Non-operating Income:					
Interest Income	-	$ 364,801	-17%	$ 440,263	-27%
Change in Fair Value	-	(45,543)	8%	(580,206)	-93%
Total Non-operating Income	-	$ 319,258	-20%	$ 398,051	1856%
Change in Net Position	-	$ 1,823,208	2%	$ 1,780,212	-2387%
Beginning Net Position, restated	-	22,808,783	7%	21,394,757	0%
Ending Net Position	$ -	$24,631,991	6%	$23,174,969	8%

Non-operating income decreased from $398,051 in 2014 to $319,258 in 2015. The decrease is due to a continued reduction in interest income.

Operating expenses, including the provision for insured events, increased from $6,976,333 in 2014 to $7,306,042 in 2015. This increase was due mainly to an increase in the amount of dividends declared and paid to the membership, netted against a decrease in the provision for claims.

Insurance Expense

SANDPIPA operates in an environment that is partially dependent on the insurance market. Historically, the insurance market has operated in 3-7 year cycles in which rates will swing from the very high to the very low and back again. Beginning in 1987 however, the insurance marketplace experienced a longer-than-usual "soft" cycle, and the market did not harden until the year 2002. Although a change to a hard market was being predicted in 2001, it was the events of September 11, 2001 that pushed the market to change. The renewals for 2003/04 were difficult due to decreased capacity, increased exposure to terrorism, poor investment results, and a general wariness on the part of insurers, resulting in rate increases and significant limitations to coverage, such as margin clauses and sublimits for particular exposures. This market has held relatively stable until 2007-2008, then prices increased steadily year over year due to the lack of return on investment.

Provision for Insured Events

SANDPIPA contracts with AON to provide an annual actuarial valuation of the liability claims program. This report is used to project liabilities for future years, and to evaluate the adequacy of funding levels for current and prior year liabilities. Historically, SANDPIPA has operated on a "claims made" basis, whereby coverage exists only if claims are reported to SANDPIPA during the policy period.

Member Dividends

SANDPIPA adjusts for over or underfunding levels, primarily through decreasing or increasing annual premiums. In the event of a cash "retro-return" of premium (due to over-funding of the Memorandum of Coverage), the calculation and allocation of such return is to be made in the fall of each year. The Board reviews SANDPIPA's funding level as of the previous June 30, the close of the fiscal year, to determine the excess dollar amount (surplus) above the Board-approved funding. The Board-approved funding is the sum of:

1. Funding the Risk Sharing Layer
2. Cost of Excess or Reinsurance
3. Administration Expenses

SANDPIPA's surplus portion of member contributions that may be made available for distribution to the members as a retro return shall be subject to Board approval. A minimum of twenty-five percent (25%) of this declared surplus can be returned to members according to the distribution formula applicable to each member outlined below. The distribution formula applicable to each member is the total of each member's net contributions for all of its years of membership, divided by all members' net contributions (i.e. total contributions made to SANDPIPA since its inception less total paid losses and administrative expenses). This calculation produces a percentage that is applied to the total surplus that the Board determines is eligible for distribution. The retro return is calculated based on June 30 audited financial statements. Each member's "net contributions" means the member's gross contribution less its loss experience, administrative fees, and any uncollected assessments for the years of its membership. Administrative expenses are reduced by investment income for the corresponding period or periods, but in no event is that number to be less than zero. Investment income is not otherwise factored into any member's net contribution.

No retro-return is required to be made. Over-funding will generally be neutralized by reduced premiums, from which withdrawn member agencies will not benefit. However, this possibility is offset by the risk of increased premiums in subsequent insurance years to make up for under-funding, for which a withdrawn member agency will not be responsible. A withdrawn member will participate in the available assets of SANDPIPA upon its dissolution.

General Administration Fund

For 2015, general administration expenses represent just 6% of the overall pool expenses. This figure includes general management, administrative and finance expenses, support and services, including the costs of the SANDPIPA Board of Directors and Executive Committee meetings.

Loss Control / Risk Management Services

The Loss Control budget provides safety and risk training, on-line chemical inventory services, and support to members in the liability program with the goal of reducing loss frequency and severity. SANDPIPA works closely with each of our member cities to implement programs that help them keep down the cost of coverage. These services range from contract review to training services. Some of the training provided in fiscal year 2014-15 includes members becoming Certified Occupational Safety Specialists, taking traffic control & flagger safety courses, safety video rental and presentation of various on-site safety meeting topics.

Required Supplementary Information

Following the basic financial statements is the required supplementary information, which provides Claims Development Information for SANDPIPA's Liability Program.

Cost Containment

SANDPIPA has made a great effort to manage the cost of its claims through the implementation of creative and innovative programs. When a claim has the potential to reach the SANDPIPA coverage layer, it is reviewed by the Claims Committee. Members benefit from their collective claims expertise, specialized legal consultation, and a collaborative claims process. Additionally

SANDPIPA's General Manager and Claims Manager attend specialized training developed to keep the Board current with changing legal trends and current risk transfer techniques.

Financial Management and Control

SANDPIPA's General Manager 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 are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles. Further oversight is provided by the SANDPIPA Treasurer and Investment Committee, and by the annual review conducted by the Financial Auditor.

Description of Facts or Conditions that are Expected to Have a Significant Effect on Financial Position or Results of Operations

At a Special Board meeting held on March 26, 2015, the Board voted unanimously to group purchase excess liability coverage from CSAC-EIA for the 2015/16 program year with coverage from the members self-insured retention to a $50,000,000 coverage limit, and to approve a resolution to effectuate dissolution of the joint powers authority. At its regularly scheduled June 26, 2015 Board meeting the Board accepted and filed an executed resolution from each of the twelve members. An Extended Reporting Period Endorsement was adopted at this meeting for addition to the 2014/15 Memorandum of Coverage. This endorsement provides for a three-year extended reporting period for all claims incurred prior to July 1, 2015. The three-year extended reporting period was actuarially estimated to have a “tail liability” of $2,829,680.

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Statement of Net Position

June 30, 2016
(with Comparative Information for the Prior Year)

	2016	2015
ASSETS		
Current assets:		
Cash and investments maturing within one year (note 3)	$ 13,895,076	10,721,827
Interest receivable	76,208	78,769
Prepaid expenses	66,042	133,946
Total current assets	14,037,326	10,934,542
Noncurrent assets:		
Investments less portion maturing within one year (note 3)	13,228,837	20,605,952
Total assets	27,266,163	31,540,494
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - contributions (note 7)	46,558	35,563
LIABILITIES		
Current liabilities:		
Accounts payable	180,846	31,029
Dividends payable	-	561,333
Unearned revenue	84,043	83,911
Current portion of unpaid claims and claim adjustment expenses (note 5)	956,409	1,761,425
Total current liabilities	1,221,298	2,437,698
Noncurrent Liabilities:		
Net pension liability (note 7)	352,577	325,778
Unpaid claims and claim adjustment expenses (note 5)	5,957,834	4,109,090
Total noncurrent liabilities	6,310,411	4,434,868
Total liabilities	7,531,709	6,872,566
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - actuarial (note 7)	24,267	71,500
NET POSITION		
Net position - unrestricted	$ 19,756,745	24,631,991

See accompanying notes to financial statements.

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016
(with Comparative Information for the Prior Year)

	2016	2015
Operating revenues:		
Deposit premiums	$ 6,940,872	8,809,992
Operating expenses:		
Provision for claims and claim adjustment expenses (note 5)	2,017,860	198,206
Insurance premiums	5,288,120	3,580,467
Dividends	3,183,550	1,918,742
Claims/general manager	125,855	209,278
Claims administration - workers' compensation	1,006,868	987,125
Loss control	243,980	207,055
Legal and professional	232,670	169,926
Other	28,295	35,243
Total operating expenses	12,127,198	7,306,042
Operating income	(5,186,326)	1,503,950
Non-operating revenues:		
Investment income	307,834	364,801
Net change in fair value of investments	2,702	(45,543)
Gain on sale of fixed assets	544	-
Total non-operating revenues	311,080	319,258
Change in net position	(4,875,246)	1,823,208
Net position at beginning of year, as restated (note 10)	24,631,991	22,808,783
Net position at end of year	$ 19,756,745	24,631,991

See accompanying notes to financial statements.

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Statements of Cash Flows

Year Ended June 30, 2016
(with Comparative Information for the Prior Year)

	2016	2015
Cash flows from operating activities:		
Receipts from from members	$ 6,941,004	8,787,264
Payments for insurance premiums	(5,279,249)	(3,534,172)
Payments for claims	(974,132)	(1,314,961)
Payments for services	(1,460,247)	(1,628,605)
Payments for rebate credit	(3,744,883)	(1,761,041)
Net cash provided by (used for) operating activities	(4,517,507)	548,485
Cash flows from investing activites:		
Proceeds from sale of investments	7,441,643	5,775,006
Proceeds from sale of fixed assets	544	-
Purchase of investments	(3,220,787)	(6,754,944)
Interest received	2,561	16,384
Investment income	307,834	364,801
Net cash provided by (used for) investment activities	4,531,795	(598,753)
Increase (decrease) in cash and cash equivalents	14,288	(50,268)
Cash and cash equivalents, beginning of year	21,598	71,866
Cash and cash equivalents, end of year	$ 35,886	21,598
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ (5,186,326)	1,503,950
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in:		
Member receivable	-	6,138
Prepaid expenses	67,904	46,295
Deferred outflows - contributions	(10,995)	(35,563)
Increase (decrease) in:		
Accounts payable	149,817	(15,507)
Dividends payable	(561,333)	157,701
Unearned revenue	132	(28,866)
Net pension liability	26,799	(40,408)
Deferred inflows - actuarial	(47,233)	71,500
Unpaid claims and claim adjustment expenses	1,043,728	(1,116,755)
Net cash provided by operating activities	$ (4,517,507)	548,485
Supplemental cash flow information:		
Change in fair value of investments	$ 2,702	(45,543)

See accompanying notes to financial statements.

(1) Description of the Authority

The San Diego Pooled Insurance Program Authority (the "Authority") is comprised of 12 member cities and was formed in 1986 under a joint exercise of powers agreement pursuant to the provisions of §6500 et seq. of the California Government Code, which authorizes specific local public entities to exercise jointly the power to provide risk sharing and management.

The Authority was established for the purpose of developing and operating a cooperative program including risk sharing and non-risk sharing insurance, self-insurance, and risk management and to provide a forum for discussion, study, development, and implementation of procedures and policies of mutual benefit in risk management programs. The Authority administers an insurance program pursuant to which members pool certain losses, claims, and funds, as well as jointly purchase excess insurance and provide administrative and other services.

The liability insurance coverage provided by the Authority for the members includes protection for personal injury, property damage, errors and omissions, and employment practices liability in an amount in excess of each member's self-insured retention amount up to $2,500,000. Liability losses between $2,500,000 and $47,000,000 for each loss occurrence are insured with commercial casualty insurance companies.

Pooled layer coverage is provided on a claims-made basis. This means that coverage exists only if claims are made and reported to the Authority during the policy period, provided the claim occurred after the retroactive date of the policy. Excess insurance is provided on an occurrence basis.

The amounts for the various types of coverage are as follows:

Coverage	Policy Limits	Self-Insured Retention (SIR)
Liability, including personal injury, property damage, errors and omissions, and employment practices liability	Difference between member's self-insured retention and $2,500,000 per occurrence.	Each member has its own specific amount
Excess municipal liability policies include: personal injury, property damage, errors and omissions, and employment practices liability	$44,500,000 in excess of $2,500,000 for each member, each occurrence and in the aggregate, where applicable.	$2,500,000 consisting of individual member's SIR and pool Memorandum of Coverage (MOC)

The Authority purchases various types of insurance for its members such as property insurance, boiler and machinery direct damage, and faithful performance blanket bond coverage. Ultimate liability for claims under these insurance policies remains with the respective cities and, accordingly, the insurance risks are not transferred to the Authority. Premiums received from the cities are not determined on an actuarial basis. The member cities may participate in one or more of the following insurance policies.

(1) Description of the Authority (Continued)

Coverage	Policy Limits	Deductible or SIR
Property insurance	$1,000,000,000 loss limit per occurrence. Policy includes policy sub limits	$5,000 deductible, with additional deductibles per policy sub-limits
Boiler and machinery direct damage	$100,000,000 limit. Steam explosion, mechanical breakdown, and electrical repairs	$10,000 deductible, with additional deductibles per policy sub-limits
Faithful performance/ employee dishonest bond	$15,000,000 employee dishonesty, faithful performance, forgery or alteration, computer fraud, money and securities, theft, disappearance, destruction	$2,500 per occurrence, with additional deductibles per policy sub-limits

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

(b) Provision for Unpaid Claims and Claim Adjustment Expenses

The Authority's policy is to establish unpaid claims and claim adjustment expenses based on estimates of the ultimate cost of claims 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, subrogation and reinsurance recoverable on unpaid claims are deducted from the liability. The Authority increases the liability for allocated and unallocated claim adjustment expenses. Because actual claim costs depend on such complex factors as inflation, changes in doctrine 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, particularly for coverages such as general liability. 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, other economic and social factors and estimated payment dates. Adjustments to unpaid claims and claim adjustment expenses are charged or credited to expense in the period in which they are made.

(2) Summary of Significant Accounting Policies (Continued)

(c) Estimates

The presentation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Authority considers all highly liquid investments that were purchased with a maturity of three months or less to be cash equivalents.

(e) Investments and Investment Policy

The Board of Directors may invest monies not required for the immediate operations of the Authority, in compliance with §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.

California statutes authorize the Authority to invest in obligations of the United States Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and the State Treasurer's Local Agency Investment Fund (LAIF). The Authority records its investment in LAIF at fair value. Changes in fair value are reported as revenue in the statements of revenues, expenses and changes in net position. The fair value of LAIF at June 30, 2016 approximated the carrying value.

(f) 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 any of the past three years.

(g) Capital and Intangible Assets

Capital and intangible assets are carried at cost. Depreciation and amortization are determined using the straight-line method, over the useful lives of the related assets. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

(2) Summary of Significant Accounting Policies (Continued)

(h) Revenue Recognition

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

(i) 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.

(j) Deferred Outflows and Deferred Inflows of Resources

When applicable, the statements of net position will report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The Authority has one item that qualifies for reporting in this category, deferred outflows – contributions.

When applicable, the statements of net position will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, deferred inflows – actuarial.

(k) Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

(2) Summary of Significant Accounting Policies (Continued)

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

(l) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the Authority's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

(m) Prior Year Data

Selected information regarding the prior year has been included in the accompanying basic financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's prior year financial statements from which this selected data was derived.

(3) Cash and Investments

Cash and investments as of June 30, 2016 were reported at fair value and consisted of the following:

	2016
Deposits with financial institutions	$ 35,886
Investments	27,088,027
Total cash and investments	$27,123,913

Custodial Credit Risk – Cash in Bank: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.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, 2016, the carrying amount of the Authority's accounts were $35,886, and the bank balance was $1,014,492, of which $250,000 was insured.

Investment Interest Risk Rate: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from changes in interest rates, the Authority's investment policy mandates that investment maturities will be no more than five years from purchase date to maturity date. Investment maturities are based on a review of cash flow forecasts and are scheduled so as to permit the Authority to meet all projected obligations.

(3) Cash and Investments (Continued)

As of June 30, 2016, investments are reported at fair value and consisted of the following:

	Rating	2016
U.S. Agency Notes:		
FHLMC	AA+	$ 2,234,537
FNMA	AA+	3,832,686
FHLB	AA+	3,109,985
FFCB	AA+	1,836,533
TN Valley	AA+	535,886
U.S. Treasury Notes	AA+	5,333,921
Corporate Notes	A-AA+	6,636,815
LAIF	N/A	2,287,200
Money Market Mutual Funds	AAA	1,280,462
Total investments		27,088,025
Investments maturing within one year		(13,895,076)
Long-term investments		$13,192,949

Investment security ratings reported as of June 30, 2016 are defined by Standard & Poor's.

Investment Credit Risk: The Authority's investment 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.

Concentration of Investment Credit Risk: At June 30, 2016 and 2015, the Authority had the following investments that represent more than five percent of the Authority's net investments:

	2016	2015
U.S. Treasury Notes	29%	26%
Corporate Notes *	20%	23%
Federal National Mortgage Association Notes	14%	14%
Federal Home Loan Bank Notes	8%	14%
LAIF	11%	12%
Federal Home Loan Mortgage Corporation Notes	7%	12%
Federal Farm Credit Bank Notes	8%	9%

* Individual Corporate Notes each represent less than 5% of net investments

(3) Cash and Investments (Continued)

Local Agency Investment Fund: The Authority is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts 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.

Fair Value Measurement: The Authority categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Authority has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
US Treasury bills	$5,333,921	-	-	5,333,921
Federal Agency securities	-	11,549,627	-	11,549,627
Money Market Funds	-	1,280,462	-	1,280,462
Corporate Notes	-	6,636,815	-	6,636,815
LAIF	-	2,287,200	-	2,287,200
Total investments	$5,333,921	21,754,104	-	27,088,025

(4) Capital Assets

Changes in capital assets for the years ended June 30, 2016 and 2015 were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Furniture and equipment	$45,996	-	(45,996)	-
Accumulated depreciation	(45,996)	-	45,996	-
Capital assets, net	$ -	-	-	$ -

Depreciation expense for the year ended June 30, 2016 was $0.

(5) Unpaid Claims and Claim Adjustment Expenses

The liability for unpaid claims and claim adjustment expenses at June 30, 2016 were as follows:

Unpaid claims and claim adjustment expenses at beginning of year	$5,870,515
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	2,143,949
Change in provision for insured events of prior years	(126,089)
Total incurred claims and claim adjustment expenses	2,017,860
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	189,564
Claims and claim adjustment expenses attributable to insured events of prior years	(1,163,696)
Total payments	(974,132)
Total unpaid claims and claim adjustment expenses at end of year	$6,914,243

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 were as follows:

Reported claims	$1,139,615
Claims incurred but not reported (IBNR)	1,684,130
Tail Estimate	3,761,498
Unallocated loss adjustment expenses (ULAE)	329,000
Total unpaid claims and claim adjustment expenses	$6,914,243
Current portion	$ 956,409
Noncurrent portion	5,957,834
Total unpaid claims and claim adjustment expenses	$6,914.243

The tail estimate is the estimated claims liability for future periods as the Authority wraps up. The unallocated loss adjustment expenses include future claims administration costs for open claims. Most claims administration costs are paid by the individual members and/or are directly allocated to specific claims. The current portion of the claims liabilities has been actuarially determined.

(6) 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.

(7) Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Local Government's Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	3.0% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-60	52-67
Required employee contribution rates	8%	6.25%
Required employer contribution rates	11.718%	6.231%

(7) Pension Plan (Continued)

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate is 7.761 percent of annual pay, and the average employer's contribution rate is 19.150 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

The Authority's contributions for the year ended June 30, 2016 were $37,475.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

(7) Pension Plan (Continued)

Change of Assumption

GASB 68, paragraph 68, states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

(7) Pension Plan (Continued)

The table below reflects long-term expected real rate of return by asset class.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period

Allocation of Net Pension Liability and Pension Expense to Individual Employers

The following table shows the Authority's proportionate share of the net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) – (b)
Balance at: 6/30/2014	$1,359,365	1,033,587	325,778
Balance at: 6/30/2015	1,399,686	1,047,109	352,577
Net Changes during 2014-15	$ 40,321	13,522	26,799

The net pension liability of the plan is measured as of June 30, 2015, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The proportion of the net pension liability was based on a projection of the Authority's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the plan as of June 30, 2014 and 2015 was as follows:

Proportion – June 30, 2014	$1,359,365
Proportion – June 30, 2015	1,399,686
Change – Increase (Decrease)	$ 40,321

(7) Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability	$442,155	$352,577	$116,268

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

(7) Pension Plan (Continued)

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

For the year ended June 30, 2016, the Authority recognized a pension expense of $18,048 for the Plan. As of June 30, 2016, the Authority reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Additional Deferral	$ 1,236	1,901
Contributions for FY 15/16	37,475	-
Differences between expected and actual experience	2,110	-
Changes of assumptions	-	19,963
Net difference between projected and actual earnings on pension plan investments	-	2,079
Adjustment due to differences in proportions	5,737	324
Total	46,558	24,267

The $37,475 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

(7) Pension Plan (Continued)

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	$28,020
2017	(9,557)
2018	(8,964)
2019	12,792
2020	-
Thereafter	-

(8) Unrestricted Net Position

The Authority's Board of Directors has set aside $3,000,000 of net position as a reserve for future catastrophic losses.

(9) Termination of the Authority

At its June 25, 2015 Board meeting, the Authority's Board voted to accept and file the resolutions adopted by each members' City Council approving termination of the Authority and the amendment to the Joint Powers Authority Agreement of the Authority regarding the authority of the Board of Directors during the winding up and distribution of dividends effective. In addition, the Board approved joining the CSAC-EIA GL1 program effective July 1, 2015. The Board also voted to approve an Extended Reporting Endorsement, whereby the Authority will provide an extended claim reporting period coverage of July 1, 2015 through June 30, 2018 for claims occurring prior to July 1, 2015. The extended reporting period is actuarially estimated by the Authority's actuary to create a "tail liability" of $4,357,478 effective June 30, 2016.

(10) Prior Period Adjustment

The accompanying financial statements reflect a prior period adjustment affecting net position of the Authority as of June 30, 2015 as follows.

Net position at beginning of year	$23,174,969
Pension liability	(366,186)
Net position at beginning of year, as restated	$22,808,783

The prior period adjustment was necessary to reflect the impact on net position at the beginning of the year as a result of the Authority's implementation of GASB 68.

(11) Related Parties

As discussed in Note 9, the Authority has elected to dissolve. During the fiscal year ended June 30, 2016, all employees were either terminated or retired. Alliant Insurance Services, an insurance vendor for the Authority, was contracted to provide administrative services. For the fiscal year ending June 30, 2016, Alliant was paid $1,964,420 for insurance and $88,789 for administrative services.

Required Supplementary Information

SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY

Liability Program
Claims Development Information
Fiscal and Policy Years Ended June 30

	Fiscal and Policy Year Ended June 30										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Premiums and investment revenue:											
Earned	$ 4,113,276	5,427,740	7,636,615	8,014,585	8,454,692	8,209,749	8,045,036	8,344,121	8,756,545	9,129,250	7,251,952
Ceded	(1,252,903)	(1,195,841)	(2,521,849)	(2,712,864)	(2,761,225)	(2,737,796)	(2,919,828)	(3,163,030)	(3,476,122)	(3,580,467)	(5,288,120)
Net earned	2,860,373	4,231,899	5,114,766	5,301,721	5,693,467	5,471,953	5,125,208	5,181,091	5,280,423	5,548,783	1,963,832
2. Unallocated expenses	493,695	596,499	545,747	589,218	621,876	500,598	519,824	590,040	621,502	621,502	630,800
3. Estimated incurred claims and expenses, end of accident year:											
Incurred	3,233,285	4,827,477	3,140,453	3,199,751	6,330,798	2,879,948	2,544,404	2,332,631	3,844,355	2,320,390	2,345,980
Ceded	-	-	-	-	-	-	-	-	-	-	-
Net incurred	3,233,285	4,827,477	3,140,453	3,199,751	6,330,798	2,879,948	2,544,404	2,332,631	3,844,355	2,320,390	2,345,980
4. Paid (cumulative) as of:											
End of accident year	-	55,640	406,682	-	1,769,765	108,125	9,910	34,504	4,764	159,921	24,828
One year later	171,249	679,584	406,682	308,963	2,077,179	296,241	565,617	587,941	755,074	164,736	
Two years later	198,309	5,108,084	406,672	308,963	2,077,179	355,264	588,079	964,286	1,163,957		
Three years later	325,492	5,218,916	406,672	308,963	2,079,682	760,691	609,863	964,356			
Four years later	1,508,858	5,246,805	406,672	308,963	2,079,682	763,337	1,109,168				
Five years later	1,508,858	5,399,499	406,672	308,963	2,079,682	763,337					
Six years later	1,508,858	5,703,690	406,672	308,963	2,079,826						
Seven years later	1,508,858	5,703,690	406,672	308,963							
Eight years later	1,508,858	5,703,690	406,672								
Nine years later	1,508,858	5,703,690									
Ten years later	1,508,858										
5. Reestimated ceded losses and expenses	-	-	-	-	-	-	-	-	-	-	-
6. Reestimated incurred claims and expense:											
End of accident year	3,233,285	4,827,477	3,140,453	3,199,751	6,330,798	2,879,948	2,544,404	2,332,631	3,844,355	2,320,390	2,345,980
One year later	1,833,225	7,610,652	1,824,369	1,575,019	3,736,827	1,990,374	3,989,388	2,144,970	1,998,741	2,143,940	
Two years later	1,457,358	7,183,084	1,113,098	935,620	3,214,172	1,761,810	1,788,079	1,437,311	1,672,796		
Three years later	1,129,359	7,754,978	704,305	573,092	2,303,609	968,450	2,432,004	1,182,357			
Four years later	1,608,983	6,526,507	504,208	398,869	2,153,856	833,107	1,176,955				
Five years later	1,548,300	5,992,382	446,627	344,840	2,109,646	793,387					
Six years later	1,524,057	5,719,544	422,262	323,147	2,092,437						
Seven years later	1,514,000	5,708,918	411,882	314,006							
Eight years later	1,510,880	5,705,774	408,881								
Nine years later	1,508,858	5,703,690									
Ten years later	1,508,858										
7. (Decrease) increase in estimated incurred claims and expense from end of accident year	$ (1,724,427)	876,213	(2,731,572)	(2,885,745)	(4,238,361)	(2,086,561)	(1,367,449)	(1,150,274)	(2,171,559)	(176,450)	

(A) Claims Development Information

The tables that follow illustrate 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 of the previous ten years for the Liability Program. The rows of the tables are defined as follows:

1. Total of each fiscal year's gross earned premiums and reported investment revenue, amounts of premiums ceded and net earned reported premiums and reported investment revenue.

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

3. Program's discounted gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called policy year).

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

5. The latest reestimated amount of losses assumed by reinsurers for each policy year.

6. Policy year's discounted incurred net claims increased or decreased 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, as well as 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 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 incurred claims currently recognized in less mature policy years.

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

(B) Schedule of Funding Progress – CalPERS Pension Plan

Schedule of the Plan's Proportionate Share of the Net Pension Liability
*Last Ten Years**

	Measurement Date 6/30/2015	Measurement Date 6/30/2014
Proportion of the Collective Net Pension Liability	0.013%	0.00524%
Proportionate Share of the Collective Net Pension Liability	$352,577	$325,778
Covered-Employee Payroll	$98,305	$139,369
Proportionate Share of the Collective Net Pension Liability as percentage of covered-employee payroll	358.66%	233.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.81%	76.06%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in assumptions. The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.*

(B) Schedule of Funding Progress – CalPERS Pension Plan (Continued)

Schedule of Plan Contributions
*Last Ten Years**

	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	$32,921	$30,560
Contributions in Relation to the Actuarially Determined Contribution	(33,640)	(30,560)
Contribution Deficiency (Excess)	(719)	-
Covered Payroll	$98,305	$139,369
Contributions as a Percentage of Covered-Employee Payroll	34.22%	21.93%

Notes to Schedule:

Fiscal Year End:	6/30/2016
Valuation Date:	6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Discount Rate	7.50%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

** Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.*

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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*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
San Diego Pooled Insurance Program Authority
San Diego, 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 the San Diego Pooled Insurance Program Authority (the "Authority"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 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.

Irvine, California
______________, 2016