

**SANTA CLARA COUNTY
SCHOOLS' INSURANCE GROUP**

FINANCIAL STATEMENTS

June 30, 2018 and 2017

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Santa Clara County Schools' Insurance Group
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Clara County Schools' Insurance Group, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Santa Clara County Schools' Insurance Group'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 Santa Clara County Schools' Insurance Group, as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 11, the Reconciliation of Claims Liabilities by Type of Contract on pages 28 through 31, the Claims Development Information on pages 32 through 35, the Schedule of the Group's Proportionate Share of the Net Pension Liability on page 36 and the Schedule of the Group's Contributions on page 37 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Santa Clara County Schools' Insurance Group's financial statements. The Combining Statements of Net Position and Combining Statements of Revenues, Expenses and Change in Net Position are presented on pages 39 through 42 for purposes of additional analysis and are not a required part of the financial statements.

The information has not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of Santa Clara County Schools' Insurance Group'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 Santa Clara County Schools' Insurance Group's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Sacramento, California
December 7, 2018

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

The following report reflects on the financial condition of Santa Clara County Schools' Insurance Group (SCCSIG") as of and for the fiscal years ended June 30, 2018, and 2017. It is provided in order to enhance the information in the independent financial audit, basic financial statements, and notes to the basic financial statements included in the financial audit report. Please read it in conjunction with the Group's financial statements, which immediately follow this section.

Introduction and Background:

Santa Clara County Schools' Insurance Group (SCCSIG) was established on October 1, 1978 by a Joint Powers Agreement to provide mutual risk management and insurance programs for member districts. Under such an agreement, two or more public agencies may jointly exercise any power common to the contracting parties. SCCSIG had 31 members participating in any number of individual programs/funds: Workers' Compensation, Property and Liability, Medical, Vision, and Dental. For financial reporting purposes, SCCSIG operates as a special-purpose government engaged in business type activities.

SCCSIG is governed by a seven-member Executive Committee, elected for two-year terms by the Board of Directors. The Executive Committee elects a President, Vice President, and Secretary/Treasurer for a one-year term from the members of the Executive Committee. The full Board of Directors is comprised of a representative and alternate from each member district, as designated by the district's superintendent.

The Executive Committee is responsible for the ongoing operations of SCCSIG and is empowered to implement and enforce all provisions of the Joint Powers Agreement, SCCSIG Bylaws, and all approved policies and procedures. The Executive Committee has delegated the responsibility of the daily operation of SCCSIG to the Executive Director and staff. The Executive Director provides reports on activities to the Executive Committee at regular Board meetings, which includes Treasury Reports and Financial Statements, with comparative analysis with the adopted budget and prior year audited financials throughout the year, as well as other reports and updates as necessary.

Mission Statement

The purpose of Santa Clara County Schools' Insurance Group is to provide to the members the long-term cost-effective benefit of self-insurance pooling and the joint purchase of insurance.

Program Overview:

SCCSIG's Dental, Vision, Medical, Workers' Compensation, and Property/Liability programs are comprised of Members from K-12 Schools Districts, Community Colleges, and Other Organizations, throughout the State of California. Membership varies by program.

Benefits:

- The benefit programs are comprised of Dental, Vision, and Medical. Rates for the self-insured Vision and Dental plans are calculated by their underwriters for all members, and rate changes are determined by SCCSIG Fringe Benefit Committee and approved by the Executive Committee. Benefit plans are on a calendar year basis.

Dental:

- Established July 1, 1986. The Dental program was a self-insured program with Delta Dental and administrated by Keenan & Associates through their California Dental Coalition.
- Effective January 1, 2018, Willis Towers Watson became the administrator for the Dental program and it was moved from California Dental Coalition to SISC III.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

Vision:

- Established October 1, 1985. The Vision program was a self-insured program with VSP and administrated by Keenan & Associates through their California Vision Coalition.
- Effective January 1, 2018, Willis Towers Watson became the administrator for the Vision program and it was moved from California Vision Coalition to SISC III.

Medical:

- The Medical fund was established in 2011/2012 with federal funds received through the Early Retiree Reinsurance Program, a component of the Patient Protection and Affordable Care Act of 2010. This program provides reimbursement of part of the cost of providing medical coverage to early retirees. Keenan & Associates was the administrator.
- These funds provided by the United States Department of Health and Human Services are restricted by the Code of Federal Regulations; 45 CFR Part 149 § 149.200, and will benefit SCCSIG's 13 Anthem Blue Cross plan members and 11 Kaiser plan members. Both plans are fully insured.
- The contract with Keenan & Associates applied funds through the Federal Early Retiree Reinsurance Program (ERRP), medical carriers would pay the \$25,000 contract through additional service override compensation, collected through fully insured premiums. These fees were collected on their contracts between 2010 and 2012.
- Effective 01/01/2017, Board approved change in Medical Administrator to Willis Towers Watson.

Workers' Compensation:

- Established October 1, 1978.
- SCCSIG was self-insured from October 1, 1978 through December 31, 1995, purchasing various levels of excess coverage from \$100,000 to \$250,000 through Fremont Insurance, ERC (Westport Ins. Corp), Safety Mutual/Safety National, and Schools Alliance for Workers' Compensation Excess (SAWXC II).
- From January 1, 1996 through June 30, 2003, the SCCSIG was fully insured through Fremont Insurance (1/1/1996 to 6/30/2000), then ACE Insurance Co. of North America (7/1/2000 to 6/30/2003).
- Since July 1, 2003, SCCSIG has been self-insured, participating in the Protected Insurance Program for Schools (PIPS), which provides excess coverage from the first dollar to statutory limits. Rates paid to PIPS is their base rate times an experience modification factor (x-mod), based on the SCCSIG individual loss history. The PIPS base rate has fluctuated each year, as has the experience modification factor. Costs initially increased 39% from \$1.58 per \$100 of payroll in 2002/2003, under a fully insured program with ACE. As of 2012/2013, the base rate has increased 39%, while the final rate has increased only 1.5%, since the SCCSIG's x-mod had decreased 21% over this time period. Net Position Equity in PIPS is vested at 10% per year, with full equity participation after 10 consecutive years, for each policy year of participation. In 2009/2010, the SCCSIG gave PIPS notice of potential withdrawal, due to our request for proposal for the workers' compensation program. SCCSIG's Executive Committee elected to retain PIPS membership and continues membership.
- Deficit assessments between 2001/2002 and 2007/2008 by the Schools Alliance for Workers' Compensation Excess (SAWXC II) reduced assets by \$2,462,529, with assessments on excess coverage at \$150,000 from 1988/1989 through 1993/1994 and \$250,000 from 1994/1995 through December 31, 1995.
- Revisions in the reserving practice for the Workers' Compensation's self-insured claims between 1979 through 1996 resulted in a deficit position for the program in 2004/2005. Therefore, a 6 year recovery plan was adopted beginning in 2005/2006 to resolve this deficit position. The Recovery Plan collected of an additional \$0.05 per \$100 of payroll, for a total of \$1.5 million over four years, when the plan had positive equity and was discontinued. As of June 30, 2013, the program is again in a deficit position of \$272,632.
- The net effect of Claims paid and the Change in Claims Reserves for Workers' Compensation in 2012/2013 was a \$741,278 increased expense for the self-insured claims from October 1, 1978 to December 31, 1995; these costs are recorded as liabilities when known and therefore no expense is budgeted in current years. Claims with incident dates of 1996 and subsequent do not have claims liabilities, being either fully-insured or insured from first dollar to statutory limits.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

- SCCSIG has added two members and lost five members from the Workers' Compensation program, including the Santa Clara County Office of Education (SCCOE) who withdrew in July 1999 and was awarded a \$1 million settlement, which was paid over seven years from 2002/2003 through 2008/2009.
- SCCSIG set a 15% cap on experience modification factors, as of July 1, 2009 to stabilize rates from wide fluctuations and ease the burden on districts, due to members' loss history.

Property and Liability:

- Established July 1, 1980
- SCCSIG maintains \$100,000 self-insured retention in both Property and Liability, with lower retained limits for special coverage for auto property, crime, and electronic data processing.
- SCCSIG joined the Alliance of Schools for Cooperative Insurance Program (ASCIP), as of July 1, 2008, for excess property and liability coverage from SCCSIG retained limits to \$500 million in property and \$5 million in liability. ASCIP provides claims administration for all claims with loss dates after June 30, 2008; including those below our retention levels at no additional cost. The change in carriers resulted in a reduction of 30% in total excess insurance costs in the first year. Between 2007/2008 and 2012/2013, excess insurance costs have decreased 11%, including a 10% increase in premium in 2012/2013.
- SCCSIG rejoined Schools Excess Liability Fund (SELF) in July 1, 2008 for excess liability coverage from \$5 million to \$25 million. SCCSIG had withdrawn from SELF June 30, 2007.
- Equity of over \$13 million has been returned to members, including \$2.1 million in 2009/2010 and \$1 million in 2010/2011 closing out program years through 2003/2004.

Financial Highlights:

In 2017/2018, SCCSIG's net position remained stable with a minimum improvement of \$30 thousand. The net position at 06/30/2017, and 06/30/2018, was \$15.4 million.

Workers' Compensation

The Worker's Compensation program continues to improve, the increase is \$274 thousand, to a net position of \$910 thousand. This is the fourth year of continued increases to the net position.

The net position of \$910 thousand is \$513 thousand greater than what is required to fund the designated Capital Target. The Capital Target is set at an actuarially determined 80% probability level of \$397 thousand.

Property/Liability

The Property Liability program decreased by \$1.3 million in 2017/2018. The net position, as of 06/30/2018 is \$4.1 million. The decrease in 2017/2018 was primarily due to a declared rebate of \$1.9 million.

The \$600 thousand increase in net position is attributed to actual claim cost development, less than, actuarial expected claim costs, and less than funding, based upon actuarial projections.

Dental

The Dental Program continues to perform positively, with an increase to the net position of \$751 thousand, from \$7.8 million, as of 06/30/2017, to \$8.6 million, as of 06/30/2018.

This increase is attributed to funding in excess of actual costs. All liabilities are fully reserved in this program.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

Vision

The Vision Program continues to perform positively, with an increase to the net position of \$396 thousand, from \$1.2 million, as of 06/30/2017, to \$1.6 million, as of 06/30/2018.

This increase is attributed to funding in excess of actual costs. All liabilities are fully reserved in this program.

Financial Management and Control:

SCCSIG is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The Executive Director and staff, provides financial oversight and cash management. This includes budgeting, accounts receivable, accounts payable, and, at a minimum, quarterly financial updates.

SCCSIG has also contracted an independent actuarial to review their programs. These studies confirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for all program years. Bickmore Insurance Services - Actuarial Consultants review the Worker's Compensation and Property Liability programs. Actuaries provide estimates of outstanding liabilities (IBNR) for the Dental and Vision programs.

Crowe LLP is contracted to perform the annual independent audit examination of the financial statements in accordance with generally accepted auditing principles (GAAP).

SCCSIG does not contract with an investment advisor and did not hold any private investments. The majority of SCCSIG's funds are held in the Santa Clara County Treasury Pool, since the principal is 100% protected while yields are routinely higher than other comparable options available per SCCSIG's Investment Policy. Operating accounts, including two trust accounts, are held at Bank of the West. These accounts are funded monthly for expected operating expenses and balances are kept to the minimum.

SCCSIG is accredited by California Association of Joint Powers Authorities (CAJPA) with Excellence. Their accreditation is based on a model of professional standards for risk management pools. CAJPA standards require a Capital Reserve, which sets a safety reserve to safeguard against future financial uncertainty, and measures for financial stability.

SCCSIG obtained accreditation with the California Association of Joint Powers Authorities, as of November 1, 2005. As of 2009/2010, SCCSIG earned the distinction of Accreditation with Excellence. The CAJPA accreditation program is a national model of professional standards for risk management pools. To comply with standards for accreditation, in 2004/2005 SCCSIG established Capital Targets for each program. These are designated equity amounts held to provide a reserve to safeguard against future financial uncertainty. The Capital Targets for the Workers' Compensation and Property & Liability funds are both set at an Actuarial determined probability level of 80%. The Capital Targets for the Vision and Dental funds are set at approximately 2.5 months of monthly average claims expense.

Basic Financial Statements:

SCCSIG's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and necessarily include amounts based upon reliable estimates and judgments. The Statement of Net Position, Statement of Revenue, Expenses and Changes in Net Position, and the Statements of Cash Flows are included.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

The Statement of Net Position provides information on SCCSIG's program assets and liabilities, with the difference reported as Net Position. The Statement of Revenues, Expenses and Change in Net Position presents information showing total operating revenues versus operating expenses and the resulting effect on Net Position. The Statement of Cash Flows is presented to reflect the operation based on inflows and outflows of cash.

Statement of Net Position:

Below is a consolidated summary of the Statement of Net Position as of 06/30/2016, 06/30/2017, and 06/30/2018, showing total assets versus total liabilities, with a percentage of change between program years.

| | As of | | 2016/2017 | | 06/30/18 | 2017/2018 | | |
|--|---------------|---------------|--------------|---------|---------------|--------------|---------|--|
| | 06/30/16 | 06/30/17 | Variance | % | | Variance | % | |
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Cash Equivalents | \$ 16,119,625 | \$ 18,276,948 | \$ 2,157,323 | 13.38 % | \$ 22,191,586 | \$ 3,914,638 | 21.42 | |
| Prefunding deposits | 1,488,142 | 1,604,770 | 116,628 | 7.84 | 780,000 | (824,770) | (51.39) | |
| Accounts Receivable | 1,585,778 | 1,679,474 | 93,696 | 5.91 | 1,044,247 | (635,227) | (37.82) | |
| Total Assets | 19,193,545 | 21,561,192 | 2,367,647 | 12.34 | 24,015,833 | 2,454,641 | 11.38 | |
| Deferred outflow of resources | | | | | | | | |
| Deferred outflow of resources - pension | 57,641 | 168,209 | 110,568 | 191.82 | 222,165 | 53,956 | 32.08 | |
| LIABILITIES | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts payable | 1,210,879 | 1,278,194 | 67,315 | 5.56 | 3,956,683 | 2,678,489 | 209.55 | |
| Safety Credits payable | 621,909 | 777,602 | 155,693 | 25.03 | 989,610 | 212,008 | 27.26 | |
| Current portion of unpaid claims and claim adjustment expenses | 1,794,509 | 1,572,891 | (221,618) | (12.35) | 1,391,942 | (180,949) | (11.50) | |
| Total current Liabilities | 3,627,297 | 3,628,687 | 1,390 | 0.04 | 6,338,235 | 2,709,548 | 74.67 | |
| Net Pension liability | 447,432 | 557,905 | 110,473 | 24.69 | 631,376 | 73,471 | 13.17 | |
| Noncurrent Liabilities - claim liability | 1,773,085 | 2,131,477 | 358,392 | 20.21 | 1,809,657 | (321,820) | (15.10) | |
| Total Liabilities | 5,847,814 | 6,318,069 | 470,255 | 8.04 | 8,779,268 | 2,461,199 | 38.95 | |
| Deferred inflow of resources | | | | | | | | |
| Deferred inflow of resources - pension | 50,483 | 23,349 | (27,134) | (53.75) | 43,636 | 20,287 | 86.89 | |
| NET POSITION | | | | | | | | |
| | \$ 13,352,889 | \$ 15,387,983 | \$ 2,035,094 | 15.24 % | \$ 15,415,094 | \$ 27,111 | 0.18 | |

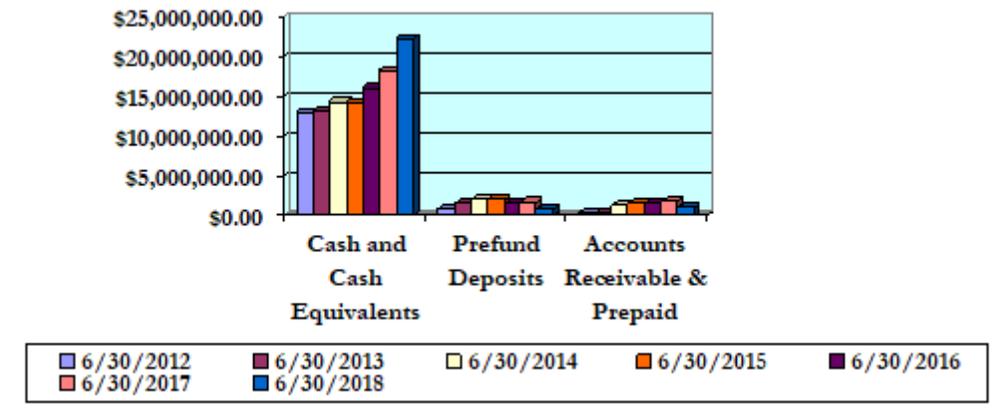
Assets:

An increase in assets is mainly attributed to the retention and increase in cash. Cash variances are mainly attributed to receipt of member contributions, which are less, or greater than, claim payments, insurance premiums, and other operating expense. Investment income also increases cash and cash equivalents.

In 2017/2018, the assets of SCCSIG increased by 11.38% or \$2.4 million. In 2016/2017, the assets of SCCSIG increased by 12.34 %, or \$2.4 million. In 2015/2016, the assets of SCCSIG increased by 7.93 %, or \$1.4 million.

Annual variance in assets can be seen below.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018



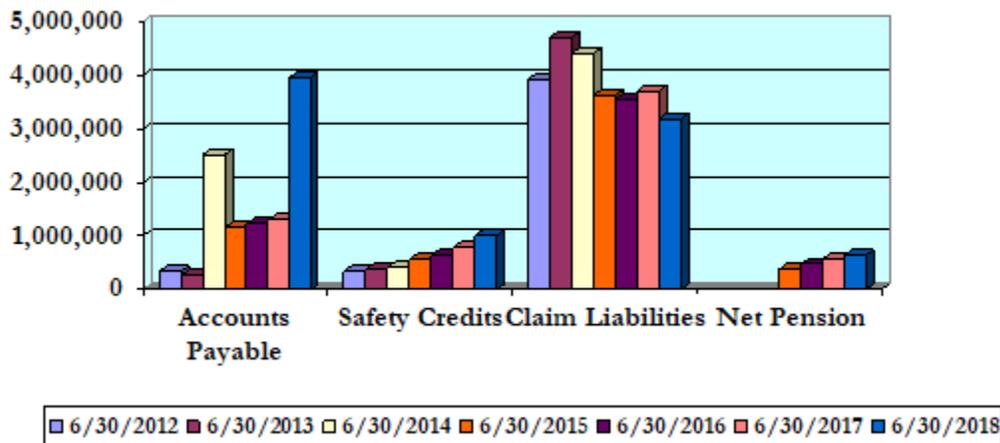
Liabilities:

In 2017/2018, the liabilities of SCCSIG increased by 38.95%, or \$2.5 million. In 2016/2017, the liabilities of SCCSIG increased by 8.04%, or \$470 thousand. In 2015/2016, the liabilities increased by 3.15%, or \$179 thousand.

These variances are mainly attributed to revisions in claim liabilities or accounts payable, which may include a dividend payable. In 2017/2018, a major factor in the increase of liabilities is the \$1.9 million rebate from the Property & Liability program, this is set up as accounts payable at 06/30/2018.

Other factors that influence the change in liabilities is the annual, independent actuary review claim liabilities are updated based upon these evaluations. The annual actuarial review and re-estimate of the ultimate cost associated with payment, for the life of the claim, on the self-insured retained program years, is an integral factor in keeping the financials relevant.

The annual variance in liabilities can be seen below.



SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

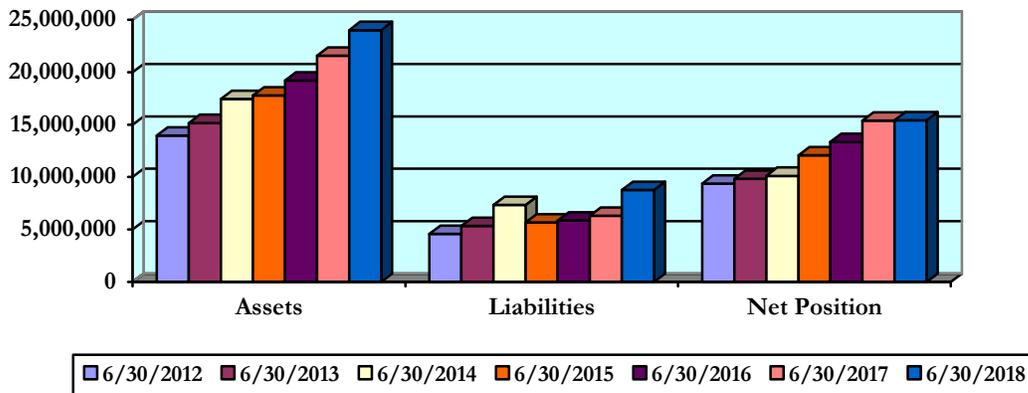
FISCAL YEAR ENDED JUNE 30, 2018

Net Position:

In 2017/2018, as of 06/30/2018, SCCSIG's ending Net Position is \$15.4 million. This position reflects an increase to the prior year net position of \$15.4 million, as of 06/30/2017, by .18% or \$30 thousand. This was due to the following factors.

- 1) Increase in net assets from net operating income, greater than operating expenditures of \$1.8 million
- 2) Decrease in net assets from non operating investment income of \$193 thousand, offset by a rebate of \$1.9 million

Statement of Net Position year variances can be seen below.



Statements of Revenues, Expenses and Change in Net Position:

In 2017/2018, revenues exceeded expenses by \$30 thousand, resulting in an increase to net assets, of .18%. Details of these changes are shown below, in the Condensed Statements of Revenues, Expenses, and Changes in Net Position.

| | Fiscal Year Ended | | Increase/ (Decrease) | | Fiscal Year Ended | Increase/(Decrease) 2017/2018 | |
|------------------------------------|-------------------|---------------|----------------------|------------|-------------------|-------------------------------|------------|
| | 06/30/16 | 06/30/17 | 2016/2017 | Percentage | | 06/30/18 | Variance |
| Operating Revenue: | | | | | | | |
| Member Contributions | \$ 30,805,874 | \$ 34,929,002 | \$ 4,123,128 | 13.38 % | \$ 35,411,830 | \$ 482,828 | 1.38 % |
| Safety Credits | 349,165 | 356,334 | 7,169 | 2.05 | 285,568 | (70,766) | (19.86) |
| Other | 510,850 | 645,111 | 134,261 | 26.28 | 556,893 | (88,218) | (13.67) |
| Total Operating Revenue | 31,665,889 | 35,930,447 | 4,264,558 | 13.47 | 36,254,291 | 323,844 | 0.90 |
| Operating Expenses: | | | | | | | |
| Claims and Claims Adj Expense | 9,262,408 | 8,852,149 | (410,259) | (4.43) | 8,773,653 | (78,496) | (0.89) |
| Insurance Premiums | 19,134,383 | 22,969,156 | 3,834,773 | 20.04 | 23,317,086 | 347,930 | 1.51 |
| Safety Credits | 349,165 | 356,334 | 7,169 | 2.05 | 343,064 | (13,270) | (3.72) |
| Claims administration | 766,737 | 830,891 | 64,154 | 8.37 | 948,190 | 117,299 | 14.12 |
| General and administrative expense | 957,684 | 1,044,603 | 86,919 | 9.08 | 1,109,347 | 64,744 | 6.20 |
| Total Operating Expenses | 30,470,377 | 34,053,133 | 3,582,756 | 11.76 | 34,491,340 | 438,207 | 1.29 |
| Net Operating Income/(loss) | 1,195,512 | 1,877,314 | 681,802 | 57.03 | 1,762,951 | (114,363) | (6.09) |
| Investment Income | 90,069 | 157,780 | 67,711 | 75.18 | 193,161 | 35,381 | 22.42 |
| Dividends to Members | -- | -- | -- | -- | (1,929,001) | (1,929,001) | -- |
| Non Operating Income/(Expense) | 90,069 | 157,780 | 67,711 | 75.18 | (1,735,840) | (1,893,620) | (1,200.16) |
| Change in Net Position | 1,285,581 | 2,035,094 | 749,513 | 58.30 | 27,111 | (2,007,983) | (98.67) |
| Beginning Net Position | 12,427,094 | 13,352,889 | 925,795 | 7.45 | 15,387,983 | 2,035,094 | 15.24 |
| Cumulative effect of GASB 68 | (359,786) | -- | -- | -- | -- | -- | -- |
| Ending Net Position | \$ 13,352,889 | \$ 15,387,983 | \$ 1,675,308 | 15.24 % | \$ 15,415,094 | \$ 27,111 | 0.18 % |

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

In 2017/2018, operating revenues increased by \$324 thousand, or .90%. In 2016/2017, operating revenues increased by 13.47% or \$4.3 million.

In 2017/2018, operating expenses increased by \$438 thousand, or 1.29%. In 2016/2017, operating expenses increased by \$3.6 million, of 11.76%.

The Statement of Revenues, Expenses & Change in Net Position shows the activity of SCCSIG fiscal year from July 1, through June 30. There are four basic parts to this statement: Operating Revenues, Program Expenses, General and Administration Expenses, and Non-operating Revenues and Expenses.

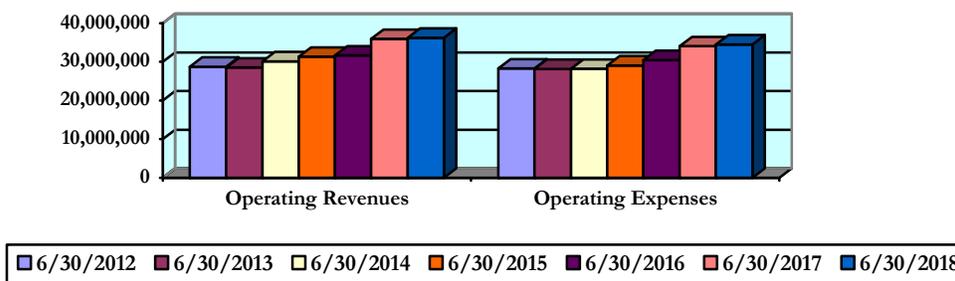
Operating Revenue is primarily the premiums or contribution by SCCSIG's members for financing pool-funding requirements.

Program Expenses are expenses directly related to the program's main function, such as claims and claim administration expenses for self-funded program years and insurance or excess insurance premiums for fully or partially insured program years. These are required costs of the fund that would be incurred by our members directly, even if the SCCSIG did not exist and account for 97% of all expenses. Claims and claim administration expenses and Insurance Premiums, including state self-insurance assessments.

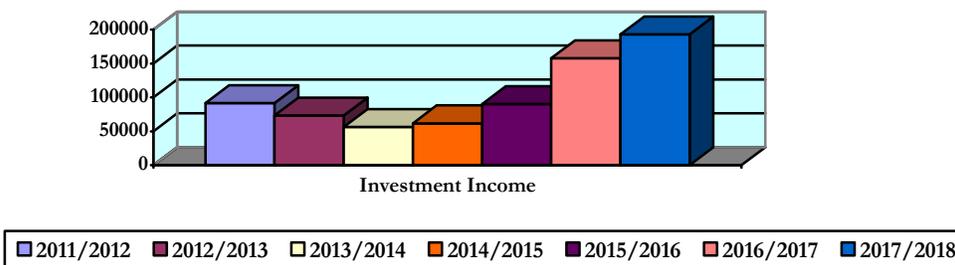
General and Administration Expenses are costs of SCCSIG to manage and maintain each program and indirect costs, such as actuarial reports, claims audits, and audit fees, which are required by law. SCCSIG varies the scheduling of required reports, as to minimize fluctuation in overhead from year to year.

Non-operating Revenues and Expenses are income and/or costs not directly related to the operation of the programs, including investment income or loss and dividends or other equity returns or assessments. They are reported in a separate section to comply with GASB 34, allowing financial statement users to see the true operating income or loss before any additional or non-typical items are included. In 2017/2018 SCCSIG declared \$1.9 million dividend in the property & liability program. No dividends were declared in 2014/2015, 2015/2016, or 2016/2017. In 2013/2014 SCCSIG declared \$1.6 million dividend in the property & liability program.

Below is a graph showing historical variances in the operating income and expense.



Below is a graph showing historical variances in the Investment Income.



SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2018

Budget vs. Actual

SCCSIG operates as a pass-through organization, collecting premiums/contributions from members each fiscal year based on the necessary funding for the current year. The budget for current operations should always net to zero income/loss. The General & Administrative Expense budget for fiscal year is approved by the Executive Committee at the March meeting; the full budget is approved in May.

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>Percentage</u> |
|----------------------------------|---------------------|--------------------|-----------------------|-------------------|
| Operating Revenue: | \$ 35,868,603 | \$ 36,254,291 | \$ 385,688 | 1.08 % |
| Program Expense | (32,790,548) | (33,381,993) | (591,445) | 1.80 |
| General & Administration expense | <u>(1,223,620)</u> | <u>(1,109,347)</u> | <u>114,273</u> | (9.34) |
| Net Operating Revenue/(loss) | <u>1,854,435</u> | <u>1,762,951</u> | <u>(91,484)</u> | |
| Non-operating Revenue/(loss) | <u>165,000</u> | <u>(1,735,840)</u> | <u>(1,900,840)</u> | (1,152.02) |
| Change in Net Position | <u>\$ 2,019,435</u> | <u>\$ 27,111</u> | <u>\$ (1,992,324)</u> | |

Actual amounts for the fiscal year versus the adopted budget and actual amounts versus the prior years audited financial statement amounts are included to show SCCSIG's financial performance in relation to the annual plan for the programs and on a continuing basis. Revenues were 1.08% over the adopted budget and expenses were 1.80% over budget. Non-operating revenue from investment income was over budget due to the rebate.

Description of Facts or Conditions that are expected to have a Significant Effect on Financial Position or Results of Operations:

SCCSIG's Executive Director and Board of Director's are continuing to evaluate the changing market environment, to explore for new opportunities to improve programs and save costs in all of SCCSIG's programs.

The Workers' Compensation program, with PIPS, is performing at a more than 99% actuarial determined probability level, with all liabilities fully funded.

The Property & Liability program has been financially strong, as loss history continually remains below actuarial estimates. The SCCSIG policy allows us to close out program years, with no open claims, older than six years. In the last eight years, was able to close prior policy years, returning over \$6.3 million in equity to participating members. The SCCSIG Board annually evaluates the potential to close out additional policy years and return equity to members. The Board declared an additional rebate in 2017/2018, they will utilize the audited financial position presented in these financial statements, as of 06/30/2018, for allocation and return of this rebate in 2018/2019.

At present there are no known facts or conditions that are expected to have a significant effect on the financial position or results of operations for SCCSIG.

FINANCIAL STATEMENTS

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 STATEMENTS OF NET POSITION
 June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 2) | \$ 22,191,586 | \$ 18,276,948 |
| Prefund deposits (Note 3) | 780,000 | 1,604,770 |
| Receivables: | | |
| Members | 970,774 | 1,550,765 |
| Excess insurance | 28,498 | 81,342 |
| Interest | 39,532 | 46,970 |
| Other | 397 | 397 |
| Prepaid expenses | <u>5,046</u> | <u>-</u> |
| Total assets | <u>24,015,833</u> | <u>21,561,192</u> |
| DEFERRED OUTFLOW OF RESOURCES | | |
| Deferred outflow of resources – pension (Note 6) | <u>222,165</u> | <u>168,209</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 1,610,346 | 9,288 |
| Member dividend payable | 1,929,001 | - |
| Payroll payable | 13,333 | 2,641 |
| Insurance premium payable | 404,003 | 1,266,265 |
| Safety credits (Note 4) | 989,610 | 777,602 |
| Current portion of unpaid claims and claim adjustment expenses (Note 5) | <u>1,391,942</u> | <u>1,572,891</u> |
| Total current liabilities | <u>6,338,235</u> | <u>3,628,687</u> |
| Net pension liability (Note 6) | 631,376 | 557,905 |
| Unpaid claims and claim adjustment expenses less current portion (Note 5) | <u>1,809,657</u> | <u>2,131,477</u> |
| Total liabilities | <u>8,779,268</u> | <u>6,318,069</u> |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred inflow of resources – pension (Note 6) | <u>43,636</u> | <u>23,349</u> |
| NET POSITION | | |
| Net position - unrestricted | <u>\$ 15,415,094</u> | <u>\$ 15,387,983</u> |

See accompanying notes to financial statements.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Member contributions | \$ 35,411,830 | \$ 34,929,002 |
| Safety credits | 285,568 | 356,334 |
| Other | <u>556,893</u> | <u>645,111</u> |
| Total operating revenues | <u>36,254,291</u> | <u>35,930,447</u> |
| Operating expenses: | | |
| Provision for claims and claim adjustment expenses (Note 5) | 8,773,653 | 8,852,149 |
| Insurance premiums | 23,317,086 | 22,969,156 |
| Safety credits | 343,064 | 356,334 |
| Claims administration | 948,190 | 830,891 |
| General and administrative expenses (Notes 6, 7 and 8) | <u>1,109,347</u> | <u>1,044,603</u> |
| Total operating expenses | <u>34,491,340</u> | <u>34,053,133</u> |
| Operating income | <u>1,762,951</u> | <u>1,877,314</u> |
| Non-operating (expenses) revenues: | | |
| Investment income | 193,161 | 157,780 |
| Dividend expense | <u>(1,929,001)</u> | <u>-</u> |
| Total non-operating (expenses) revenues | <u>(1,735,840)</u> | <u>157,780</u> |
| Change in net position | 27,111 | 2,035,094 |
| Net position, beginning of year | <u>15,387,983</u> | <u>13,352,889</u> |
| Net position, end of year | <u>\$ 15,415,094</u> | <u>\$ 15,387,983</u> |

See accompanying notes to financial statements.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from members and others | \$ 36,834,282 | \$ 35,939,417 |
| Cash received for (payments of) prefund deposits | 824,770 | (116,628) |
| Cash payments for claims | (9,276,422) | (8,715,375) |
| Cash payments for insurance and reinsurance | (24,126,504) | (22,907,464) |
| Cash payments to members for safety program | (131,056) | (200,641) |
| Cash payments to employees for services and benefits | (597,960) | (752,134) |
| Cash payment to suppliers for goods and services | <u>186,929</u> | <u>(1,224,355)</u> |
| Net cash provided by operating activities | <u>3,714,039</u> | <u>2,022,820</u> |
| Cash flows from capital and related investing activities: | | |
| Interest received | <u>200,599</u> | <u>134,503</u> |
| Net change in cash and cash equivalents | 3,914,638 | 2,157,323 |
| Cash and cash equivalents, beginning of year | <u>18,276,948</u> | <u>16,119,625</u> |
| Cash and cash equivalents, end of year | <u>\$ 22,191,586</u> | <u>\$ 18,276,948</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 1,762,951 | \$ 1,877,314 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Decrease (increase) in: | | |
| Prefund deposits | 824,770 | (116,628) |
| Receivables: | | |
| Members | 579,991 | 8,970 |
| Excess insurance | 52,844 | (80,712) |
| Other | - | 1,323 |
| Prepaid expenses | (5,046) | - |
| Deferred outflows | (53,956) | (110,568) |
| (Decrease) increase in: | | |
| Accounts payable | 1,601,058 | (67,987) |
| Payroll payable | 10,692 | (7,102) |
| Insurance premiums payable | (862,262) | 142,404 |
| Net pension liability | 73,471 | 110,473 |
| Safety credits | 212,008 | 155,693 |
| Unpaid claims and claim adjustment expenses | (502,769) | 136,774 |
| Deferred inflows | <u>20,287</u> | <u>(27,134)</u> |
| Net cash provided by operating activities | <u>\$ 3,714,039</u> | <u>\$ 2,022,820</u> |

See accompanying notes to financial statements.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Santa Clara County Schools' Insurance Group (the "Group") was established by a Joint Powers Agreement on October 1, 1978, in accordance with Title I, Division 7, Chapter 5, Article I Sections 6500, et.seq. of the California Government Code. The purpose is for the operation of a common risk management and insurance program for member school districts related to workers' compensation, property/liability, medical, vision and dental benefits for member governmental agencies. The Group also purchases excess insurance and provides risk management services.

The Group is governed by a board consisting of one representative from each member entity. Member entities and the programs that they participate in at June 30, 2018 were as follows:

| | <u>Workers' Compensation</u> | <u>Property/ Liability</u> | <u>Medical</u> | <u>Vision</u> | <u>Dental</u> |
|---|----------------------------------|--------------------------------|----------------|---------------|---------------|
| • Berryessa Union School District | X | | | X | X |
| • Cambrian School District | X | X | X | X | X |
| • Cupertino Union School District | X | | | | |
| • East Side Union High School District | X | | | | |
| • East Valley Schools Transportation Agency (EVSTA) | | X | | | |
| • Franklin-McKinley School District | X | X | X | | |
| • Fremont Union High School District | X | | | | |
| • Gilroy Unified School District | X | X | X | | |
| • Lakeside Joint School District | X | | | | X |
| • Loma Prieta Joint Union School District | X | X | X | | X |
| • Los Altos Elementary School District | X | | | | |
| • Los Gatos Union School District | X | X | X | X | X |
| • Los Gatos/Saratoga Joint Union High School District | X | | | X | X |
| • Los Gatos/Saratoga Department of Community Education & Recreation | X | X | X | X | X |
| • Luther Burbank School District | X | X | X | X | X |
| • Metropolitan Education District | X | | | | |
| • Milpitas Unified School District | X | | X | X | X |
| • Moreland School District | X | X | | X | X |
| • Morgan Hill Unified School District | X | X | | | X |
| • Mount Pleasant School District | X | X | X | X | X |
| • Mountain View Whisman School District | X | | X | X | X |
| • Mountain View - Los Altos Union High School District | X | | | | |
| • Oak Grove School District | X | X | | | |
| • Orchard School District | X | X | X | X | X |
| • Santa Clara Unified School District | X | | | | |
| • Saratoga Union School District | X | X | | X | X |
| • Silicon Valley Schools Transportation JPA | | X | | | |
| • South East Consortium for Special Education (SELPA's V&VI) | | X | | | |
| • Sunnyvale School District | X | X | X | X | X |
| • Union School District | X | X | | X | X |
| • West Valley Schools Transportation JPA | | X | | | |
| | <u>27</u> | <u>19</u> | <u>12</u> | <u>14</u> | <u>17</u> |

Admission and Withdrawal of Members: Entities applying for membership must be approved by a two-thirds vote of the Executive Committee.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Entities may withdraw from any program after having completed three consecutive years as members upon written notification to the Executive Committee by the dates specified in the bylaws. The effect of withdrawal (or termination) from the pooling programs does not terminate the responsibility of the entity to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

Reporting Entity: The reporting entity includes all activities considered to be part of the Group. This includes financial activity relating to all of the membership years of the Group.

In determining the reporting entity, the Group considered all governmental units that were members of the Group since inception. The criteria does not require the inclusion of these entities in the Group's financial statements principally because the Group does not exercise oversight responsibility over any members.

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. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses are recognized when the obligation is incurred.

Insurance Programs: The Group's insurance programs are described below. The general and administrative accounts of the Group are allocated to each program based on services provided.

1. Workers' Compensation Program: The Workers' Compensation Program was established on October 1, 1978 to account for the payment of workers' compensation claims and administrative costs. Funding is based on contributions established by the Executive Committee on behalf of the Joint Powers Board. Through December 31, 1995, the Workers' Compensation program was self-funded by the Group. As of January 1, 1996, the Group purchased commercial insurance from various commercial insurance companies for claims incurred between January 1, 1996 and June 30, 2003. Claims incurred prior to January 1, 1996 were administered by Claims Management, Inc. (CMI) until December 31, 1998, when the administration of the claims was turned over to Keenan & Associates. As of July 1, 2003, the Group became fully insured through the Protected Insurance Program for Schools Joint Powers Authority (PIPS).
2. Property/Liability Program: The self-insured Property/Liability Program was established on July 1, 1980. Funding is based on contributions established by the Executive Committee on behalf of the Joint Powers Board. Claims incurred prior to July 1, 2008 were administered by George Hills Company. Beginning July 1, 2008, the Group purchased excess insurance through Alliance of Schools for Cooperative Insurance Programs (ASCIP) for claims liabilities over \$100,000. ASCIP also provides claims administration on self-insured claims up to \$100,000.
3. Benefit Programs: The Benefit Programs account for the activity related to the Early Retiree Reinsurance Program and the payment of self-insured vision and dental claims as well as related administration costs. The consultant for the vision and dental programs is Keenan & Associates.
 - a. Medical Program - The Medical Program was established as of September 29, 2011. This program was started with and handles the Federal funds received through the Early Retiree Reinsurance Program, a component of the Patient Protection and Affordable Care Act of 2010.
 - b. Vision Program - The Vision Program was established as of October 1, 1985. This program handles the vision program for member agencies. Funding is accomplished through contributions established by the consultant based upon claims experience as approved by the Executive Committee. The claims are administered by Self-Insured Schools of California Health and Welfare Benefits Program (SISC III), which contracts with Vision Service Plan. In addition, the Group also contracts with Medical Eye Services for a fully-insured vision program.
 - c. Dental Program - The Dental Program was established as of July 1, 1986. This program handles the dental program for member agencies. Funding is accomplished through contributions established by the consultant based upon claims experience as approved by the Executive Committee. The claims are administered by Self-Insured Schools of California Health and Welfare Benefits Program (SISC III) which contracts with Delta Dental.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Group considers all highly liquid assets with a maturity of three months or less when purchased to be cash and cash equivalents.

Prefund deposits: Prefund deposits represent amounts on deposit with the claims administrators which are to be used for the payment of claims to beneficiaries. These are classified as current assets.

Provision for Unpaid Claims and Claim Adjustment Expenses: The Group's policy is to establish claims liabilities 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 insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The Group increases the liability for allocated and unallocated claims adjustment expenses. Because actual claims costs depend on such complex factors as inflation, changes in doctrine of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed quarterly 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 reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The portion of claims considered currently payable has been actuarially determined for the property/liability program.

The unpaid claims and claims adjustment expenses (claim reserves and IBNR) are recorded on the statement of net position at the expected 50% confidence level in accordance with accounting principles generally accepted in the United States of America. The Board of Directors has elected, however, to fund both the liability and workers' compensation pools at an 80% confidence level.

Excess Insurance: The Group enters into reinsurance agreements whereby it cedes various amounts of risk to other insurance companies. The Group and its member entities retain the first \$100,000 of liability and \$100,000 of property risk per incident with the member entities covering the first \$1,000 to \$10,000 of loss. The Group does not report excess insured risk as a liability unless it is probable that a risk will not be covered by excess insurers. Settlements have not exceeded insurance coverage in each of the past three years.

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

| <u>Fiscal Years</u> | <u>Retention</u> |
|-------------------------------|------------------|
| October 1978 - September 1979 | \$ 150,000 |
| October 1979 - June 1983 | \$ 250,000 |
| July 1983 - June 1985 | \$ 100,000 |
| July 1985 - June 1986 | \$ 125,000 |
| July 1986 - June 1987 | \$ 200,000 |
| July 1987 - June 1988 | \$ 250,000 |
| July 1988 - June 1994 | \$ 150,000 |
| July 1994 - December 1995 | \$ 250,000 |
| July 2003 - June 2018 | \$ - |

The program was fully insured with no deductible for the period between January 1, 1996 and June 30, 2003.

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 represents a consumption of net position that applies to future periods, and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The Group has recognized a deferred outflow of resources related to the net pension liability reported in the Statement of Net Position.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or 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 Group has recognized a deferred inflow of resources related to the net pension liability reported in the Statement of Net Position.

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.

Revenue Recognition: 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 Group can assess its members' additional contributions. Supplemental assessments are recognized as income in the period assessed. Operating revenues and expenses include all activities necessary to achieve the objectives of the Group. Non-operating revenues and expenses include investment activities, dividends expense and other non-essential activity.

Designated Net Position: As of June 30, 2018 and 2017, the Board has designated net position of \$3,051,374 and \$2,633,620, respectively.

Designated net position consists of:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|--------------|--------------|
| Capital target | \$ 2,161,630 | \$ 1,721,936 |
| Confidence level funding to 80% | \$ 751,000 | \$ 772,000 |
| Member grants | \$ 28,000 | \$ 28,000 |
| Early retiree reinsurance program | \$ 111,684 | \$ 111,684 |

Dividends and Rate Stabilization: The Group's Executive Committee reviews the available net position and the appropriate actuarial information to determine if a contribution refund should be declared. Each members' pro rata share of the contributions refund shall be calculated in the same proportion as their contribution paid during the fiscal year for which the contribution refund is declared.

The Group's Board of Directors declared a dividend totaling \$1,929,001 from the property and liability program for the year ended June 30, 2018. There were no dividends declared for the year ended 2017.

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.

Income Taxes: The Group is exempt from Federal income taxes under Internal Revenue Code Section 115, which excludes income derived from the exercise of any essential governmental function and accruing to a state political subdivision. As a public agency, the Group is also exempt from California state taxes. Accordingly, no provision for Federal or state income taxes has been made in the accompanying financial statements.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018 and 2017 are reported at amortized cost and consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------|---------------|
| Cash and cash equivalents: | | |
| Cash in bank | \$ 1,177,030 | \$ 488,726 |
| Cash in County Treasury | 20,994,089 | 17,767,994 |
| Local Agency Investment Fund | 20,467 | 20,228 |
| Total cash and cash equivalents | \$ 22,191,586 | \$ 18,276,948 |

Custodial Credit Risk: The Group 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). As of June 30, 2018 and 2017 the carrying amount of the Group's accounts was \$1,177,030 and \$488,726, respectively. As of June 30, 2018, the bank balances of the Group's accounts totaled \$1,189,971, of which \$773,494 was uninsured but collateralized. As of June 30, 2017, the bank balances of the Group's accounts totaled \$554,693, all of which was insured by the FDIC.

Cash in County Treasury: The Group maintains substantially all of its cash in the interest bearing Santa Clara County Treasurer's Pooled Investment Fund. The Group is considered to be an involuntary participant in an external investment pool. The fair value of the Group investment in the pool is reported in the financial statements at amounts based upon the Group's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. In accordance with applicable state laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2018, the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Local Agency Investment Fund: The Group 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 of California and invests the cash. The Group's investment in the pool is reported in the accompanying financial statements based upon the Group's pro-rata share of the amortized cost as provided by LAIF in proportion to the amortized cost of entire LAIF portfolio. The funds held in the pooled investments 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 may be withdrawn at any time up to the total amount on deposit with LAIF. Most withdrawals are accessible and transferable to the Group's master account on the same day as the request, except for amounts greater than \$10,000,000, which require twenty-four hours' advance 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. As of June 30, 2018, this fund was yielding approximate interest rate of 1.90% annually. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814.

Investment Interest Rate Risk: The Group's investment policy limits investment maturities to 5 years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk: The Group's investment policy limits investment choices to obligations of the United States Treasury, its agencies and instrumentalities, California state obligations, medium term notes that rate at least A or equivalent by a NRSRO, and prime commercial paper with maturities not exceeding 270 days with the highest ranking or of the highest letter and number rating as provided by a NRSRO, bankers' acceptances and repurchase agreements. As of June 30, 2018 and 2017, the Group did not hold any investments.

Concentration of Investment Credit Risk: The Group places limits on the amount it may invest in any one issuer, of 25% maximum by type (with no limits on U.S. Government Securities), no more than 10% in commercial paper and bankers' acceptances, and no more than 5% in medium term notes.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 3 – PREFUND DEPOSITS

This balance represents amounts on deposit with the claims administrators that are used for the payment of claims to beneficiaries. Balances as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|------------------------|-------------------|---------------------|
| Vision Service Plan | \$ 80,000 | \$ 235,585 |
| Delta Dental | <u>700,000</u> | <u>1,369,185</u> |
| Total prefund deposits | <u>\$ 780,000</u> | <u>\$ 1,604,770</u> |

NOTE 4 – SAFETY CREDIT LIABILITY

Safety credits are treated as a liability to member entities. Participation in the program is optional. During the years ended June 30, 2018 and 2017, the Group maintained accounts for 13 member entities.

The safety credit balance of the participating members as of June 30, 2018 and 2017 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Berryessa Union School District | \$ 46,282 | \$ 46,109 |
| Cambrian School District | 16,247 | 5,237 |
| Campbell Union School District | 7,647 | 7,647 |
| East Side Union High School District | 368,120 | 233,836 |
| Franklin-McKinley School District | 66,962 | 58,377 |
| Los Altos School District | 121,225 | 112,532 |
| Los Gatos-Saratoga Joint Union School District | 92,878 | 78,890 |
| Luther Burbank School District | 40,600 | 36,624 |
| Metropolitan Education District | (584) | (584) |
| Milpitas Unified School District | 115 | 115 |
| Moreland Elementary School District | 105,334 | 91,407 |
| Oak Grove School District | 41,562 | 46,163 |
| Sunnyvale School District | <u>83,222</u> | <u>61,249</u> |
| Total | <u>\$ 989,610</u> | <u>\$ 777,602</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 – UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

As discussed in Note 1, the Group establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Unpaid claims and claim adjustment expenses, beginning of fiscal year | \$ <u>3,704,368</u> | \$ <u>3,567,594</u> |
| Incurred claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | 9,251,683 | 8,981,080 |
| Change in provision for unallocated loss adjustment expense | (7,993) | (39,160) |
| Change in provision for covered events of prior years | <u>(470,037)</u> | <u>(89,771)</u> |
| Total incurred claims and claim adjustment expenses | <u>8,773,653</u> | <u>8,852,149</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to covered events of the current year | 8,477,924 | 7,988,447 |
| Claims and claims adjustment expenses attributable to covered events of prior years | <u>798,498</u> | <u>726,928</u> |
| Total payments | <u>9,276,422</u> | <u>8,715,375</u> |
| Total unpaid claims and claim adjustment expenses, end of fiscal year | <u>\$ 3,201,599</u> | <u>\$ 3,704,368</u> |

The components of the Group's unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Claims reserves | \$ 1,787,885 | \$ 2,006,433 |
| Claims incurred but not reported (IBNR) | 1,197,097 | 1,473,325 |
| Unallocated loss adjustment expenses (ULAE) | <u>216,617</u> | <u>224,610</u> |
| | <u>\$ 3,201,599</u> | <u>\$ 3,704,368</u> |

The current and long-term portions were \$1,391,942 and \$1,809,657, respectively, as of June 30, 2018 and were \$1,572,891 and \$2,131,477, respectively, as of June 30, 2017. These liabilities for the Workers' Compensation, Property and Liability programs were reported at their present value using a discount rate of 2% for the years ended June 30, 2018 and 2017, respectively. The undiscounted liabilities were \$3,374,895 and \$3,810,827 at June 30, 2018 and 2017, respectively.

See required supplementary information on pages 28 - 37.

(Continued)

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

General Information about the Public Employer's Retirement Fund

Plan Description: The Group contributes to the Miscellaneous 2% at 55 Risk Pool under the California Public Employees' Retirement System (CalPERS) California Employers Retirement Fund C (PERF C), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan ("the 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 are 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 publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

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

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. 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.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 were as follows:

Plan Members – The plan member contribution rate was 7.94 percent of applicable plan member earnings for the years ended June 30, 2017 and 2016.

Employers – The employer contribution rate was 19.44 percent of applicable plan member earnings for the years ended June 30, 2018 and 2017.

For the years ended June 30, 2018, 2017 and 2016, the Group's annual pension cost and contributions to the plan were \$63,483, \$63,750, and \$54,566, respectively, which equated to 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, 2018, the Group reported a liability of \$631,376 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 Group's proportion of the net pension liability was based on the Group's share of contributions to the pension plan relative to the contributions of all participating agencies, actuarially determined. At June 30, 2017, the Group's proportion was 0.016 percent, which was an increase of .001 percent from its proportion measured as of June 30, 2016.

At June 30, 2017, the Group reported a liability of \$557,905 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Group's proportion of the net pension liability was based on the Group's share of contributions to the pension plan relative to the contributions of all participating agencies, actuarially determined. At June 30, 2016, the Group's proportion was 0.015 percent, which was unchanged from its proportion measured as of June 30, 2015.

For the years ended June 30, 2018 and 2017, the Group recognized pension expense of \$109,808 and \$36,521, respectively.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

At June 30, 2018, the Group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ - | \$ 13,366 |
| Changes of assumptions | 114,955 | - |
| Net differences between projected and actual earnings on investments | 28,144 | - |
| Changes in proportion and differences between Group contributions and proportionate share of contributions | 15,582 | 30,270 |
| Contributions made subsequent to measurement date | <u>63,483</u> | <u>-</u> |
| Total | <u>\$ 222,165</u> | <u>\$ 43,636</u> |

At June 30, 2018, \$63,483 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, 2019. 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 <u>June 30,</u> | |
|--------------------------------|-------------|
| 2019 | \$ 15,809 |
| 2020 | \$ 73,265 |
| 2021 | \$ 42,681 |
| 2022 | \$ (16,710) |

Differences between expected and actual experience, changes in proportion, and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

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

At June 30, 2017, the Group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 2,050 | \$ 550 |
| Changes of assumptions | 978 | 19,393 |
| Net differences between projected and actual earnings on investments | 95,843 | - |
| Changes in proportion and differences between Group contributions and proportionate share of contributions | 5,588 | 3,406 |
| Contributions made subsequent to measurement date | 63,750 | - |
| Total | \$ 168,209 | \$ 23,349 |

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2016 |
| Experience Study | June 30, 1997 through June 30, 2011 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.15% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | 3.00% |
| Post-retirement Benefit Increases | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter |

The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2007. 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, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

During the 2016-17 measurement period, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

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

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.

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Real Rate of Return Years 1-10**</u> | <u>Real Rate of Return Years 11+***</u> |
|-------------------------------|---------------------------------|---|---|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Fixed Income | 19.0 | 0.80 | 2.27 |
| Inflation Assets | 6.0 | 0.60 | 1.39 |
| Private Equity | 12.0 | 6.60 | 6.63 |
| Real Estate | 11.0 | 2.80 | 5.21 |
| Infrastructure and Forestland | 3.0 | 3.90 | 5.36 |
| Liquidity | 2.0 | (0.40) | (0.90) |

** An expected inflation of 2.5% used for this period.
 *** An expected inflation of 3.0% used for this period.

Discount rate: At June 30, 2018 and 2017, the discount rate used to measure the total pension liability was 7.15 and 7.65 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.

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 cash flows of the Plan. 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 Plan's 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. 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.

Sensitivity of the Group's proportionate share of the net pension liability to changes in the discount rate: For the year ended June 30, 2018, the following presents the Group's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the Group's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Group's proportionate share of the net pension liability | \$ 1,041,580 | \$ 631,376 | \$ 291,638 |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND (Continued)

For the year ended June 30, 2017, the following presents the Group's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the Group's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

| | 1% Decrease <u>(6.65%)</u> | Current Discount Rate <u>(7.65%)</u> | 1% Increase <u>(8.65%)</u> |
|---|----------------------------------|--|----------------------------------|
| Group's proportionate share of the net pension liability | \$ <u>869,201</u> | \$ <u>557,905</u> | \$ <u>300,634</u> |

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

NOTE 7 – GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the years ended June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|---------------------|---------------------|
| Salaries and benefits | \$ 698,949 | \$ 690,576 |
| Consultants | 223,721 | 162,276 |
| Travel/Conference/Meeting | 76,581 | 92,226 |
| Rent/Lease | 60,552 | 58,332 |
| Office expenses | 24,670 | 22,429 |
| Dues/Publications/Memberships | 5,825 | 2,210 |
| Loss control | <u>19,049</u> | <u>16,554</u> |
| Total | <u>\$ 1,109,347</u> | <u>\$ 1,044,603</u> |

NOTE 8 – OPERATING LEASE

The Group has entered into an annual operating lease for the years ended June 30, 2018 and 2017. The Group pays office rent on a monthly basis. Total rent paid to Franklin-McKinley School District for the years ending June 30, 2018 and 2017 was \$60,552 and \$58,332, respectively. No amounts were due to Franklin-McKinley School District as of June 30, 2018.

NOTE 9 – JOINT POWERS AUTHORITIES

The Group is a member in three separate joint powers authorities (collectively, the "JPAs") under joint powers agreements with Protected Insurance Program for Schools Joint Powers Authority (PIPS), Alliance of Schools for Cooperative Insurance Programs (ASCIP) and Schools Excess Liability Fund (SELF). The relationship between the Group and the JPAs are such that the JPAs are not component units of the Group for financial reporting purposes.

PIPS arranges for and provides excess workers' compensation from \$0 to \$150,000,000. ASCIP arranges for and provides excess property/liability coverage from \$100,000/100,000 to \$500,000,000/5,000,000. SELF arranges for and provides excess liability coverage from \$5,000,000 to \$25,000,000. The JPAs are each governed by a board consisting of a representative from each of their respective member districts. These boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member pays a contribution commensurate with the level of coverage requested. There have been no significant reductions in insurance coverage, from the coverage provided in the prior year.

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 9 – JOINT POWERS AUTHORITIES (Continued)

Condensed financial information for PIPS, ASCIP and SELF for the fiscal year ended June 30, 2017 (the latest information available) is presented below:

| | <u>PIPS</u> | <u>ASCIP</u> | <u>SELF</u> |
|-------------------------|----------------------|-----------------------|-----------------------|
| Total assets | \$ 129,260,118 | \$ 432,804,369 | \$ 118,692,006 |
| Total deferred outflows | - | 1,683,588 | 497,939 |
| Total liabilities | 111,815,654 | 239,767,762 | 101,064,545 |
| Total deferred inflows | <u>-</u> | <u>604,583</u> | <u>28,087</u> |
| Total net position | <u>\$ 17,444,464</u> | <u>\$ 194,115,612</u> | <u>\$ 18,097,313</u> |
| Revenues | \$ 301,089,852 | \$ 271,484,105 | \$ 15,139,473 |
| Expenses | <u>296,996,362</u> | <u>262,183,364</u> | <u>19,471,187</u> |
| Change in net position | <u>\$ 4,093,490</u> | <u>\$ 9,300,741</u> | <u>\$ (4,331,714)</u> |

NOTE 10 – CONTINGENCIES

The Group is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Group.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Unpaid claims and claim adjustment expenses, beginning of year | \$ 1,686,080 | \$ 1,985,875 |
| Incurring claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | - | - |
| Change in provision for unallocated loss adjustment expense | (2,252) | (39,346) |
| Change in provision for covered events of prior years | <u>32,372</u> | <u>(122,732)</u> |
| Total incurred claims and claim adjustment expenses | <u>30,116</u> | <u>(162,078)</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to covered events of the current year | - | - |
| Claims and claims adjustment expenses attributable to covered events of prior years | <u>193,739</u> | <u>137,717</u> |
| Total payments | <u>193,739</u> | <u>137,717</u> |
| Total unpaid claims and claim adjustment expenses, end of year | <u>\$ 1,522,457</u> | <u>\$ 1,686,080</u> |

The components of the unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Claims reserves | \$ 1,236,051 | \$ 1,331,156 |
| Claims incurred but not reported (IBNR) | 99,470 | 165,732 |
| Unallocated loss adjustment expenses (ULAE) | <u>186,936</u> | <u>189,192</u> |
| | <u>\$ 1,522,457</u> | <u>\$ 1,686,080</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
PROPERTY/LIABILITY PROGRAM
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Unpaid claims and claim adjustment expenses, beginning of year | \$ <u>1,403,369</u> | \$ <u>969,210</u> |
| Incurring claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | 743,356 | 713,561 |
| Change in provision for unallocated loss adjustment expense | | |
| Change in provision for covered events of prior years | <u>(502,409)</u> | <u>32,961</u> |
| Total incurred claims and claim adjustment expenses | <u>240,947</u> | <u>746,522</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to covered events of the current year | 247,950 | 121,439 |
| Claims and claims adjustment expenses attributable to covered events of prior years | <u>188,215</u> | <u>190,924</u> |
| Total payments | <u>436,165</u> | <u>312,363</u> |
| Total unpaid claims and claim adjustment expenses, end of year | <u>\$ 1,208,151</u> | <u>\$ 1,403,369</u> |

The components of the unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Claims reserves | \$ 721,963 | \$ 675,277 |
| Claims incurred but not reported (IBNR) | <u>486,188</u> | <u>728,092</u> |
| | <u>\$ 1,208,151</u> | <u>\$ 1,403,369</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
 VISION PROGRAM

For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Unpaid claims and claim adjustment expenses, beginning of year | \$ <u>48,791</u> | \$ <u>47,647</u> |
| Incurred claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | 804,116 | 802,396 |
| Change in provision for unallocated loss adjustment expense | (1,443) | 119 |
| Change in provision for covered events of prior years | <u>-</u> | <u>-</u> |
| Total incurred claims and claim adjustment expenses | <u>802,673</u> | <u>802,515</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to covered events of the current year | 772,050 | 759,273 |
| Claims and claims adjustment expenses attributable to covered events of prior years | <u>42,806</u> | <u>42,098</u> |
| Total payments | <u>814,856</u> | <u>801,371</u> |
| Total unpaid claims and claim adjustment expenses, end of year | <u>\$ 36,608</u> | <u>\$ 48,791</u> |

The components of the unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Claims incurred but not reported (IBNR) | \$ 32,960 | \$ 43,700 |
| Unallocated loss adjustment expenses (ULAE) | <u>3,648</u> | <u>5,091</u> |
| | <u>\$ 36,608</u> | <u>\$ 48,791</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
 DENTAL PROGRAM

For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Unpaid claims and claim adjustment expenses, beginning of year | \$ <u>566,128</u> | \$ <u>564,862</u> |
| Incurred claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | 7,704,211 | 7,465,123 |
| Change in provision for unallocated loss adjustment expense | (4,294) | 67 |
| Change in provision for covered events of prior years | <u>-</u> | <u>-</u> |
| Total incurred claims and claim adjustment expenses | <u>7,699,917</u> | <u>7,465,190</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to covered events of the current year | 7,457,924 | 7,107,735 |
| Claims and claims adjustment expenses attributable to covered events of prior years | <u>373,738</u> | <u>356,189</u> |
| Total payments | <u>7,831,662</u> | <u>7,463,924</u> |
| Total unpaid claims and claim adjustment expenses, end of year | <u>\$ 434,383</u> | <u>\$ 566,128</u> |

The components of the unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Claims incurred but not reported (IBNR) | \$ 408,350 | \$ 535,801 |
| Unallocated loss adjustment expenses (ULAE) | <u>26,033</u> | <u>30,327</u> |
| | <u>\$ 434,383</u> | <u>\$ 566,128</u> |

See independent auditor's report.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
For the Year Ended June 30, 2018

The tables that follow illustrate how the Group's earned revenues (net of excess insurance) and investment income compared to related costs of loss and other expenses assumed by the Group as of the end of each of the previous ten years. The rows of the tables are defined as follows:

- (1) Total of each fiscal year's gross earned deposit and reported investment revenue, amounts of excess insurance premiums paid, and reported premiums (net of reinsurance) 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 gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurers, 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 fiscal year).
- (4) Cumulative net amounts paid as of the end of successive years for each fiscal year.
- (5) Latest reestimated amount of losses assumed by the excess insurers for each fiscal year.
- (6) Each fiscal year's net incurred losses increases or decreases as of the end of successive years. This annual reestimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.
- (7) Compares the latest reestimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual fiscal years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature fiscal years.

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

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
PROPERTY/LIABILITY PROGRAM
June 30, 2018

| | For Policy Years Ended June 30, | | | | | | | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| 1. Premiums and investment revenue: | | | | | | | | | | |
| Earned | \$ 3,441,380 | \$ 3,530,512 | \$ 3,655,313 | \$ 3,512,159 | \$ 3,710,308 | \$ 3,818,009 | \$ 3,836,010 | \$ 3,999,267 | \$ 4,171,044 | \$ 4,292,188 |
| Ceded | <u>(1,845,858)</u> | <u>(2,012,239)</u> | <u>(2,145,887)</u> | <u>(2,124,616)</u> | <u>(2,339,751)</u> | <u>(2,509,098)</u> | <u>(2,665,056)</u> | <u>(2,740,585)</u> | <u>(2,869,033)</u> | <u>(2,993,101)</u> |
| Net earned | <u>\$ 1,595,522</u> | <u>\$ 1,518,273</u> | <u>\$ 1,509,426</u> | <u>\$ 1,387,543</u> | <u>\$ 1,370,557</u> | <u>\$ 1,308,911</u> | <u>\$ 1,170,954</u> | <u>\$ 1,224,456</u> | <u>\$ 1,302,011</u> | <u>\$ 1,299,087</u> |
| 2. Unallocated expenses | \$ 264,481 | \$ 254,074 | \$ 231,477 | \$ 297,291 | \$ 309,281 | \$ 317,226 | \$ 355,662 | \$ 373,713 | \$ 404,942 | \$ 442,998 |
| 3. Estimated losses and expense end of fiscal year: | | | | | | | | | | |
| Incurred | \$ 1,029,786 | \$ 902,306 | \$ 1,059,130 | \$ 891,636 | \$ 894,740 | \$ 855,659 | \$ 711,108 | \$ 737,474 | \$ 713,561 | \$ 743,356 |
| Ceded | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net incurred | <u>\$ 1,029,786</u> | <u>\$ 902,306</u> | <u>\$ 1,059,130</u> | <u>\$ 891,636</u> | <u>\$ 894,740</u> | <u>\$ 855,659</u> | <u>\$ 711,108</u> | <u>\$ 737,474</u> | <u>\$ 713,561</u> | <u>\$ 743,356</u> |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of fiscal year | \$ 395,698 | \$ 170,274 | \$ 499,345 | \$ 51,205 | \$ 80,642 | \$ 24,134 | \$ 101,527 | \$ 203,115 | \$ 121,439 | \$ 247,950 |
| One year later | \$ 475,125 | \$ 781,592 | \$ 751,378 | \$ 188,815 | \$ 151,315 | \$ 198,083 | \$ 476,080 | \$ 372,047 | \$ 244,564 | |
| Two years later | \$ 488,922 | \$ 1,039,695 | \$ 718,749 | \$ 252,651 | \$ 286,902 | \$ 301,650 | \$ 472,144 | \$ 442,084 | | |
| Three years later | \$ 520,714 | \$ 1,180,048 | \$ 829,838 | \$ 316,711 | \$ 326,609 | \$ 307,616 | \$ 652,144 | | | |
| Four years later | \$ 529,804 | \$ 1,248,625 | \$ 870,825 | \$ 358,347 | \$ 343,300 | \$ 307,616 | | | | |
| Five years later | \$ 528,148 | \$ 1,308,911 | \$ 870,974 | \$ 362,859 | \$ 342,565 | | | | | |
| Six years later | \$ 542,893 | \$ 1,308,911 | \$ 870,974 | \$ 362,859 | | | | | | |
| Seven years later | \$ 541,099 | \$ 1,308,911 | \$ 870,974 | | | | | | | |
| Eight years later | \$ 539,858 | \$ 1,308,911 | | | | | | | | |
| Nine years later | \$ 539,261 | | | | | | | | | |
| 5. Reestimated ceded losses and expenses | \$ 11,724 | \$ 7,242 | \$ 1,500 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6. Reestimated net incurred losses and expenses: | | | | | | | | | | |
| End of fiscal year | \$ 1,029,786 | \$ 902,306 | \$ 1,059,130 | \$ 891,636 | \$ 894,740 | \$ 855,659 | \$ 711,108 | \$ 737,474 | \$ 713,561 | \$ 743,356 |
| One year later | \$ 841,777 | \$ 1,274,188 | \$ 927,575 | \$ 501,617 | \$ 556,726 | \$ 408,256 | \$ 771,056 | \$ 761,850 | \$ 520,144 | |
| Two years later | \$ 605,387 | \$ 1,193,016 | \$ 1,055,464 | \$ 425,872 | \$ 513,769 | \$ 386,665 | \$ 850,508 | \$ 727,573 | | |
| Three years later | \$ 538,568 | \$ 1,315,892 | \$ 943,492 | \$ 385,174 | \$ 360,890 | \$ 350,696 | \$ 772,580 | | | |
| Four years later | \$ 545,715 | \$ 1,354,259 | \$ 870,825 | \$ 378,926 | \$ 343,300 | \$ 338,856 | | | | |
| Five years later | \$ 528,976 | \$ 1,308,911 | \$ 870,974 | \$ 362,859 | \$ 342,565 | | | | | |
| Six years later | \$ 542,893 | \$ 1,308,911 | \$ 870,974 | \$ 362,859 | | | | | | |
| Seven years later | \$ 541,099 | \$ 1,308,911 | \$ 870,974 | | | | | | | |
| Eight years later | \$ 539,858 | \$ 1,308,911 | | | | | | | | |
| Nine years later | \$ 539,858 | | | | | | | | | |
| 7. (Decrease) increase in estimated net incurred losses and expenses from end of fiscal year | <u>\$ (491,525)</u> | <u>\$ 406,605</u> | <u>\$ (188,156)</u> | <u>\$ (528,777)</u> | <u>\$ (552,175)</u> | <u>\$ (516,803)</u> | <u>\$ 61,472</u> | <u>\$ (9,901)</u> | <u>\$ (193,417)</u> | <u>\$ -</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
VISION PROGRAM
June 30, 2018

| | For Policy Years Ended June 30, | | | | | | | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| 1. Premiums and investment revenue: | | | | | | | | | | |
| Earned | \$ 1,339,523 | \$ 1,323,888 | \$ 1,327,674 | \$ 1,312,818 | \$ 1,269,012 | \$ 1,319,909 | \$ 1,268,527 | \$ 1,154,567 | \$ 1,185,976 | \$ 1,418,904 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net earned | <u>\$ 1,339,523</u> | <u>\$ 1,323,888</u> | <u>\$ 1,327,674</u> | <u>\$ 1,312,818</u> | <u>\$ 1,269,012</u> | <u>\$ 1,319,909</u> | <u>\$ 1,268,527</u> | <u>\$ 1,150,064</u> | <u>\$ 1,185,976</u> | <u>\$ 1,418,904</u> |
| 2. Unallocated expenses | \$ 170,265 | \$ 172,620 | \$ 167,839 | \$ 171,170 | \$ 162,748 | \$ 164,632 | \$ 164,720 | \$ 159,494 | \$ 172,206 | \$ 218,601 |
| 3. Estimated losses and expense end of fiscal year: | | | | | | | | | | |
| Incurred | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | \$ 831,714 | \$ 804,516 | \$ 804,116 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | <u>\$ 1,145,813</u> | <u>\$ 1,154,580</u> | <u>\$ 1,125,424</u> | <u>\$ 1,145,800</u> | <u>\$ 1,077,716</u> | <u>\$ 1,005,804</u> | <u>\$ 993,049</u> | <u>\$ 831,714</u> | <u>\$ 804,516</u> | <u>\$ 804,116</u> |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of fiscal year | \$ 1,096,971 | \$ 1,109,824 | \$ 1,074,620 | \$ 1,091,611 | \$ 1,029,770 | \$ 958,035 | \$ 956,845 | \$ 797,262 | \$ 759,273 | \$ 772,050 |
| One year later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,143,054 | \$ 1,077,716 | \$ 994,238 | \$ 991,297 | \$ 831,714 | \$ 804,516 | |
| Two years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,143,054 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | \$ 831,714 | | |
| Three years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,143,054 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | | | |
| Four years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | | | | |
| Five years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | | | | | |
| Six years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | | | | | | |
| Seven years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | | | | | | | |
| Eight years later | \$ 1,145,813 | \$ 1,154,580 | | | | | | | | |
| Nine years later | \$ 1,145,813 | | | | | | | | | |
| 5. Reestimated ceded losses and expenses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6. Reestimated net incurred losses and expenses: | | | | | | | | | | |
| End of fiscal year | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | \$ 831,714 | \$ 804,516 | \$ 804,116 |
| One year later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | \$ 831,714 | \$ 804,516 | |
| Two years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | \$ 831,714 | | |
| Three years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | \$ 993,049 | | | |
| Four years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | \$ 1,005,804 | | | | |
| Five years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | \$ 1,077,716 | | | | | |
| Six years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | \$ 1,145,800 | | | | | | |
| Seven years later | \$ 1,145,813 | \$ 1,154,580 | \$ 1,125,424 | | | | | | | |
| Eight years later | \$ 1,145,813 | \$ 1,154,580 | | | | | | | | |
| Nine years later | \$ 1,145,813 | | | | | | | | | |
| 7. (Decrease) increase in estimated net incurred losses and expenses from end of fiscal year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
DENTAL PROGRAM
June 30, 2018

| | For Policy Years Ended June 30, | | | | | | | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 1. Premiums and investment revenue: | | | | | | | | | | |
| Earned | \$ 8,276,185 | \$ 8,156,797 | \$ 9,214,681 | \$ 9,234,736 | \$ 9,492,264 | \$ 9,861,779 | \$ 9,416,390 | \$ 8,939,311 | \$ 9,201,910 | \$ 9,056,838 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net earned | <u>\$ 8,276,185</u> | <u>\$ 8,156,797</u> | <u>\$ 9,214,681</u> | <u>\$ 9,234,736</u> | <u>\$ 9,492,264</u> | <u>\$ 9,861,779</u> | <u>\$ 9,416,390</u> | <u>\$ 8,939,311</u> | <u>\$ 9,201,910</u> | <u>\$ 9,056,838</u> |
| 2. Unallocated expenses | \$ 576,308 | \$ 601,020 | \$ 676,745 | \$ 659,131 | \$ 604,255 | \$ 626,879 | \$ 572,170 | \$ 591,986 | \$ 606,687 | \$ 601,424 |
| 3. Estimated losses and expense end of fiscal year: | | | | | | | | | | |
| Incurred | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | \$ 7,465,123 | \$ 7,704,211 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | <u>\$ 7,140,148</u> | <u>\$ 7,512,538</u> | <u>\$ 8,673,929</u> | <u>\$ 8,442,183</u> | <u>\$ 8,120,455</u> | <u>\$ 8,473,446</u> | <u>\$ 7,935,616</u> | <u>\$ 7,857,330</u> | <u>\$ 7,465,123</u> | <u>\$ 7,704,211</u> |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of fiscal year | \$ 6,624,183 | \$ 6,463,228 | \$ 7,405,575 | \$ 7,290,856 | \$ 7,773,282 | \$ 7,957,771 | \$ 7,435,737 | \$ 7,337,114 | \$ 7,107,735 | \$ 7,457,924 |
| One year later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | \$ 7,465,123 | |
| Two years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | | |
| Three years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | | | |
| Four years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | | | | |
| Five years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | | | | | |
| Six years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | | | | | | |
| Seven years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | | | | | | | |
| Eight years later | \$ 7,140,148 | \$ 7,512,538 | | | | | | | | |
| Nine years later | \$ 7,140,148 | | | | | | | | | |
| 5. Reestimated ceded losses and expenses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6. Reestimated net incurred losses and expenses: | | | | | | | | | | |
| End of fiscal year | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | \$ 7,465,123 | \$ 7,704,211 |
| One year later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | \$ 7,465,123 | |
| Two years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | \$ 7,857,330 | | |
| Three years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | \$ 7,935,616 | | | |
| Four years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | \$ 8,473,446 | | | | |
| Five years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | \$ 8,120,455 | | | | | |
| Six years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | \$ 8,442,183 | | | | | | |
| Seven years later | \$ 7,140,148 | \$ 7,512,538 | \$ 8,673,929 | | | | | | | |
| Eight years later | \$ 7,140,148 | \$ 7,512,538 | | | | | | | | |
| Nine years later | \$ 7,140,148 | | | | | | | | | |
| 7. (Decrease) increase in estimated net incurred losses and expenses from end of fiscal year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

See independent auditor's report.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 SCHEDULE OF THE GROUP'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

Public Employer's Retirement Fund C
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|-------------|-------------|-------------|-------------|
| The Group's proportion of the net pension liability | 0.015% | 0.015% | 0.015% | 0.016% |
| The Group's proportionate share of the net pension liability | \$ 359,786 | \$ 447,432 | \$ 557,905 | \$ 631,376 |
| The Group's covered payroll | \$ 343,882 | \$ 351,000 | \$ 335,000 | \$ 328,000 |
| The Group's proportionate share of the net pension liability as a percentage of its covered payroll | 104.62% | 127.47% | 166.54% | 187.65% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.9% | 79.9% | 75.9% | 75.4% |

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.

See independent auditor's report.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 SCHEDULE OF THE GROUP'S CONTRIBUTIONS
 For the Year Ended June 30, 2018

Public Employer's Retirement Fund C
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 51,053 | \$ 54,566 | \$ 63,750 | \$ 63,483 |
| Contributions in relation to the contractually required contribution | <u>(51,053)</u> | <u>(54,566)</u> | <u>(63,750)</u> | <u>(63,483)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| The Group's covered payroll | \$ 351,000 | \$ 335,000 | \$ 328,000 | \$ 327,000 |
| Contributions as a percentage of covered payroll | 14.55% | 16.29% | 19.44% | 19.44% |

All years prior to 2015 are not available.

See independent auditor's report.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of the Group's Proportionate Share of the Net Pension Liability

The Schedule of the Group's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the Group'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.

B - Schedule of the Group's Contributions:

The Schedule of the Group's Contributions is presented to illustrate the Group'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.

C - Changes of Benefit Terms:

There were no changes in benefit terms reported in the Required Supplementary Information.

D - Changes of Assumptions:

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

See independent auditor's report.

SUPPLEMENTARY INFORMATION

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENT OF NET POSITION
 June 30, 2018

| | <u>Workers'</u> <u>Compen-</u> <u>sation</u> | <u>Property</u> <u>and</u> <u>Liability</u> | <u>Medical</u> | <u>Vision</u> | <u>Dental</u> | <u>2018</u> <u>Total</u> |
|---|--|---|-------------------|---------------------|---------------------|-----------------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 3,332,557 | \$ 7,149,020 | \$ 266,434 | \$ 1,709,013 | \$ 9,734,562 | \$ 22,191,586 |
| Prefund deposits | - | - | - | 80,000 | 700,000 | 780,000 |
| Accounts receivable: | | | | | | |
| Members | 709,668 | 259,280 | 1,826 | - | - | 970,774 |
| Excess insurance | 28,498 | - | - | - | - | 28,498 |
| Interest | 5,933 | 12,739 | 474 | 3,064 | 17,322 | 39,532 |
| Other | - | 397 | - | - | - | 397 |
| Prepaid expenses | <u>2,523</u> | <u>2,523</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,046</u> |
| Total assets | <u>4,079,179</u> | <u>7,423,959</u> | <u>268,734</u> | <u>1,792,077</u> | <u>10,451,884</u> | <u>24,015,833</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Deferred outflow of resources – pension | <u>109,905</u> | <u>96,112</u> | <u>4,038</u> | <u>6,055</u> | <u>6,055</u> | <u>222,165</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 24,881 | 15,040 | 11,429 | 155,874 | 1,403,122 | 1,610,346 |
| Member dividend payable | - | 1,929,001 | - | - | - | 1,929,001 |
| Payroll payable | 4,258 | 8,396 | 215 | 232 | 232 | 13,333 |
| Insurance premiums payable | 404,003 | - | - | - | - | 404,003 |
| Safety credits | 989,610 | - | - | - | - | 989,610 |
| Current portion of unpaid claims and claim adjustment expenses | <u>198,988</u> | <u>721,963</u> | <u>-</u> | <u>36,608</u> | <u>434,383</u> | <u>1,391,942</u> |
| Total current liabilities | <u>1,621,740</u> | <u>2,674,400</u> | <u>11,644</u> | <u>192,714</u> | <u>1,837,737</u> | <u>6,338,235</u> |
| Net pension liability | 311,782 | 266,035 | 13,389 | 20,085 | 20,085 | 631,376 |
| Unpaid claims and claim adjustment expenses, less current portion | <u>1,323,469</u> | <u>486,188</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,809,657</u> |
| Total liabilities | <u>3,256,991</u> | <u>3,426,623</u> | <u>25,033</u> | <u>212,799</u> | <u>1,857,822</u> | <u>8,779,268</u> |
| DEFERRED INFLOW OF RESOURCES | | | | | | |
| Deferred inflow of resources – pension | <u>21,656</u> | <u>19,470</u> | <u>561</u> | <u>841</u> | <u>838</u> | <u>43,636</u> |
| NET POSITION | | | | | | |
| Net position – unrestricted | <u>\$ 910,437</u> | <u>\$ 4,073,708</u> | <u>\$ 247,178</u> | <u>\$ 1,584,492</u> | <u>\$ 8,599,279</u> | <u>\$ 15,415,094</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENT OF NET POSITION
 June 30, 2017

| | <u>Workers'</u> <u>Compen-</u> <u>sation</u> | <u>Property</u> <u>and</u> <u>Liability</u> | <u>Medical</u> | <u>Vision</u> | <u>Dental</u> | <u>2017</u> <u>Total</u> |
|---|--|---|-------------------|---------------------|---------------------|-----------------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 3,023,811 | \$ 6,859,106 | \$ 338,731 | \$ 1,014,001 | \$ 7,041,299 | \$ 18,276,948 |
| Prefund deposits | - | - | - | 235,585 | 1,369,185 | 1,604,770 |
| Accounts receivable: | | | | | | |
| Members | 1,463,531 | 87,234 | - | - | - | 1,550,765 |
| Excess insurance | 81,342 | - | - | - | - | 81,342 |
| Interest | 5,317 | 19,981 | 625 | 2,419 | 18,628 | 46,970 |
| Other | - | 397 | - | - | - | 397 |
| | <u>4,574,001</u> | <u>6,966,718</u> | <u>339,356</u> | <u>1,252,005</u> | <u>8,429,112</u> | <u>21,561,192</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Deferred outflow of resources – pension | <u>82,927</u> | <u>69,136</u> | <u>4,038</u> | <u>6,055</u> | <u>6,053</u> | <u>168,209</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 4,951 | 2,216 | 2,062 | 32 | 27 | 9,288 |
| Payroll payable | (1,128) | 3,808 | (53) | 7 | 7 | 2,641 |
| Insurance premiums payable | 1,266,265 | - | - | - | - | 1,266,265 |
| Safety credits | 777,602 | - | - | - | - | 777,602 |
| Current portion of unpaid claims and claim adjustment expenses | <u>289,383</u> | <u>668,589</u> | <u>-</u> | <u>48,791</u> | <u>566,128</u> | <u>1,572,891</u> |
| | <u>2,337,073</u> | <u>674,613</u> | <u>2,009</u> | <u>48,830</u> | <u>566,162</u> | <u>3,628,687</u> |
| Net pension liability | 275,045 | 229,297 | 13,391 | 20,084 | 20,088 | 557,905 |
| Unpaid claims and claim adjustment expenses, less current portion | <u>1,396,697</u> | <u>734,780</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,131,477</u> |
| | <u>4,008,815</u> | <u>1,638,690</u> | <u>15,400</u> | <u>68,914</u> | <u>586,250</u> | <u>6,318,069</u> |
| DEFERRED INFLOW OF RESOURCES | | | | | | |
| Deferred inflow of resources – pension | <u>11,512</u> | <u>9,597</u> | <u>560</u> | <u>841</u> | <u>839</u> | <u>23,349</u> |
| NET POSITION | | | | | | |
| Net position – unrestricted | <u>\$ 636,601</u> | <u>\$ 5,387,567</u> | <u>\$ 327,434</u> | <u>\$ 1,188,305</u> | <u>\$ 7,848,076</u> | <u>\$ 15,387,983</u> |

See independent auditor's report.

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2018

| | Workers' Compen- sation | Property and Liability | Medical | Vision | Dental | 2018 Total |
|---|-------------------------------|------------------------------|-------------------|---------------------|---------------------|----------------------|
| Operating revenues: | | | | | | |
| Member contributions | \$ 20,737,489 | \$ 4,210,018 | \$ 75,137 | \$ 1,408,956 | \$ 8,980,230 | \$ 35,411,830 |
| Safety credits | 285,568 | - | - | - | - | 285,568 |
| Other | <u>474,630</u> | <u>-</u> | <u>82,263</u> | <u>-</u> | <u>-</u> | <u>556,893</u> |
| Total operating revenues | <u>21,497,687</u> | <u>4,210,018</u> | <u>157,400</u> | <u>1,408,956</u> | <u>8,980,230</u> | <u>36,254,291</u> |
| Expenses: | | | | | | |
| Provision for claims and claim adjustment expenses | 30,116 | 240,947 | - | 802,673 | 7,699,917 | 8,773,653 |
| Excess insurance premiums | 20,323,985 | 2,993,101 | - | - | - | 23,317,086 |
| Safety credits | 343,064 | - | - | - | - | 343,064 |
| Claims administration | 60,000 | - | 116,131 | 193,191 | 578,868 | 948,190 |
| General and administrative expenses | <u>488,552</u> | <u>442,998</u> | <u>124,094</u> | <u>26,853</u> | <u>26,850</u> | <u>1,109,347</u> |
| Total operating expenses | <u>21,245,717</u> | <u>3,677,046</u> | <u>240,225</u> | <u>1,022,717</u> | <u>8,305,635</u> | <u>34,491,340</u> |
| Operating income | <u>251,970</u> | <u>532,972</u> | <u>(82,825)</u> | <u>386,239</u> | <u>674,595</u> | <u>1,762,951</u> |
| Non-operating revenues (expenses): | | | | | | |
| Investment income | 21,866 | 82,170 | 2,569 | 9,948 | 76,608 | 193,161 |
| Dividend expense | <u>-</u> | <u>(1,929,001)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,929,001)</u> |
| Total non-operating Revenues (expenses) | <u>21,866</u> | <u>(1,846,831)</u> | <u>2,569</u> | <u>9,948</u> | <u>76,608</u> | <u>(1,735,840)</u> |
| Change in net position | 273,836 | (1,313,859) | (80,256) | 396,187 | 751,203 | 27,111 |
| Net position, beginning of year | <u>636,601</u> | <u>5,387,567</u> | <u>327,434</u> | <u>1,188,305</u> | <u>7,848,076</u> | <u>15,387,983</u> |
| Net position, end of year | <u>\$ 910,437</u> | <u>\$ 4,073,708</u> | <u>\$ 247,178</u> | <u>\$ 1,584,492</u> | <u>\$ 8,599,279</u> | <u>\$ 15,415,094</u> |

(Continued)

SANTA CLARA COUNTY SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2017

| | Workers' Compen- sation | Property and Liability | Medical | Vision | Dental | 2017 Total |
|---|-------------------------------|------------------------------|-------------------|---------------------|---------------------|----------------------|
| Operating revenues: | | | | | | |
| Member contributions | \$ 20,433,702 | \$ 4,103,924 | \$ 74,191 | \$ 1,177,850 | \$ 9,139,335 | \$ 34,929,002 |
| Safety credits | 356,334 | - | - | - | - | 356,334 |
| Other | <u>498,701</u> | <u>-</u> | <u>146,410</u> | <u>-</u> | <u>-</u> | <u>645,111</u> |
| Total operating revenues | <u>21,288,737</u> | <u>4,103,924</u> | <u>220,601</u> | <u>1,177,850</u> | <u>9,139,335</u> | <u>35,930,447</u> |
| Expenses: | | | | | | |
| Provision for claims and claim adjustment expenses | (162,078) | 746,522 | - | 802,515 | 7,465,190 | 8,852,149 |
| Excess insurance premiums | 20,100,123 | 2,869,033 | - | - | - | 22,969,156 |
| Safety credits | 356,334 | - | - | - | - | 356,334 |
| Claims administration | 60,000 | - | 37,329 | 149,514 | 584,048 | 830,891 |
| General and administrative expenses | <u>516,848</u> | <u>404,942</u> | <u>77,668</u> | <u>22,573</u> | <u>22,572</u> | <u>1,044,603</u> |
| Total operating expenses | <u>20,871,227</u> | <u>4,020,497</u> | <u>114,997</u> | <u>974,602</u> | <u>8,071,810</u> | <u>34,053,133</u> |
| Operating income | <u>417,510</u> | <u>83,427</u> | <u>105,604</u> | <u>203,248</u> | <u>1,067,525</u> | <u>1,877,314</u> |
| Non-operating revenues: | | | | | | |
| Investment income | <u>17,861</u> | <u>67,120</u> | <u>2,098</u> | <u>8,126</u> | <u>62,575</u> | <u>157,780</u> |
| Change in net position | 435,371 | 150,547 | 107,702 | 211,374 | 1,130,100 | 2,035,094 |
| Net position, beginning of year | <u>201,230</u> | <u>5,237,020</u> | <u>219,732</u> | <u>976,931</u> | <u>6,717,976</u> | <u>13,352,889</u> |
| Net position, end of year | <u>\$ 636,601</u> | <u>\$ 5,387,567</u> | <u>\$ 327,434</u> | <u>\$ 1,188,305</u> | <u>\$ 7,848,076</u> | <u>\$ 15,387,983</u> |

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
Santa Clara County Schools' Insurance Group
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the *State Controller's Minimum Audit Requirements for California Special Districts* 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 Santa Clara County Schools' Insurance Group as of and for the year then ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Santa Clara County Schools' Insurance Group's financial statements and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Clara County Schools' Insurance Group'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 Santa Clara County Schools' Insurance Group's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Clara County Schools' Insurance Group'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 Santa Clara County Schools' Insurance Group'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
December 7, 2018