

**Tulare Area Schools
Employee Benefit Authority**
Financial Statements
September 30, 2004 and 2003

Tulare Area Schools
Employee Benefit Authority
(A Partnership)
Tulare, California
September 30, 2004 and 2003

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ADAIR & EVANS

an Accountancy Corporation

May 9, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tulare Area Schools Employee Benefit Authority
Tulare, California

We have audited the accompanying financial statements of Tulare Area Schools Employee Benefit Authority for the years ended September 30, 2004 and 2003, as listed in the table of contents. These statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with generally accepted government auditing standards as well as those standards prescribed by the office of the State Controller of California. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not examine the validity of claims made against or paid in behalf of the authority by the administrator, Foundation for Medical Care of Tulare and Kings Counties, Inc., or by any other claims co-administrators for the Authority. Such an examination would have been outside the scope of the examination which we undertook.

The Authority has not included the *Management's Discussion and Analysis* (MDA) and the direct method of reporting cash flows as required under Governmental Accounting Standard Number 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The MDA does not affect the basic financial statements and disclosures, but may provide other useful information for users in evaluating these financial statements.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we examined the claims referred to above, and except for the effects of not including the MDA report and the direct method of reporting cash flows as discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Tulare Area Schools Employee Benefit Authority at September 30, 2004 and 2003, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

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Tulare Area Schools Employee Benefit Authority
 Balance Sheets
 September 30, 2004 and 2003

ASSETS

	2004	2003
Current assets		
Cash and cash equivalents	\$ 1,657,702	\$ 1,255,675
Receivable - participant billings	0	0
Receivable - stop loss reimbursement	73,270	190,569
Total assets	\$ 1,730,972	\$ 1,446,244

LIABILITIES AND FUND EQUITY

Current liabilities		
Processed claims payable	\$ 313,476	\$ 129,181
Reserve for unpaid claims	1,596,554	1,823,856
Prepaid participant billing	0	0
Total liabilities	1,910,030	1,953,037
Fund Equity	(179,058)	(506,793)
Total liabilities and fund equity	\$ 1,730,972	\$ 1,446,244

Tulare Area Schools Employee Benefit Authority
 Statements of Revenues, Expenditures and Changes in Fund Equity
 For the years ended September 30, 2004 and 2003

	2004	2003
REVENUES		
Premium billing to participating districts and individuals	\$ 13,192,745	\$ 13,103,611
COBRA	63,620	57,837
Interest income	23,122	35,658
 Total revenue	 13,279,487	 13,197,106
 EXPENDITURES		
Claims (net of reimbursements and refunds)	11,745,528	12,399,576
Insurance premiums	722,742	754,751
Administrative and other costs:		
Access fee - K & A	8,836	8,977
Administration - Dental	95,203	86,005
Administration - Foundation	184,061	186,644
Administration - Restat	0	24,044
Agent fees	28,317	28,715
Audit-AB1200 study	4,700	0
CSDC/Eligibility administration fee	8,483	8,079
PPO network costs	43,016	20,573
Legal and professional fees	23,568	4,650
Utilization review	62,436	63,300
Flu vaccine - TDH	7,785	0
Web site administration	4,500	0
Other	12,577	18,317
 Total expenditures	 12,951,752	 13,603,631
 Excess (Deficit) - revenues in excess of expenditures	 327,735	 (406,525)
 FUND BALANCE, October 1	 (506,793)	 (100,268)
 Fund balance, September 30	 \$ (179,058)	 \$ (506,793)

See independent auditors' report and accompanying notes

Tulare Area Schools Employee Benefit Authority
 Statements of Cash Flows
 For the years ended September 30, 2004 and 2003

	2004	2003
Cash flows provided from operating activities:		
Excess (Deficit) - revenues in excess of expenditures	\$ 327,735	\$ (406,525)
Adjustments to reconcile excess (deficit) to net cash provided by operating activities:		
Net change in receivable - participant billings	0	0
Net change in receivable - stop loss reimbursements	117,299	(21,009)
Net change in processed claims payable	184,295	(526,962)
Net change in reserve for unpaid claims	(227,302)	1,163,160
Net change in prepaid participant billings	0	0
Net cash provided (used) by operating activities	402,027	208,664
Cash, October 1	1,255,675	1,047,011
Cash, September 30	\$ 1,657,702	\$ 1,255,675

NOTE 1 - Summary of Significant Accounting Policies

The Tulare Area Schools Employee Benefit Authority ("Authority") is a joint venture organized on October 1, 1980, under the provisions of Title 1, Division 7, Chapter 5, Article 1 of the California Government Code. The Authority operates as a Joint Powers Entity, separate and apart from the public educational agencies which are members of and participate in the Authority. The Authority was formed to create a self-insurance system for medical, dental and vision coverage of the member school districts.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to government agencies. The following is a summary of the more significant provisions:

A. The Reporting Entity

The Authority, for financial purposes, accounts for its activities separate and apart from its member school districts. The financial statements presented herein include only the activities of which the Authority has control.

B. Membership

Membership in the Authority consists of the following agencies:

Oak Valley School District	Tulare City Schools District
Palo Verde School District	T.C.O.V.E.
Tipton Elementary School District	Waukena School District
Tulare Joint Union High School District	

C. Fund Accounting

The accounts of the Authority are organized on the basis of a proprietary fund. The functions of the Authority include the requirement of providing a self-insurance plan and system for medical, dental and vision claims against members of the Authority and as such, to perform, or contract for the performance of, the financial administration, policy formation, claim service, legal representation, safety engineering, and other items as necessary for the payment and handling for all medical, dental and vision claims against members.

The Authority is considered a risk sharing and insurance purchasing pool, and accordingly is subject to Governmental Accounting Standards Board Statement Number 10 (Accounting and Financial Reporting for Risk Financing and Related Insurance Issues).

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned. Premium revenue is recognized over the period of risk. Required contributions are recognized based on the amount of risk protection provided. Required contributions are calculated annually, and are based on the base insurance premium of the insured entities.

Expenditures are generally recognized when they are incurred. Claim costs are recognized and accrued at the end of the accounting period if information indicates that the loss is probable and the amount of the loss is reasonably estimated. The estimate of liabilities is based upon the ultimate cost of settling the claims and includes the effects of inflation and other societal and economic factors. The reserve for losses is a determination of a third party administrator. The reserves accrued and disclosed are representations of the administrator's analysis of the claims currently filed against the Authority.

E. Concentrations of Credit Risk

The Authority maintains its cash reserves in bank checking and savings accounts. At the end of each year, the Authority had excess deposits over federally insured limits as follows:

	2004	2003
Wells Fargo Bank	\$ 638,741	\$ 42,736
Visalia Community Bank	\$ 0	\$ 50,622

In addition, due to the nature and volume of amounts transferred, the bank account normally carries a balance in excess of FDIC limits.

F. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue that were assumed in preparing the financial statements.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

G. Other Significant Items

1. The Authority does not, and is not legally required to adopt budgets.
2. The Authority has no compensated employees, and as such has no accruals for compensated absences and does not maintain a pension plan.
3. The Authority has no capitalized acquisition costs.
4. No premium deficiencies exists as of the end of the accounting period.
5. The Authority has reinsurance transactions for claims exceeding the self insured retention amount totaling \$-0- and \$365,854.01 for the fiscal years ended September 30, 2004 and 2003, respectively. Of the prior year outstanding stop loss receivable of \$ 190,569, the Authority received \$ 117,299. For the current fiscal year, the Authority did have 14 claims exceeding ½ of the self insured retention amount.
6. The plan document is insured by the reinsurance carrier.

NOTE 2 -Description of Risk Transfer

The Authority has the responsibility for providing funds for a self insured retention of \$175,000 (Prior to 10/1/02 the self insured retention was \$150,000), except for a specific insured whose SIR amount was set at \$425,000. The Authority has the further responsibility of providing available insurance for an additional \$1,850,000 of medical coverage for the insured entities. All claims by eligible participants are handled by outside claims administrators.

The Authority funds the self insured retention by billing all participating members based upon historical and projected costs. The Authority is not involved in the bargaining process between the individual member districts and their employees.

NOTE 3 - Governmental Disclosure Requirements

Governmental Accounting Standards Board Statement Number 10 (GASB-10) refers to specific disclosure requirements required by governmental units that form a public entity risk pool. Furthermore, GASB-10 requires specific supplementary information is to be included with the financial statements of such entities.

GASB-10 requires statistical information concerning required contribution revenue and claims development information. The statistical information presents 10 years of required contribution revenue, allocated and unallocated claim adjustment expenses, originally incurred claims and re-estimated claims, cumulative amounts paid, in addition to other requirements.

The above information is presented in the supplementary information for years beginning October 1, 1992.

Tulare Area Schools Employee Benefit Authority
Notes to Financial Statements
September 30, 2004 and 2003

NOTE 4 - Cash and Cash Equivalents

Funds on deposit:	<u>2004</u>	<u>2003</u>
Bank account, Wells Fargo Bank	\$ 738,741	\$ 142,736
Bank account, Bank of Visalia	2,773	150,622
Funds held by County Treasurer	853,000	836,128
Funds held by administrator	<u>63,188</u>	<u>126,189</u>
Total	<u>\$ 1,657,702</u>	<u>\$ 1,047,011</u>

Each bank account is insured to the maximum of \$100,000 under FDIC. The accounts are not otherwise collateralized.

Cash in the county treasury is pooled with funds of other local governmental agencies in the county and invested under direction of the county treasurer.

NOTE 5 - Reinsurance

The Authority purchases insurance coverage for individual claims exceeding the \$175,000 self insurance retention. The reinsurance policy is a "12/15" policy which means that claims incurred within a 12 month period and paid within 15 months qualify for reimbursement from the reinsurance carrier. The amount of reinsurance proceeds deducted from claims expense for the year ended September 30, 2004 and 2003 was \$ -0- and \$ 365,854, respectively.

NOTE 6 - Incurred But Not Recorded Claims (IBNR)

IBNR is an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Under Assembly Bill 1200, the Authority engaged the services of an actuary enrolled under the Employee Retirement Income Security Act of 1974 to evaluate the future annual costs of health and welfare benefits. The Authority is in the process of completing its current study.

The actuary projected the maintenance of a minimum reserve balance equal to the estimated IBNR liability of \$1,596,554 and \$1,735,696 for fiscal years ended September 30, 2004 and 2003, respectively. The IBNR liability has been adjusted for actual processed claims that were paid after the fiscal year thru the date of the financial statements.

Tulare Area Schools Employee Benefit Authority
Notes to Financial Statements
September 30, 2004 and 2003

NOTE 7 - Unpaid Claims Liability

The Authority established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustments expenses. The following table represents changes in the liability during the past two years.

	<u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment Expenses at beginning of year	\$ <u>1,953,037</u>	\$ <u>1,316,839</u>
Incurred claims and claim adjustment expenses Provision for insured events of the current year	11,554,709	11,837,213
(Decrease) increase in provision for insured events of prior years	<u>190,819</u>	<u>562,363</u>
Total incurred claims and claim adjustment expenses	<u>11,745,528</u>	<u>12,399,576</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	9,644,679	9,976,384
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>2,143,856</u>	<u>1,786,994</u>
Total payments and adjustments	<u>11,788,535</u>	<u>11,763,378</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,910,030</u>	<u>\$ 1,953,037</u>
Claims reported thru the financial statement date	\$ 313,476	\$ 129,181
Incurred But Not Reported claims (IBNR)	\$ 1,596,554	\$ 1,823,856

TABLE I

Policy year ending September 30 (in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	
I. Required contribution revenue	\$ 13,193	\$ 13,103	\$ 10,425	\$ 8,271	\$ 7,689	\$ 7,385	\$ 7,223	\$ 6,901	\$ 6,735	\$ 6,823	\$ 6,465	\$ 5,848	
II. Unallocated expenses - administrative costs	492	449	439	443	374	254	266	216	228	223	230	208	
III. Incurred claims as originally reported	10,833	11,409	9,878	8,190	7,702	6,664	5,900	6,247	5,698	6,032	5,456	5,165	
	2004	9,953	11,729	10,058	8,452	7,964	6,902	6,180	6,165	5,708	6,032	5,456	5,165
	2003		9,585	10,058	8,452	7,964	6,902	6,180	6,165	5,708	6,032	5,456	5,165
	2002			8,476	8,452	7,964	6,902	6,180	6,165	5,708	6,032	5,456	5,165
	2001				7,320	7,964	6,902	6,180	6,165	5,708	6,032	5,456	5,165
IV. Cumulative amounts paid on above claims at the end of the policy year and each succeeding year:	2000					6,822	6,902	6,180	6,165	5,708	6,032	5,456	5,165
	1999						6,341	6,180	6,165	5,708	6,032	5,456	5,165
	1998							5,539	6,160	5,698	6,032	5,456	5,165
	1997								5,538	5,697	6,032	5,456	5,165
	1996									4,975	6,031	5,543	5,165
	1995										5,365	5,540	5,133
	1994											5,029	5,133
	1993												4,566
V. Re-estimated amounts on above claims as of the end of the current year:	10,833	11,729	10,058	8,452	7,964	6,902	6,180	6,165	5,708	6,032	5,456	5,165	
VI. Difference between latest re-estimated amount of incurred claims and the amount originally reported	0	320	180	262	262	238	280	(82)	10	0	0	0	