

VECTOR CONTROL JOINT POWERS AGENCY

REPORT ON AUDITED
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

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September 2, 2014

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vector Control Joint Powers Agency
Sacramento, California

We have audited the accompanying financial statements of Vector Control Joint Powers Agency (VCJPA) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise VCJPA's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2013 and, in our report dated September 3, 2013, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 risk 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 VCJPA'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 VCJPA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vector Control Joint Powers Agency as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and claims development information on pages 3 through 14 and 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Vector Control Joint Powers Agency's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2014 on our consideration of VCJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts 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 VCJPA's internal control over financial reporting and compliance.

Sampson, Sampson & Patterson, LLP

VECTOR CONTROL JOINT POWERS AGENCY MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

The management of the Vector Control Joint Powers Agency (VCJPA or Agency) is pleased to present the following discussion and analysis of the operating results, financial condition, and liquidity of the VCJPA for the fiscal year ended June 30, 2014. This discussion should be read in conjunction with the financial statements and notes to the financial statements included with this report.

General Program Highlights

The VCJPA was established for the purpose of funding and developing programs to provide various insurance coverages for its member mosquito abatement and vector control districts in California. The Agency consists of thirty-five districts throughout California and maintains pooled coverage programs for its members for workers' compensation, general liability, employment practices liability via the Employment Risk Management Authority (ERMA), auto physical damage, and multi-peril property, including boiler and machinery. The Agency also facilitates the purchase of other group insurance programs for its members, such as business travel accident, crime, and an employee assistance program.

The VCJPA contracts with Bickmore, a firm specializing in the management of joint powers authorities, to handle the day-to-day operations of the VCJPA. The firm's employees provide general administrative, financial management, underwriting, loss prevention, claims management, litigation management, risk management, and other services as necessary for the operations of the VCJPA.

The VCJPA enjoys the stability of a JPA which has been in operation over thirty years, coupled with a healthy retained earnings base. Membership is stable and funding is currently adequate to meet obligations.

VCJPA is a member of the California Association of Joint Powers Authorities (CAJPA) since 1992, and since then has received accreditation through that body. The accreditation process involves an in-depth review of a JPA's operations, financial stability, performance, and overall management effectiveness. Every three years the accreditation process is repeated, and in May 2012, VCJPA once again received the distinguished designation of "Accreditation with Excellence" — the highest level of accreditation offered by CAJPA. This meant that VCJPA has met higher and more strenuous standards of CAJPA, a reflective of an outstanding JPA in California.

2013/2014 Program Highlights

Accomplishments:

- ❖ The current portion of the retrospective refund liability due to members at June 30, 2014, is \$531,505. This follows a return of \$276,587 to members in the previous year. The workers' compensation program's net retrospective billing of \$96,891, mainly due to unfavorable development on claims in the older program years, is offset by the general liability refund of \$440,836 for the 2009/2010 program year which became eligible for adjustment this year. In addition, the ERMA dividend of \$187,560 is also included in the annual retrospective adjustment and being refunded to members. As such, the refund for the liability program totaled \$628,396.
- ❖ Majority of VCJPA investment, which included both Member and property Contingency Funds, is managed by the PFM Asset Management LLC. The investment market environment during 2013/14 fiscal year was remarkably favorable and resulting a \$254 thousand increase, from \$55 thousand to \$309 thousand, respectively for the year ended June 30, 2013 and 2014.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

- ❖ The ERMA Board approved dividend distribution to its members at the end of 2013/14 fiscal year. VCJPA received its ERMA dividend share in the amount of \$ 187,560. This follows a return of \$100,426 to members in the previous year. This dividend amount has been included in the liability program retrospective refund as mentioned on the first paragraph above.
- ❖ The CARMA Board approved dividend distribution to its members at the end of 2013/14 fiscal year. VCJPA received its CARMA dividend share in the amount of \$306,333. This amount has been deposited to the Rate Stabilization Fund (RSF) held by CARMA.

Challenges:

- Under the Federal Clean Water Act, a National Pollutant Discharge Elimination System (NPDES) permit is required to discharge pesticides to, over, or near waters of the United States. In California, the State Water Resources Control Board (SWRCB) has issued a California-only general NPDES permit for aquatic pesticides. Most of the VCJPA members have elected to be covered under the general permit. The Mosquito and Vector Control Association of California (MVCAC) is undertaking the statewide monitoring.

The governing documents of VCJPA, including the Liability Memorandum of Coverage, are regularly reviewed to ensure the language addresses the significant increased risks and liabilities that may be incurred in connection with violations of the Clean Water Act in the way the Board of Directors decides to provide coverage for this exposure. The Liability Memorandum of Coverage currently provides limited defense-only coverage up to \$250,000 per lawsuit for any lawsuit against a member alleging a violation of the Clean Water Act or similar state law arising out of a pesticide discharge, subject to certain exceptions.

- Since it arrived in the State in late 2003 mosquito and vector control districts have been working to minimize the effect of West Nile virus (WNV) on the people of California. It has been reported from all of the fifty-eight counties and should be considered endemic in California.

West Nile virus is a bird disease transmitted from bird to bird by infected mosquitoes. It cycles through the wild bird population, one of these mosquitoes will take a blood meal from a human and if the mosquito has previously fed on an infected bird it is possible to transmit WNV to the human. Individual response to being infected is highly variable, some people never realize they were infected and others become extremely sick and for a few WNV is fatal. It is unclear how many infections go unreported though it is certain that some of the milder cases are attributed to something other than WNV.

For those charged with preventing the disease, the mosquito and vector control agencies the challenges are numerous. In the ten or twelve years of experience with WNV patterns are shattered as fast as they are observed. The cycles of bird immunity, rainfall, temperature, and mosquito infection rate work together to obscure any pattern of disease transmission. In some areas, there has been evidence of WNV transmission every month of the year. What in many areas was a four year cycle of heavy WNV activity is now acting like a two-year cycle. All of this uncertainty is a heavy draw on the resources of the VCJPA member agencies.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

Another issue that is sure to grow and place new demands on existing resources is two species of invasive mosquitoes, both competent vectors of WNV, Yellow fever and Dengue fever. The Yellow fever mosquito and the Asian tiger mosquito are still limited in their distribution, but are sure to expand their range in coming years. These mosquitoes are day biting, mammal feeders that have such different reproductive behaviors that traditional control practices will not be effective. The need for mosquito control is not going away any time soon. Many of the VCJPA member districts control other vectors like rats, fleas, ticks and others. Vector-borne disease is one of the more interesting aspects of public health.

Financial Highlights for the Fiscal Year Ended June 30, 2014

Revenues	4.5 million	Revenues increased 16% or \$621 thousand over the prior year due to a 13% increase in overall member deposit premiums, which included \$200 thousand for the Mid-Layer Pool of the Workers' Compensation Program and \$100 thousand for the fund balance replenishment of the Property Program. In addition, investment income increased \$254 thousand, from \$55 thousand to \$309 thousand, respectively for the year ended June 30, 2013 and 2014.
Expenses	\$4.1 million	Expenses decreased about 1% or \$57 thousand over the prior year primary due to the 9% decrease in the claims paid and 152% decrease in changes in unpaid claims, offset by the 17% increase in expected and current portion of retrospective refunds.
Assets	\$14.5million	Assets increased 13% or \$1.7 million from the prior year mainly due to the increase in revenues. Consequently, LAIF showed 57% increase, from \$1.8 million at June 30, 2013 to almost \$2.8 million at June 30, 2014.
Liabilities	\$9.2 million	Liabilities increased 16% or \$1.3 million from the prior year mainly due to the 28% increase in the future provision for the retrospective adjustments and the 95% increase in the current year retrospective adjustments (net refund) for both the Liability and Workers' Compensation Programs.

The following ratios are used to gauge the financial stability of the VCJPA. The net contribution to net position ratio is used to measure how net position is leveraged against possible pricing inaccuracies. A low ratio is desirable. The net position to self-insured retention ratio is a measure of the maximum amount that net position could decline due to a single loss. A high ratio is desirable.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

	Liability Program		Workers' Compensation Program	
	2014	2013	2014	2013
Net contributions received	\$ 676,288	\$ 720,507	\$ 1,872,784	\$ 1,751,049
Net position as of June 30	\$ 2,732,986	\$ 2,533,542	\$ 1,858,337	\$ 1,713,016
Net contribution to net position ratio	0.25	0.28	1.01	1.02
Net position as of June 30	\$ 2,732,986	\$ 2,533,542	\$ 1,858,337	\$ 1,713,016
Program SIR as of June 30	\$ 1,000,000	\$ 1,000,000	\$ 500,000	\$ 500,000
Net position to self-insured retention ratio	2.73	2.53	3.72	3.43

Description of the Basic Financial Statements

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based upon reliable estimates and judgments. A Statement of Net Position; Statement of Revenues, Expenses & Change in Net Position; and Statement of Cash Flows are maintained for the government-wide financial statements. Also presented are the Statement of Fiduciary Net Position and Statement of Change in Fiduciary Net Position for the Member and Property Contingency Funds. The financial statements are accompanied by the Notes to Financial Statements to clarify unique accounting policies.

The **Statement of Net Position** presents information on the Agency's assets and liabilities, the difference between the two representing net position, or pool equity.

The **Statement of Revenues, Expenses and Change in Net Position** presents information showing total revenues versus total expenses and how the Agency's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., projected retrospective refunds and the expense associated with the increase in claim liability, both involving cash outlay beyond the date of the financial statements).

The **Statement of Cash Flows** presents the changes in the Agency's cash and cash equivalents during the fiscal year. This statement is prepared using the direct method of cash flow. The statement breaks the sources and uses of the Agency's cash and cash equivalents into three categories:

- Operating activities
- Capital and related financial activities
- Investing activities

The Agency's routine activities appear in the operating activities while sales and purchases of investments are part of investing activities.

The **Statement of Fiduciary Net Position** presents information on the Member and Property Contingency Fund assets, liabilities, and net position.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

The **Statement of Change in Fiduciary Net Position** includes information about the additions to, deductions from, and net increase (or decrease) for the year in net position of the Member and Property Contingency Funds.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the Agency's operations and significant accounting policies as well as clarify unique financial information.

The Agency's accounting system is organized so that each of the four pooled programs and respective program years can be accounted for and evaluated independently. The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

Sampson, Sampson & Patterson, LLP, performed an independent audit examination of the Agency's financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report.

Claims adjusting for the Agency's general liability claims are provided by Bickmore. Claims adjusting for the Agency's workers' compensation claims are provided by Acclamation Insurance Management Services (AIMS). AIMS is responsible for the day-to-day administration and payment of reported claims and for estimating the cost of such claims. These estimates are used by the Agency in the preparation of its financial statements. In addition, VCJPA also contracts with Bickmore for actuarial services and obtains an independent actuarial review of the Workers' Compensation and Liability Programs to assist with the development of rates and to confirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves.

Analysis of Agency-wide Financial Results

Combined Statement of Net Position

	June 30, 2014	June 30, 2013	Percentage Change
Current Assets	\$2,563,558	\$1,820,132	41%
Non-current Assets	11,958,858	11,025,137	8%
Total Assets	<u>14,522,416</u>	<u>12,845,269</u>	<u>13%</u>
Current Liabilities	1,391,571	1,140,161	22%
Non-current Liabilities	7,807,588	6,788,217	15%
Total Liabilities	<u>9,199,159</u>	<u>7,928,378</u>	<u>16%</u>
Net Position	<u>\$5,323,257</u>	<u>\$4,916,891</u>	<u>8%</u>

VCJPA Pool Assets

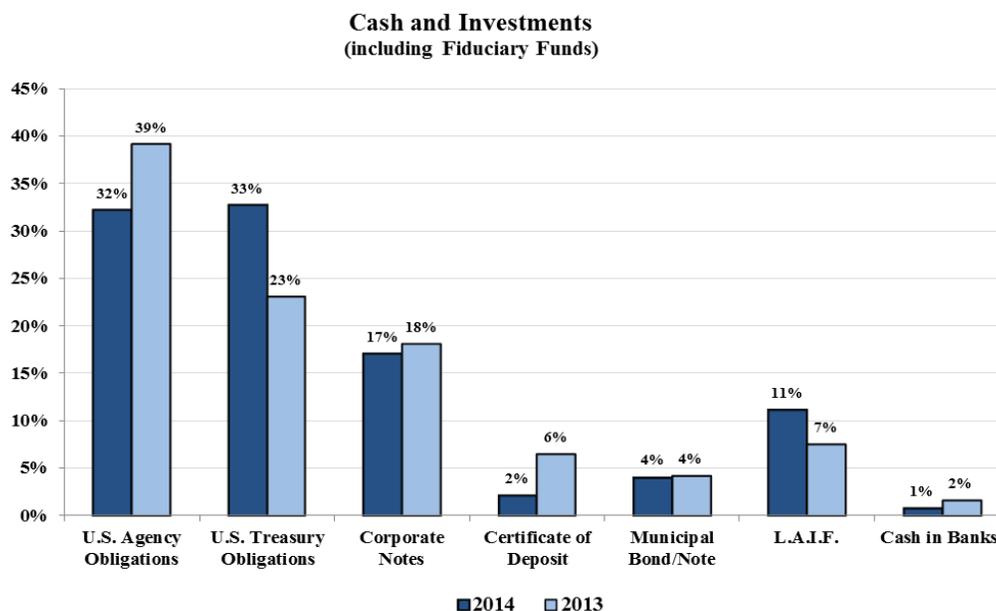
Total assets (excluding fiduciary funds) increased \$1,677,147 or 13%, over the prior year. The ability of VCJPA's excess funds to earn investment income has a direct effect on the program rates, as this income is used to discount future liabilities. When investments fall short of projections, additional funding may be required to meet actuarial estimates. VCJPA takes these interest rate conditions into consideration when developing annual premium contributions.

VECTOR CONTROL JOINT POWERS AGENCY MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

At June 30, 2014, the fair value of VCJPA’s investments was \$88,563 more than the book value. At June 30, 2013, the fair value of VCJPA’s investments was \$95,276 less than the book value. The net increase in the fair value of the investment in the total amount of \$183,839 has been reflected as an increase in the amount of investment income recognized by VCJPA for the year ended June 30, 2014, as required by GASB Statement No. 31.

The VCJPA separately reports the cash and investments held in trust for its members as a fiduciary fund. The Member Contingency and Property Contingency Funds are reported in a separate Statement of Fiduciary Net Position and Statement of Change in Fiduciary Net Position. Notwithstanding the separate reporting described above, the VCJPA Bylaws allow for the fiduciary funds to be commingled with the general operating funds for the purposes of investment. The majority of VCJPA’s investments are managed by PFM and held in a custodial account with The US Bank. The managed portfolio consists of fixed income securities in accordance with the Agency’s investment policy and the California Government Code. Cash is held in the California Asset Management Program Trust (CAMP), a joint powers authority managed by PFM. CAMP is similar to a money market account and is used as a pass-through for the purchases and sales of VCJPA’s investments. Cash is also held in the Local Agency Investment Fund (LAIF), an external investment pool managed by the State Treasurer’s Office. The following charts depict the make-up of VCJPA’s cash and investments, which include Fiduciary Funds of \$11,306,909 and \$11,220,862 respectively at June 30, 2014, and 2013.



VCJPA Pool Liabilities

Current liabilities increased \$251,410, or 22%, over the prior year mainly due to a \$254,918 increase in the current portion of the retrospective refunds.

**VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS**

JUNE 30, 2014

VCJPA recorded a claim liability totaling \$932,708 for claims related to the current program year consisting of \$788,050 in the Workers' Compensation Program and \$144,658 in the Liability Program. Current program year claim payments were \$149,800 and \$21,585 for the Workers' Compensation and Liability Programs, respectively.

The claim liability for prior program years decreased \$646,780 in the Workers' Compensation Program after \$696,527 in payments. While the Liability Program saw a decrease of \$322,217 in unpaid claims on \$102,351 in payments. The figures above do not include workers' compensation claims administration costs of \$90,437 and \$87,803 for the years ended June 30, 2014 and 2013, respectively.

VCJPA Revenues and Expenses

Total revenues for operating and non-operating increased 16% over the prior year, while expenses decreased 1%. This resulted in a \$406,366 or 8% increase in net position.

Revenues consist almost entirely of program deposits, which increased 5% over the prior year. Investment income (including fiduciary funds) increased \$254,624 or 467% over the prior year from \$54,575 at June 30, 2013 to \$309,199 at June 30, 2014. VCJPA earned interest income of \$258,027 and recognized realized losses of \$11,657. Market values of existing securities appreciated and resulted in \$88,563 in unrealized gains on the portfolio at June 30, 2014. The investment management fees were \$29,839.

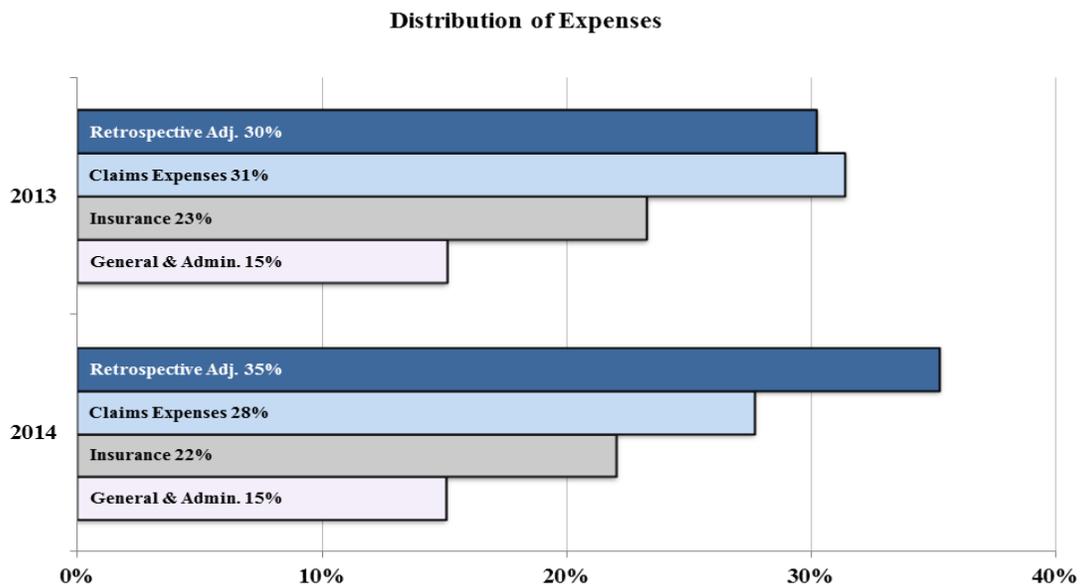
**Combined Statements of Change in Net Position
Enterprise Funds**

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Percentage Change
Operating Revenues	\$4,003,373	\$3,826,632	5%
Operating Expenses	4,070,681	4,127,863	(1%)
Operating Gain/(Loss)	(67,308)	(301,231)	(78%)
Non-operating Revenues	473,674	29,373	1513%
Change in Net Position	406,366	(271,858)	(249%)
Net Position, Beginning of Year	4,916,891	5,188,749	(5%)
Net Position, End of Year	<u>\$5,323,257</u>	<u>\$4,916,891</u>	<u>8%</u>

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

As shown on the chart below, the components of operating expenses were distributed fairly consistently as compared to the prior year with the exception of claims expenses and retrospective adjustment expenses. Claims expenses increased due to increases in the current estimates of ultimate loss in both the Liability and the Workers' Compensation Programs. The decrease in the retrospective adjustment expense distribution is due to the combined change in the current and future provisions for refunds in both the Liability and Workers' Compensation Programs.



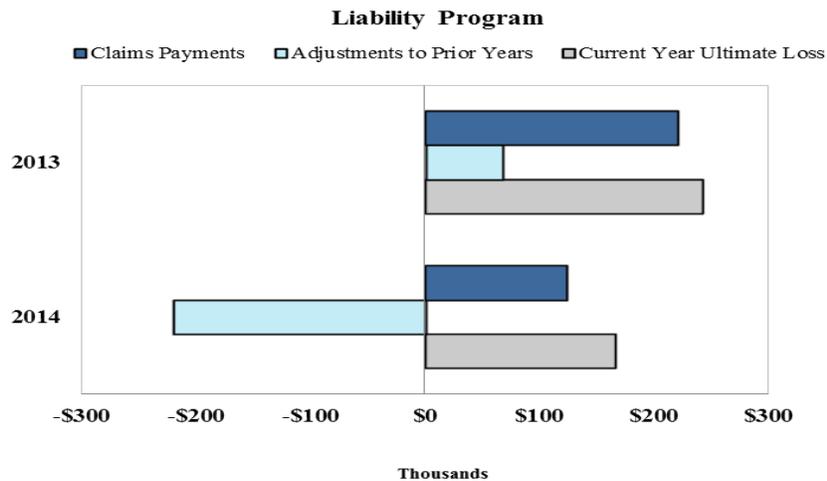
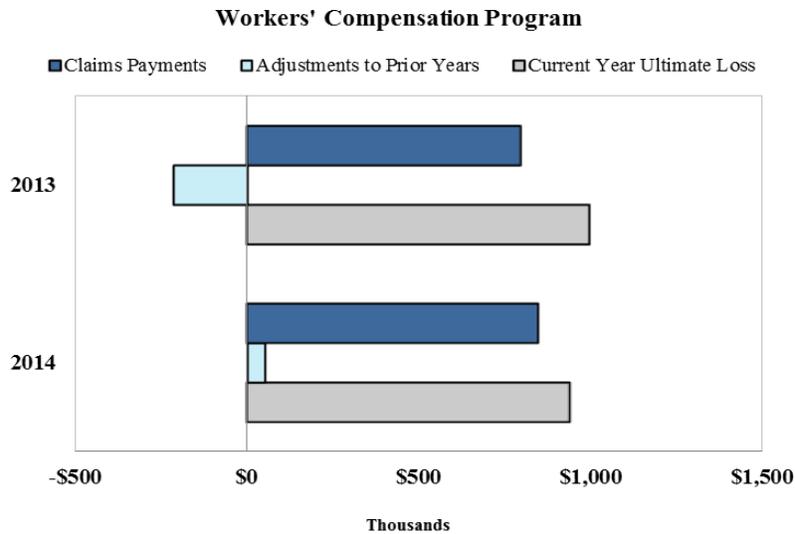
Provision for Insured Events

VCJPA contracts with Bickmore for an actuarial valuation of the ultimate claim costs, which is used to project outstanding liabilities for past years as well as provide projected funding levels for future years. Funding for the 2013/2014 fiscal year and several prior years was calculated at the 80% confidence level and discounted to recognize future investment earnings on those funds. The 80% confidence level assumes that there is a 20% chance that the amount collected to cover losses will be insufficient. For financial statement purposes, the liability for claims has been recorded at the expected confidence level (which approximates the 50% confidence level). The difference between the level of collection and that recorded in the accompanying financial statements represents the risk margin.

The graphs on the following page illustrate the claims activity experienced by VCJPA for each of the past two program years, identifying the introduction of the current year liability, changes to prior years' liabilities, and payments made against all liabilities during the fiscal years ended June 30, 2014 and 2013.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014



Retrospective Refunds/Assessments

The Agency has established a retrospective adjustment process whereby each program year is separately evaluated and benchmarks are set to determine the financial condition of each program year. If the equity in a program deviates either above or below the benchmark (over or under funded) after a set period of time, the members are required to either contribute towards an under-funded year or participate in refunds of an over-funded year. A program year must be four years old in the Liability Program and five years old in the Workers' Compensation Program before refunds are issued or assessments levied.

For those program years that do not meet the maturity requirements, the amount of potential assessments or refunds is recorded as a receivable or accrued expense respectively, and adjusted annually. These younger years can fluctuate significantly based on the development on the claims costs and those fluctuations are reflected in the income statement.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

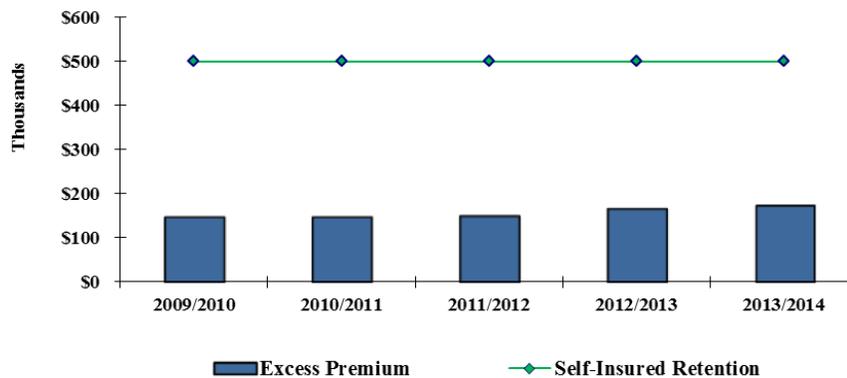
JUNE 30, 2014

The current portion of the retrospective refund liability due to members was \$176,161 at June 30, 2013 and \$343,945 at June 30, 2014. The current retrospective adjustments returned to members is a combination of unfavorable development on workers' compensation claims in the older program years, and the favorable development in general liability claims in the 2009/2010 program year, as these years became eligible for adjustments. In addition, the dividends received from ERMA for the employment practice liability program in the amount of \$100,426 and \$187,560, have also been included in the refund liability due to members, respectively at June 30, 2013 and June 30, 2014.

Insurance Expense

VCJPA operates in an environment that is partially dependent on the insurance market. VCJPA purchases excess workers' compensation coverage from the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) and excess general liability coverage from the California Affiliated Risk Management Authorities (CARMA) to cover losses in excess of its selected self-insured retentions of \$500,000 and \$1,000,000, respectively. There were few changes to the coverage purchased for the 2013/2014 renewal which was accomplished at costs comparable to that of the prior year. The following graphs show VCJPA's historical excess insurance premiums and the respective selected self-insured retentions since the 2009/2010 fiscal year for both the Workers' Compensation and Liability Programs.

Workers' Compensation Program - Excess Coverage



Liability Program - Excess Coverage



VECTOR CONTROL JOINT POWERS AGENCY MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

General and Administrative Expenses

General and administrative expenses are flat for 2013/2014 in the amount of \$599,595, compared to 2012/2013 in the amount of \$598,981. General administrative expenses represent 15% of the total expenses incurred by VCJPA during the fiscal year ended June 30, 2014, which is consistent with the prior year.

Economic Factors

In developing the budget for the fiscal year ended June 30, 2014, pool administration staff and the Board of Directors took into account the factors that had significant potential to adversely affect the budgeted figures: primarily the claims, investment and insurance environments.

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

Workers' Compensation

In California we continue to monitor the impact of SB 863, a major reform that was passed at the end of 2012. Regarding cost savings, certain provisions, such as those related to ambulatory surgical centers and surgical implant hardware have gone roughly according to expectations. Lien reform so far has exceeded our expectation, though there are legal challenges related to those reforms. Lastly, independent medical review (IMR) has had a challenging start. The system has been flooded with tens of thousands of IMRs more than anticipated, and this has led to longer processing times and greater frictional costs than anticipated. Aside from IMR, the most concerning recent trend has been a steady increase in claim frequency, driven particularly by the Los Angeles area. Insurance premium rates have increased quite a bit over the past two years, but this has been driven more by insurers trying to improve profitability than underlying cost increases.

Investment

The last six months of fiscal year 2013/2014 have seen a gradual rise in interest rates driven by the Fed's gradual reduction of economic stimulus through sustained asset purchases. If the tapering of these purchases continue as scheduled, this form of stimulus, known as "quantitative easing" will come to an end before the end of calendar year 2014. It is anticipated that the associated improvement in economic conditions that has led to this taper will eventually lead the Fed to raise the Federal Funds Target Rate sometime in 2015.

Over the past year, the Authority's investment portfolio has experienced a decline in the supply of federal agency obligations available for purchase as a result of the U.S. Treasury's gradual wind-down of Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC). This has had the effect of 1) increasing the value of government-sponsored enterprise (GSE) obligations already held in the portfolio, and 2) decreasing the amount of yield earned for newly-purchased GSEs. As with most other local government investors, the Authority will have to explore other asset classes as an alternative to shrinking GSE debt.

VECTOR CONTROL JOINT POWERS AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

It is anticipated that the gradual rise in rates will continue to provide new opportunities to reinvest at higher rate levels, increasing interest income, but any new investment opportunities are weighed against the probability for further rate increases and their potential to diminish the fair value of the Authority's investments.

VCJPA, through its investment advisor, PFM Asset Management LLC, continues to pursue a policy of diversification of issuers, credit, bond market sectors, and maturities. Likewise, it monitors closely market changes that place upward pressure on interest rates for buying opportunities as well as for any negative effects on the fair market value of its holdings. Additionally, all investments are carefully analyzed and monitored to ensure that the portfolio maintains safety and liquidity, and all holdings continue to be appropriate for the Authority's goals. VCJPA's investment advisor will continue to monitor the markets for new risks and opportunities, assessing the investment marketplace and its impact on the portfolio in light of these current market forces.

VECTOR CONTROL JOINT POWERS AGENCY

STATEMENT OF NET POSITION

JUNE 30, 2014

(Prior Year Data for Comparison Purposes Only)

	<u>2014</u>	<u>2013</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,627,062	\$ 1,132,993
Investments		269,543
Receivables:		
Accounts	223,647	2,778
Interest	60,369	69,304
Prepaid expenses	252,865	254,177
Deposits	399,615	91,337
Total current assets	<u>2,563,558</u>	<u>1,820,132</u>
Non-current assets:		
Investments	<u>11,958,858</u>	<u>11,025,137</u>
Total non-current assets	<u>11,958,858</u>	<u>11,025,137</u>
TOTAL ASSETS	<u>14,522,416</u>	<u>12,845,269</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	11,237	11,738
Assessments payable	13,715	13,715
Unearned premiums		2,736
Due to members	531,505	276,587
Current portion of unpaid claims	835,114	835,385
Total current liabilities	<u>1,391,571</u>	<u>1,140,161</u>
Non-current liabilities:		
Assessments payable	13,715	27,430
Unpaid claims	2,996,224	3,019,512
Projected experience refunds	4,797,649	3,741,275
Total non-current liabilities	<u>7,807,588</u>	<u>6,788,217</u>
TOTAL LIABILITIES	<u>9,199,159</u>	<u>7,928,378</u>
NET POSITION, Unrestricted	<u>\$ 5,323,257</u>	<u>\$ 4,916,891</u>

See independent auditor's report and notes to financial statements.

VECTOR CONTROL JOINT POWERS AGENCY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

YEAR ENDED JUNE 30, 2014

(Prior Year Data for Comparison Purposes Only)

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Program deposits	\$ 3,864,618	\$ 3,599,798
Premiums	41,864	59,222
Retrospective adjustments	<u>96,891</u>	<u>167,612</u>
TOTAL OPERATING REVENUES	<u>4,003,373</u>	<u>3,826,632</u>
OPERATING EXPENSES:		
Claims paid	1,005,682	1,099,929
Claims servicing	90,437	87,803
Change in unpaid claims	(23,559)	43,193
Change in projected experience refunds	1,056,374	1,021,112
Retrospective adjustments	440,836	343,773
Insurance	902,515	934,272
General and administrative	<u>598,396</u>	<u>597,781</u>
TOTAL OPERATING EXPENSES	<u>4,070,681</u>	<u>4,127,863</u>
OPERATING LOSS	<u>(67,308)</u>	<u>(301,231)</u>
NON-OPERATING REVENUES:		
CARMA dividend	306,333	
Investment income	<u>167,341</u>	<u>29,373</u>
TOTAL NON-OPERATING REVENUES	<u>473,674</u>	<u>29,373</u>
CHANGE IN NET POSITION	406,366	(271,858)
NET POSITION, BEGINNING OF YEAR	<u>4,916,891</u>	<u>5,188,749</u>
NET POSITION, END OF YEAR	<u>\$ 5,323,257</u>	<u>\$ 4,916,891</u>

See independent auditor's report and notes to financial statements.

VECTOR CONTROL JOINT POWERS AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

(Prior Year Data for Comparison Purposes Only)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$ 3,682,877	\$ 3,659,216
Cash paid for claims and claims servicing	(1,096,119)	(1,187,732)
Cash paid for retrospective adjustments	(89,027)	(644,764)
Cash paid for insurance premiums	(914,918)	(1,011,937)
Cash paid for administrative expenses	(598,897)	(613,207)
Net cash provided by operating activities	<u>983,916</u>	<u>201,576</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in marketable securities and other investments	(664,178)	(73,305)
Investment earnings	<u>174,331</u>	<u>45,986</u>
Net cash used by investing activities	<u>(489,847)</u>	<u>(27,319)</u>
CASH AND CASH EQUIVALENTS:		
Net increase	494,069	174,257
Beginning balance	<u>1,132,993</u>	<u>958,736</u>
Ending balance	<u>\$ 1,627,062</u>	<u>\$ 1,132,993</u>
RECONCILIATION OF CHANGES IN OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	1,627,062	1,132,993
Operating loss	\$ (67,308)	\$ (301,231)
Changes in assets and liabilities:		
Accounts receivable	(220,869)	2,931
Prepaid expenses	1,312	(107,256)
Accounts payable	(501)	(15,426)
Assessments payable	(13,715)	29,591
Unearned premiums	(2,736)	(2,735)
Unpaid claims	(23,559)	43,193
Due to members	254,918	(468,603)
Projected experience refunds	<u>1,056,374</u>	<u>1,021,112</u>
Net cash provided by operating activities	<u>\$ 983,916</u>	<u>\$ 201,576</u>

See independent auditor's report and notes to financial statements.

VECTOR CONTROL JOINT POWERS AGENCY

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

(Prior Year Data For Comparison Purposes Only)

	<u>June 30, 2014</u>			<u>June 30, 2013</u>
	<u>Member Agency Trust</u>	<u>Property Contingency</u>	<u>Total</u>	<u>Total</u>
ASSETS:				
Cash and investments	<u>\$ 9,530,519</u>	<u>\$ 1,776,390</u>	<u>\$ 11,306,909</u>	<u>\$ 11,220,862</u>
TOTAL ASSETS	<u>\$ 9,530,519</u>	<u>\$ 1,776,390</u>	<u>\$ 11,306,909</u>	<u>\$ 11,220,862</u>
NET POSITION:				
Held in trust for members	<u>\$ 9,530,519</u>	<u>\$ 1,776,390</u>	<u>\$ 11,306,909</u>	<u>\$ 11,220,862</u>
TOTAL NET POSITION	<u>\$ 9,530,519</u>	<u>\$ 1,776,390</u>	<u>\$ 11,306,909</u>	<u>\$ 11,220,862</u>

See independent auditor's report and notes to financial statements.

VECTOR CONTROL JOINT POWERS AGENCY

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

(Prior Year Data for Comparison Purposes Only)

	<u>June 30, 2014</u>			<u>June 30, 2013</u>
	<u>Member Agency Trust</u>	<u>Property Contingency</u>	<u>Total</u>	<u>Total</u>
ADDITIONS:				
Contributions				
Members	\$ 825,234	\$ _____	\$ 825,234	\$ 82,707
Total contributions	825,234		825,234	82,707
Investment income	119,644	22,212	141,856	25,202
TOTAL ADDITIONS	<u>944,878</u>	<u>22,212</u>	<u>967,090</u>	<u>107,909</u>
DEDUCTIONS:				
Member withdrawals and transfers	857,804	22,039	879,843	30,936
General and administrative	1,200		1,200	1,200
TOTAL DEDUCTIONS	<u>859,004</u>	<u>22,039</u>	<u>881,043</u>	<u>32,136</u>
CHANGE IN NET POSITION	<u>85,874</u>	<u>173</u>	<u>86,047</u>	<u>75,773</u>
NET POSITION - BEGINNING OF YEAR	<u>9,444,645</u>	<u>1,776,217</u>	<u>11,220,862</u>	<u>11,145,089</u>
NET POSITION - END OF YEAR	<u>\$ 9,530,519</u>	<u>\$ 1,776,390</u>	<u>\$ 11,306,909</u>	<u>\$ 11,220,862</u>

See independent auditor's report and notes to financial statements.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - ORGANIZATION:

Vector Control Joint Powers Agency (VCJPA) was established in 1979 for the purpose of funding and developing programs to provide various insurance coverage for its member mosquito abatement and Vector Control Districts in California. During the year ended June 30, 2014, VCJPA provided programs, both mandatory and optional, to its thirty-five member districts which included general liability, automobile liability, public officials' errors and omissions, workers' compensation, multi-peril property, boiler and machinery, auto-physical damage, business travel accident/AD&D and public employees' dishonesty/faithful performance blanket bond.

Each of the programs offered may be either insured, partially self-insured, or fully self-insured as determined by a majority of the member districts. The general/automobile liability, public official's errors and omissions, multi-peril property and boiler & machinery, and workers' compensation coverages are partially self-insured and each district is required to obligate itself to participate in these programs for a minimum of three program years. The auto-physical damage program is fully self-insured.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Proprietary Funds:

The Agency reports the following programs as major enterprise funds.

Workers' Compensation Program:

Prior to July 1, 1987, the Workers' Compensation Program was administered strictly as a banking program with each district being responsible for its own losses. On July 1, 1987, VCJPA implemented a Workers' Compensation Pooling Program for all losses incurred on or after that date. This program is organized by and operates under a Master Plan Document. Each program year is accounted for and administered as a separate operation.

Member districts are assigned retained limits of \$2,500, \$5,000, \$10,000, \$25,000, or \$50,000 per occurrence. Premiums are billed to the districts as determined on an actuarial basis. Claims below the individual district's self-insured retention (SIR) are paid by VCJPA. However, in the retrospective adjustment process, each district's losses within its respective SIR are charged back against its deposit premium and other revenues. Losses between the districts retained limit and VCJPA's self-insured retention are pooled. VCJPA's current SIR is \$500,000 per occurrence. Coverage above VCJPA's SIR of \$500,000 is provided by an excess pool (see Note 7) which purchases an excess insurance policy with a statutory limit.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont):

For the Workers' Compensation program, expected claims are actuarially determined and deposited with VCJPA, along with all estimated operating costs. Each program year is retrospectively adjusted commencing five years after the end of the program year and annually thereafter until such time as the program year is closed. A program year shall not be closed until such time that the Board of Directors authorizes closure, being convinced that all known claims for the year are closed and the probability of further claims being discovered is minimal. At the time of the retrospective adjustments, any unobligated funds remaining are returned to the member districts and funds paid out in excess of the original deposit are collected from the member districts.

The Workers' Compensation Mid-Layer Pool is a single fund which may be financed by debt or receipt of deposit premiums from each participating member district. It is different from the other Pooled Workers' Compensation Program Pools in that it does not have separate program years. The monies contributed to the Mid-Layer Pool are commingled into a single fund which will continue to grow from year to year or be used to pay losses in the layer between \$250,000 and \$500,000. New or returning members may elect either to participate in the Mid-Layer Pool at no initial charge but would not be eligible for refunds from the pool or, may choose to contribute an initial deposit premium as determined by the formula in the Master Plan Document. The initial deposit premium may be paid in a lump sum or over a five-year period. Mid-Layer Pool contributions totaling \$200,000 were collected during the 2013/14 year.

The Workers' Compensation Program includes an Aggregate Pool which was established to protect the districts from periods of frequent losses. The Workers' Compensation Aggregate Pool is a fully-funded single fund which was financed by the receipt of deposit premiums from each participating member district in prior years. It is different from the other Pooled Worker's Compensation Program Pools in that it does not have separate program years. The monies contributed to the Aggregate Pool are commingled into a single fund which will continue to grow from year to year. New or returning members may elect either to participate in the Aggregate Pool at no initial charge, but would not be eligible for refunds from the pool, or may choose to contribute an initial deposit premium as determined by the formula in the Master Plan Document. The initial deposit premium may be paid in a lump sum or over a five-year period.

The SIR's for this program by year are as follows:

<u>Program Year</u>	<u>Retention Limit*</u>
7/1/1986 – 6/30/2001	\$250,000 per occurrence
7/1/2001 – 6/30/2006	\$350,000 per occurrence
7/1/2006 – 6/30/2014	\$500,000 per occurrence

*Includes Mid Layer Limit

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont):

Liability Program:

On July 1, 1990, VCJPA implemented a Liability Pooling Program for general liability, auto liability, and losses from pesticide spraying operations incurred on or after that date. This program is organized by and operates under a Master Plan Document. Each program year is accounted for and administered as a separate operation. Prior to July 1, 1990, the districts' group purchased its liability insurance.

Member districts are assigned retained limits of \$1,000, \$2,500, \$5,000, \$10,000, \$25,000, \$50,000 or \$75,000 per occurrence. Premiums are billed to the districts as determined on an actuarial basis. Claims below the individual districts' SIR are paid by VCJPA. However, in the retrospective adjustment process, each district's losses within their respective SIR are charged back against their deposit premium and other revenues. Losses between the districts' retained limits and VCJPA's self-insured retention are pooled. VCJPA's self-insured retention for 2013/2014 was \$1,000,000 per occurrence. Coverage above the program self-insured retention is provided by an excess pool (see Note 7) which self-insures a layer of \$14,000,000 in excess of \$1,000,000.

The Agency has established a Mid-Layer Pool providing pooled coverage from \$200,000 to \$1,000,000 per occurrence. The Liability Mid-Layer Pool is a fully-funded single fund which was financed by the receipt of deposit premiums from each participating member district in prior years. It is different from the other Pooled Liability Program Pools in that it does not have separate program years. The monies contributed to the Mid-Layer Pool are commingled into a single fund which will continue to grow from year to year or be used to pay for losses in the layer between \$200,000 and \$1,000,000. Since this pooled layer is completely funded, no deposit premiums were charged for the 2013/2014 program year. New or returning members may elect either to participate in the Mid-Layer Pool at no initial charge, but would not be eligible for refunds from the pool, or may choose to contribute an initial deposit premium as determined by the formula in the Master Plan Document. The initial deposit premium may be paid in a lump sum or over a five-year period.

For these programs, expected claims are actuarially determined and deposited with VCJPA, along with all estimated operating costs. Each program year is retrospectively adjusted commencing four years after the end of the program year and annually thereafter until such time as the program year is closed. A program year shall not be closed until such time that the Board of Directors authorizes closure, being convinced that all known claims for the year are closed and the probability of further claims being discovered is minimal. At the time of the retrospective adjustments, any unobligated funds remaining are returned to the member districts; and funds paid out in excess of the original deposit are collected from the member districts.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont):

The Liability Program includes an Aggregate Pool which was established to protect the districts from periods of frequent losses. The Liability Aggregate Pool is a fully-funded single fund which was financed by the receipt of deposit premiums from each participating member district in prior years. It is different from the other Pooled Liability Program pools in that it does not have separate program years. The monies contributed to the Aggregate Pool are commingled into a single fund which will continue to grow from year to year. It was determined by VCJPA's actuary that this pool is sufficiently funded. Therefore, no deposit premiums were charged for the 2013/2014 fiscal year. New or returning members may elect either to participate in the Aggregate Pool at no initial charge, but would not be eligible for refunds from the pool, or may choose to contribute an initial deposit premium as determined by the formula in the Master Plan Document. The initial deposit premium may be paid in a lump sum or over a five-year period.

The SIR's for this program by year are as follows:

<u>Program Year</u>	<u>Retention Limit*</u>
7/1/1990 – 6/30/1992	\$100,000 per occurrence
7/1/1992 – 6/30/1993	\$250,000 per occurrence
7/1/1993 – 6/30/2014	\$1,000,000 per occurrence

*Includes Mid Layer Limit

As part of the Liability program, the Agency also provides Employment Practices Liability (EPL) coverage to its members through Employment Risk Management Authority. The Agency's SIR's for EPL coverage by year are as follows:

<u>Program Year</u>	<u>Retention Limit</u>
7/1/1999 – 6/30/2007	\$25,000 per occurrence
7/1/2007 – 6/30/2009	\$50,000 per occurrence
7/1/2009 – 6/30/2012	\$100,000 per occurrence
7/1/2012 – 6/30/2014	\$25,000 per occurrence

Pooled Auto-Physical Damage Program:

The Pooled Auto-Physical Damage Program is a mandatory self-insured program designed to provide comprehensive and collision coverage to vehicles owned or leased by the member districts. This program is also organized by and operates under a Master Plan Document. During the 2013/2014 program year, the maximum which may be paid out for any accident was \$35,000, less a \$500 deductible.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

Property Program:

The Property Program provides coverage for the member districts' buildings, contents, contractor's equipment, and automobiles while on the premises. The coverage provides replacement costs, except for automobiles which are covered to actual cash value. The insurance is provided through two components. Pooled coverage is provided up to \$10,000 with a member deductible of \$500. Coverage above the \$10,000 pooled layer is purchased for all-risk property insurance and boiler and machinery up to the policy limits. The purchased insurance has a deductible of \$10,000 for all-risk property coverage and a deductible of \$2,500 for boiler and machinery. In 2013/14, the Board approved additional premiums of \$100,000 to replenish equity in the Property Program.

Pass Through Group Purchased Insurance Coverages:

VCJPA facilitates group purchased insurance for business travel accident, group fidelity, and employee assistance program coverage. The costs for these insurance coverages are collected from the participating members along with any incidental costs for the administration of the policy.

Fiduciary Funds:

Member Agency Trust:

VCJPA allows the districts to provide funding in excess of their insurance billings. These funds are accounted for by district and can be withdrawn quarterly, with adequate notice, or can be used to pay insurance premiums.

Property Contingency Fund:

The Property Contingency fund was established to enable the districts to have the capability of self-insuring property coverage at some future date. These funds are accounted for by district and can be used to pay for insurance premiums in the property program or can be withdrawn by the districts.

Claims Activities

During the 2013/2014 fiscal year, VCJPA utilized the services of Acclamation Insurance Management Services, an independent claims administrator, to oversee and pay claims and related claims costs for the Workers' Compensation Program. For the Liability Program, Bickmore, VCJPA's administrator, oversees and pays claims and related claims costs.

Accounting Method

The accompanying financial statements have been presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when they are earned or become reasonably estimable. Expenses are recognized when they are incurred or become reasonably estimable. The accounts of VCJPA are maintained in accordance with the principles of fund accounting in which separate funds are maintained for each program year. In addition, a general fund has been established to account for activities that do not specifically relate to a particular program. Since VCJPA discounts claims liabilities, investment income is considered in determining if a premium deficiency exists.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont):

Income Taxes

As a governmental agency, VCJPA is exempt from both federal income taxes and California state franchise taxes.

Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents include all highly liquid short-term investments with an original maturity of three months or less.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Revenues

VCJPA has classified its revenues as either operating or non-operating revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement 34. Revenues are classified according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as contributions for insured events.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources described in GASB Statement 34 such as investment earnings.

Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's prior year financial statements, from which this selected data was derived. Certain amounts in the prior year data have been reclassified in order to be consistent with the current year's presentation.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 3 - CASH AND INVESTMENTS:

Cash and investments held by VCJPA are reflected in the accompanying statement of net position at June 30, 2014 as follows:

Cash and cash equivalents	\$ 1,627,062
Investments:	
Current	
Non-current	<u>11,958,858</u>
	<u>\$ 13,585,920</u>

Cash and investments held by VCJPA at June 30, 2014 consisted of the following:

Deposits	\$ 133,624
Investments	<u>24,759,205</u>
Less: Assets held in fiduciary funds	<u>(11,306,909)</u>
Total	<u>\$ 13,585,920</u>

Investments Authorized by the California Government Code and VCJPA's Investment Policy

The following table identifies the investment types that are authorized for VCJPA by the California Government Code and VCJPA's investment policy. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk.

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
U.S. Treasury Obligations	Yes	5 years	100%	100%
Federal Agency Securities	Yes	5 years	100%	100%
California Municipals	Yes	5 years	100%	100%
Other State Municipals	Yes	5 years	100%	100%
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	5%
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Repurchase Agreements	Yes	30 days	100%	5%
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	Yes	5 years	30%	5%
Mutual Funds	No	N/A	N/A	N/A
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
Money Market Funds	Yes	N/A	20%	10%
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Government Investment Pools (LGIPs)	Yes	N/A	100%	100%
Local Agency Investment Fund (LAIF)	Yes	N/A	100%	100%
Insured Certificates of Deposit	Yes	2 years	N/A	\$250,000
JPA Pools (other investment pools)	No	N/A	N/A	N/A

*Based on state law requirements or investment policy requirements, whichever is more restrictive

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 3 - CASH AND INVESTMENTS (cont):

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that VCJPA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of VCJPA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of VCJPA's investments by maturity:

	Fair Value	Remaining Maturity (in months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Federal agency securities	\$ 8,012,023	\$	\$3,788,606	\$ 4,223,417
U.S. Treasury notes	8,138,501		2,580,416	5,558,085
Certificates of deposit	522,855		522,855	
Corporate notes	4,233,121		731,795	3,501,326
Municipal bonds	1,005,143			1,005,143
LAIIF-state investment pool	2,778,172	2,778,172		
Money market fund	69,390	69,390		
Total	<u>\$24,759,205</u>	<u>\$2,847,562</u>	<u>\$7,623,672</u>	<u>\$14,287,971</u>

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the VCJPA's investment policy, or debt agreements, and the actual Standard and Poor's rating as of year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End					Not Rated
			AAA	AAAm	AA	A	A-1	
Federal agency securities	\$ 8,012,023	N/A	\$	\$	\$ 8,012,023	\$	\$	\$
U.S. Treasury notes	8,138,501	N/A			8,138,501			
Certificates of deposit	522,855	N/A					522,855	
Corporate notes	4,233,121	N/A	98,680		1,994,350	2,140,091		
Municipal bonds	1,005,143	N/A	1,005,143					
LAIIF-state investment pool	2,778,172	N/A						2,778,172
Money market fund	69,390	N/A		69,390				
Total	<u>\$24,759,205</u>		<u>\$1,103,823</u>	<u>\$69,390</u>	<u>\$18,144,874</u>	<u>\$2,140,091</u>	<u>\$522,855</u>	<u>\$2,778,172</u>

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 3 - CASH AND INVESTMENTS (cont):

Concentration of Credit Risk

The investment policy of VCJPA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total VCJPA investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FMCC	Federal agency securities	\$2,669,092
FNMA	Federal agency securities	\$4,483,629

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. None of VCJPA's investments were subject to custodial credit risk. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The California Government Code and VCJPA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Public Entities deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, none of VCJPA's deposits in excess of federal depository insurance limits were held in uncollateralized accounts.

Managed Investment Pools

VCJPA is a voluntary participant in LAIF which is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of VCJPA's investment in this pool is reported in the accompanying financial statements at amounts based upon VCJPA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 3 - CASH AND INVESTMENTS (cont):

At June 30, 2014, the fair value of VCJPA's investments was \$88,563 more than the book value. The net increase in the fair value of the investments in the total amount of \$183,838 has been reflected as an increase in the amount of investment income recognized by VCJPA for the year ended June 30, 2014, as required by GASB Statement No. 31.

NOTE 4 - UNPAID CLAIMS:

VCJPA has established a reserve for unpaid claims in the workers' compensation and liability programs, based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported, but not settled, and of claims that have been incurred, but not reported. The costs of claims that have been incurred, but not settled, have been estimated by the claims administrator based upon prior experience with similar claims. The costs of claims that have been incurred, but not reported, are based upon an actuarial study performed by VCJPA's consulting actuary. Unpaid claims liabilities are reported at the expected confidence level for the workers' compensation programs and the liability programs. Because actual costs depend on such factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in the exact amount. Accordingly, the reserve for claims is recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to the reserves are charged to income or expense in the period in which they are made. Unpaid claims are reported at discounted net present value of estimated future cash payments, using a discount rate of 2% for the workers' compensation program and 1% for the liability program for both years presented. The change in accounting for the valuation of unpaid claims from undiscounted to discounted is preferable since claims are paid over a period of time, yet contributions to pay for the claims are collected immediately and earn interest, which will offset the amount paid. The face value (undiscounted) amount of the liabilities for unpaid claims at June 30, 2014 and 2013 was \$3,895,488 and \$3,616,792, respectively, for the workers' compensation programs and \$338,670 and \$517,262, respectively, for the liability programs.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 4 - UNPAID CLAIMS (cont):

The following represents changes in the total reserve for unpaid claims of VCJPA for all workers' compensation and liability programs taken as a whole for the past two years.

	Workers'		Liability Programs	
	<u>2013/2014</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2012/2013</u>
Unpaid claims and claims adjustment expenses at beginning of year	<u>\$3,339,715</u>	<u>\$3,353,832</u>	<u>\$ 512,797</u>	<u>\$424,165</u>
Incurred claims and claims adjustment expenses:				
Provision for insured events of the current year	937,851	995,317	166,243	242,838
Increases (decreases) in provision for insured events for prior years	<u>49,746</u>	<u>(214,256)</u>	<u>(219,865)</u>	<u>67,108</u>
Total incurred claims and claims adjustment expenses	<u>987,597</u>	<u>781,061</u>	<u>(53,622)</u>	<u>309,946</u>
Payments:				
Claims and claims adjustment expenses attributable to insured events of the current year	149,800	85,040	21,585	64,855
Claims and claims adjustment expenses attributable to insured events of prior years	<u>696,527</u>	<u>710,138</u>	<u>102,351</u>	<u>156,459</u>
Total payments	<u>846,327</u>	<u>795,178</u>	<u>123,936</u>	<u>221,314</u>
Total unpaid claims and claims adjustment expenses at the end of the year	<u>\$3,480,985</u>	<u>\$3,339,715</u>	<u>\$ 335,239</u>	<u>\$512,797</u>

The components of the unpaid claims and claims adjustment expenses as of June 30, 2014 and 2013 were as follows:

	Workers'		Liability Programs	
	<u>2013/2014</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2011/2012</u>
Claims reserves	\$1,398,085	\$1,160,839	\$ 122,272	\$ 88,269
Claims incurred but not reported (IBNR)	1,767,375	1,888,862	202,087	412,642
Unallocated loss adjustment expenses (ULAE)	<u>315,525</u>	<u>290,014</u>	<u>10,880</u>	<u>11,886</u>
	<u>\$3,480,985</u>	<u>\$3,339,715</u>	<u>\$ 335,239</u>	<u>\$512,797</u>

NOTE 5 - PROJECTED FUTURE ASSESSMENTS/EXPERIENCE REFUNDS:

The statement of net position includes estimates for projected assessments and refunds for those program years which have not been retrospectively adjusted. These projections are adjusted on an annual basis and represent the aggregate amount that would be due to/from the member district had a retrospective adjustment been made for those program years. These estimates are computed using a 90% confidence level for both programs.

Projected experience refunds for the workers' compensation and liability programs at June 30, 2014 were \$2,879,227 and \$1,918,422, respectively.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 6 - RETROSPECTIVE ADJUSTMENTS:

For the year ended June 30, 2014, the following retrospective adjustments were made in the Workers' Compensation and Liability Programs:

	<u>Due from Member Districts</u>	<u>Due to Member Districts</u>	<u>Net Retrospective Adjustment Due to (from)</u>
<u>Workers' Compensation Programs</u>			
Prepool	\$ 103	\$	\$ (103)
1988/89 Pool	1,549		(1,549)
1991/92 Pool		73	73
1997/98 Pool	14,144		(14,144)
1998/99 Pool	17,748		(17,748)
1999/00 Pool	14,369		(14,369)
2000/01 Pool	77,415		(77,415)
2001/02 Pool		17,988	17,988
2003/04 Pool	41,400		(41,400)
2004/05 Pool		18,729	18,729
2005/06 Pool	3,168		(3,168)
2006/07 Pool		10,741	10,741
2007/08 Pool	11,342		(11,342)
2008/09 Pool		<u>36,816</u>	<u>36,816</u>
Total Workers' Compensation Programs	<u>181,238</u>	<u>84,347</u>	<u>(96,891)</u>
<u>Liability Programs</u>			
2009/10 Pool	<u> </u>	<u>440,836</u>	<u>440,836</u>
Total Liability Programs	<u> </u>	<u>440,836</u>	<u>440,836</u>
Total	<u>\$181,238</u>	<u>\$525,183</u>	<u>\$343,945</u>

The retrospective adjustments are computed as the difference between the estimated deposit premium necessary to cover all claims and related expenses as determined at the inception of the program year and the re-estimated deposit premiums as determined at the time of the retrospective adjustment. These re-estimated amounts are based upon revised cost estimates, actuarial studies, and other updated information. A retrospective adjustment is made beginning five years after the program year's conclusion for the Workers' Compensation Programs and four years after the program year's conclusion for the Liability Programs. A retrospective adjustment is also made every year thereafter until all claims and related costs for that program year have been settled. All retrospective adjustments are charged to income and expense in the period in which they are made.

VECTOR CONTROL JOINT POWERS AGENCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

(Continued)

NOTE 7 - JOINT POWERS AUTHORITIES:

VCJPA participates in Joint Power Agreements with California Affiliated Risk Management Authorities (CARMA), Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) and Employment Risk Management Authority (ERMA). CARMA, LAWCX, and ERMA are not component units of VCJPA for financial reporting purposes.

CARMA and LAWCX arrange for and provide excess liability and workers' compensation coverage, respectively, for its members. ERMA arranges for pooled risk sharing related to employment practices liability. CARMA, LAWCX, and ERMA are governed separately by boards consisting of a representative from each member agency. These boards control the operations of CARMA, LAWCX, and ERMA including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. Each member agency pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in CARMA, LAWCX and ERMA.

Condensed financial information (most recent available) of CARMA, LAWCX and ERMA are as follows:

	<u>CARMA</u> <u>June 30, 2014</u>	<u>LAWCX</u> <u>June 30, 2013</u>	<u>ERMA</u> <u>June 30, 2013</u>
Assets	\$28,081,249	\$71,812,040	\$29,267,797
Liabilities	<u>14,700,575</u>	<u>45,119,273</u>	<u>9,521,772</u>
Net position	<u>\$13,380,674</u>	<u>\$26,692,767</u>	<u>\$19,746,025</u>
Total revenues	\$ 7,336,322	\$10,541,824	\$ 6,404,961
Total expenditures and member dividends	<u>11,274,039</u>	<u>9,999,089</u>	<u>3,883,681</u>
Change in net position/assets	<u>\$ (3,937,717)</u>	<u>\$ 542,735</u>	<u>\$ 2,521,280</u>

REQUIRED SUPPLEMENTARY INFORMATION

VECTOR CONTROL JOINT POWERS AGENCY

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2014

The following table illustrates how the Workers' Compensation and Liability Programs' earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Programs as of the end of each of the previous ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue amounts of premiums ceded and reported premiums (net of reinsurance) and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Programs including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Programs' gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called program year).
- (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each program year.
- (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each program year.
- (6) This section of ten rows shows how each program year's net amount of losses increased or decreased 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) This line 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 program 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 program years. The columns of the table show data for successive program years.

VECTOR CONTROL JOINT POWERS AGENCY

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2014

(Continued)

	Workers' Compensation Program									
	<u>2004/2005</u>	<u>2005/2006</u>	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>
1. Required contribution and investment revenue:										
Earned	\$ 909,748	\$ 957,544	\$ 1,320,976	\$ 1,879,302	\$ 1,357,900	\$ 1,622,482	\$ 1,939,879	\$ 1,990,311	\$ 2,093,943	\$ 1,982,131
Ceded	159,167	206,117	142,437	152,695	148,959	164,784	160,731	164,629	177,016	199,575
Net earned	750,581	751,427	1,178,539	1,726,607	1,208,941	1,457,698	1,779,148	1,825,682	1,916,927	1,782,556
2. Unallocated expenses	206,342	212,744	221,482	237,320	252,769	261,843	263,067	247,365	207,021	159,470
3. Estimated claims and expenses, end of program year:										
Incurred	728,396	632,303	580,594	594,161	690,026	832,503	958,798	998,448	995,317	937,851
Ceded										
Net incurred	728,396	632,303	580,594	594,161	690,026	832,503	958,798	998,448	995,317	937,851
4. Net paid (cumulative) as of:										
End of program year	109,635	60,296	73,887	239,419	198,847	72,982	176,415	58,930	85,040	149,800
One year later	273,296	194,082	388,074	611,173	446,898	220,765	338,830	140,388	295,608	
Two years later	319,191	274,511	536,646	875,347	575,476	258,878	454,928	183,940		
Three years later	336,494	298,331	595,146	1,000,111	650,964	303,703	509,224			
Four years later	350,209	317,503	666,956	1,073,032	673,452	312,279				
Five years later	357,277	340,820	711,433	1,130,015	692,240					
Six years later	406,287	360,127	819,086	1,191,229						
Seven years later	425,954	405,196	820,833							
Eight years later	440,377	412,839								
Nine years later	445,471									
5. Reestimated ceded claims and expenses			19,921		5,433					
6. Reestimated net incurred claims and expenses:										
End of program year	728,396	632,303	580,594	594,161	690,026	832,503	958,798	998,448	995,317	937,851
One year later	590,900	489,677	657,017	932,553	844,237	628,530	859,935	706,446	952,061	
Two years later	518,060	468,888	788,343	1,392,510	1,014,150	578,425	785,670	537,906		
Three years later	483,110	492,861	833,021	1,453,162	913,236	521,983	832,499			
Four years later	465,495	479,807	964,290	1,357,089	862,351	478,854				
Five years later	453,135	470,477	897,319	1,366,033	872,224					
Six years later	510,473	473,806	923,306	1,393,846						
Seven years later	549,705	494,643	915,371							
Eight years later	536,125	497,369								
Nine years later	520,052									
7. Increase (decrease) in estimated net incurred claims and expenses from end of program year	\$ (208,344)	\$ (134,934)	\$ 334,777	\$ 799,685	\$ 182,198	\$ (353,649)	\$ (126,299)	\$ (460,542)	\$ (43,256)	\$ _____

VECTOR CONTROL JOINT POWERS AGENCY

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2014

(Continued)

	Liability Program									
	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
1. Required contribution and investment revenue:										
Earned	\$ 649,208	\$ 551,349	\$ 648,700	\$ 829,697	\$ 890,837	\$ 886,423	\$ 1,425,686	\$ 1,455,921	\$ 1,317,227	\$ 1,254,728
Ceded	388,995	393,826	445,003	513,849	545,138	478,456	490,770	501,203	585,796	572,121
Net earned	260,213	157,523	203,697	315,848	345,699	407,967	934,916	954,718	731,431	682,607
2. Unallocated expenses	91,988	98,024	102,699	112,049	122,546	136,167	139,568	125,296	91,818	46,868
3. Estimated claims and expenses, end of program year:										
Incurred	170,720	256,901	203,536	217,670	221,760	301,889	270,438	253,996	242,838	166,243
Ceded										
Net incurred	170,720	256,901	203,536	217,670	221,760	301,889	270,438	253,996	242,838	166,243
4. Net paid (cumulative) as of:										
End of program year	36,105	50,812	24,662	30,170	64,003	68,458	37,112	9,817	64,855	21,585
One year later	85,394	59,500	34,218	133,533	99,996	116,994	142,716	76,436	141,327	
Two years later	111,883	59,500	100,075	203,798	222,968	140,423	180,692	79,142		
Three years later	168,228	59,500	107,251	203,798	223,153	192,287	180,692			
Four years later	168,228	59,500	100,997	203,798	223,153	215,461				
Five years later	168,228	59,500	100,997	203,798	223,153					
Six years later	168,228	59,500	100,997	203,798						
Seven years later	168,228	59,500	100,997							
Eight years later	168,228	59,500								
Nine years later	168,228									
5. Reestimated ceded claims and expenses							3,599		5,714	
6. Reestimated net incurred claims and expenses:										
End of program year	170,720	256,901	203,536	217,670	221,760	301,889	270,438	253,996	242,838	166,243
One year later	161,307	164,727	133,866	249,048	270,050	253,136	234,808	222,819	193,579	
Two years later	160,133	88,871	119,283	258,883	222,968	154,319	204,987	129,508		
Three years later	168,228	59,500	111,313	203,798	223,153	270,424	180,692			
Four years later	168,228	59,500	100,997	203,798	223,153	240,423				
Five years later	168,228	59,500	100,997	203,798	223,153					
Six years later	168,228	59,500	100,997	203,798						
Seven years later	168,228	59,500	100,997							
Eight years later	168,228	59,500								
Nine years later	168,228									
7. Increase (decrease) in estimated net incurred claims and expenses from end of program year	\$ (2,492)	\$ (197,401)	\$ (102,539)	\$ (13,872)	\$ 1,393	\$ (61,466)	\$ (89,746)	\$ (124,488)	\$ (49,259)	\$

SUPPLEMENTARY INFORMATION

VECTOR CONTROL JOINT POWERS AGENCY

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>General Operating Fund</u>	<u>Workers' Compensation Program</u>	<u>Liability Program</u>	<u>Auto-Physical Damage Program</u>	<u>Property Program</u>	<u>Totals</u>
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 702	\$ 987,545	\$ 549,347	\$ 75,461	\$ 14,007	\$ 1,627,062
Receivables:						
Accounts	223,647					223,647
Interest	60,369					60,369
Prepaid expenses	252,865					252,865
Deposits			399,615			399,615
Total current assets	<u>537,583</u>	<u>987,545</u>	<u>948,962</u>	<u>75,461</u>	<u>14,007</u>	<u>2,563,558</u>
Non-current assets:						
Investments	<u>5,159</u>	<u>7,258,434</u>	<u>4,037,685</u>	<u>554,633</u>	<u>102,947</u>	<u>11,958,858</u>
Total non-current assets	<u>5,159</u>	<u>7,258,434</u>	<u>4,037,685</u>	<u>554,633</u>	<u>102,947</u>	<u>11,958,858</u>
TOTAL ASSETS	<u>542,742</u>	<u>8,245,979</u>	<u>4,986,647</u>	<u>630,094</u>	<u>116,954</u>	<u>14,522,416</u>
LIABILITIES:						
Current liabilities:						
Accounts payable	11,237					11,237
Assessments payable		13,715				13,715
Due to members	531,505					531,505
Current portion of unpaid claims		743,000	77,000	15,114		835,114
Total current liabilities	<u>542,742</u>	<u>756,715</u>	<u>77,000</u>	<u>15,114</u>		<u>1,391,571</u>
Non-current liabilities:						
Assessments payable		13,715				13,715
Unpaid claims		2,737,985	258,239			2,996,224
Projected experience refunds		2,879,227	1,918,422			4,797,649
Total non-current liabilities		<u>5,630,927</u>	<u>2,176,661</u>			<u>7,807,588</u>
TOTAL LIABILITIES	<u>542,742</u>	<u>6,387,642</u>	<u>2,253,661</u>	<u>15,114</u>		<u>9,199,159</u>
NET POSITION	<u>\$</u>	<u>\$ 1,858,337</u>	<u>\$ 2,732,986</u>	<u>\$ 614,980</u>	<u>\$ 116,954</u>	<u>\$ 5,323,257</u>

VECTOR CONTROL JOINT POWERS AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

YEAR ENDED JUNE 30, 2014

	General Operating Fund	Workers' Compensation Program	Liability Program	Auto- Physical Damage Program	Property Program	Totals
OPERATING REVENUES:						
Program deposits	\$ 258,484	\$ 2,162,796	\$ 1,248,409	\$ 691	\$ 194,238	\$ 3,864,618
Premiums	41,864					41,864
Retrospective adjustments		96,891				96,891
TOTAL OPERATING REVENUES	<u>300,348</u>	<u>2,259,687</u>	<u>1,248,409</u>	<u>691</u>	<u>194,238</u>	<u>4,003,373</u>
OPERATING EXPENSES:						
Claims paid		846,327	123,936	17,685	17,734	1,005,682
Claims servicing		90,437				90,437
Change in unpaid claims		141,270	(177,558)	15,114	(2,385)	(23,559)
Change in projected experience refunds		730,041	326,333			1,056,374
Retrospective adjustments			440,836			440,836
Insurance	39,705	203,027	572,121		87,662	902,515
General and administrative	260,643	197,236	133,908	34	6,575	598,396
TOTAL OPERATING EXPENSES	<u>300,348</u>	<u>2,208,338</u>	<u>1,419,576</u>	<u>32,833</u>	<u>109,586</u>	<u>4,070,681</u>
OPERATING INCOME (LOSS)		<u>51,349</u>	<u>(171,167)</u>	<u>(32,142)</u>	<u>84,652</u>	<u>(67,308)</u>
NON-OPERATING REVENUES:						
CARMA dividend			306,333			306,333
Investment income		93,972	64,278	7,676	1,415	167,341
TOTAL NON-OPERATING REVENUES		<u>93,972</u>	<u>370,611</u>	<u>7,676</u>	<u>1,415</u>	<u>473,674</u>
CHANGE IN NET POSITION		145,321	199,444	(24,466)	86,067	406,366
NET POSITION, BEGINNING OF YEAR		<u>1,713,016</u>	<u>2,533,542</u>	<u>639,446</u>	<u>30,887</u>	<u>4,916,891</u>
NET POSITION, END OF YEAR	<u>\$</u>	<u>\$ 1,858,337</u>	<u>\$ 2,732,986</u>	<u>\$ 614,980</u>	<u>\$ 116,954</u>	<u>\$ 5,323,257</u>

ADDITIONAL REPORT



Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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September 2, 2014

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

Board of Directors
Vector Control Joint Powers Agency (VCJPA)
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vector Control Joint Powers Agency (VCJPA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise VCJPA's basic financial statements, and have issued our report thereon dated September 2, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VCJPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of VCJPA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VCJPA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP