



ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS
INSURANCE AUTHORITY

Finance & Audit Committee Meeting

JPIA Executive Conference Room
2100 Professional Drive
Roseville, CA 95661
(800) 231-5742

**Monday
January 19, 2015
1:00 PM**

Chairman: Eldon Boone, Vista Irrigation District

Vice-Chair: Tom Scaglione, Vallecitos Water District

Mark Gardner, Wheeler Ridge-Maricopa Water Storage District

Michael Grandy, El Toro Water District

Suha Kilic, Pebble Beach Community Services District

Dennis Michum, Glenn-Colusa Irrigation District

Steve Ruettgers, Kern County Water Agency



FINANCE & AUDIT COMMITTEE MEETING

JPIA EXECUTIVE CONFERENCE ROOM
2100 Professional Drive
Roseville, CA 95661
(800) 231-5742

WWW.ACWAJPIA.COM

AGENDA

Monday, January 19, 2015

1:00 PM

WebEx call-in: (855) 749-4750; Access code: 801 012 511; Password 1234

This meeting shall consist of a simultaneous WebEx teleconference call at ACWA/Joint Powers Insurance Authority, 2100 Professional Drive, Roseville, CA 95661 and the following remote sites:

- Scaglione – 201 Vallecitos de Oro, San Marcos
- Ruettgers – 3200 Rio Mirada Drive, Bakersfield
- Grandy – 24241 Los Alisos Blvd, Lake Forest

WELCOME

CALL TO ORDER AND ANNOUNCEMENT OF QUORUM

ANNOUNCEMENT RECORDING OF MEETING This meeting may be recorded to assist in preparation of minutes. Recordings will only be kept 30 days following the meeting, as mandated by the California Brown Act.

EVACUATION PROCEDURES

PUBLIC COMMENT Members of the public will be allowed to address the Finance & Audit Committee on any agenda item prior to the Committee's decision on the item. They will also be allowed to comment on any issues that they wish which may or may not be on the agenda. If anyone present wishes to be heard, please let the Chairman know.

INTRODUCTION OF GUESTS

ADDITIONS TO OR DELETIONS FROM THE AGENDA

<u>Presenter</u>			<u>Page#</u>
Boone	*	I. Approve the minutes of the meeting of August 11, 2014.	1
All		II. Report on meetings attended on behalf of the JPIA.	
Meacham	*	III. Long-term Investment Portfolio Update.	5
Meyer	*	IV. Review and take action on the Audited Financial Statements for Year Ending September 30, 2014.	6
deBernardi	*	V. Review and take action on the Catastrophic Funds.	102
Boone	*	VI. Announce next meeting date: March 30, 2015.	103

ADJOURN

*Related items enclosed.

Americans With Disabilities Act – ACWA/JPIA conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the Federal Rules and Regulations adopted in implementation thereof. A request for disability-related modification or accommodation, in order to participate in a public meeting of the ACWA/JPIA, shall be made to: Cece Reynolds, Accountant II, ACWA/JPIA, P. O. Box 619082, Roseville, CA 95661-9082; telephone (916) 786-5742. ACWA/JPIA's normal business hours are Monday – Friday, 7:30 a.m. to 4:30 p.m. (Government Code Section 54954.2, subdivision. (a)(1).)

Written materials relating to an item on this Agenda that are distributed to the ACWA/JPIA Executive Committee within 72 hours before it is to consider the item at its regularly scheduled meeting will be made available for public inspection at ACWA/JPIA, 2100 Professional Drive, Roseville, CA 95661-3700; telephone (916) 786-5742. ACWA/JPIA's normal business hours are Monday – Friday, 7:30 a.m. to 4:30 p.m.



ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS
 INSURANCE AUTHORITY

Unapproved Minutes

FINANCE & AUDIT COMMITTEE MEETING

August 11, 2014

ACWA JOINT POWERS INSURANCE AUTHORITY
 JPPIA Executive Conference Room
 2100 Professional Drive, Roseville, CA 95661
 (800) 231-5742

This meeting consisted of a simultaneous WebEx teleconference call at the ACWA Joint Powers Insurance Authority, 2100 Professional Drive, Roseville, CA 95661 and the following remote sites:

- Kilic – 3101 Forest Lake Road, Pebble Beach
- Ruettgers – 3200 Rio Mirada Drive, Bakersfield
- Scaglione – 201 Vallecitos de Oro, San Marcos

MEMBERS PRESENT

Chairman: Eldon Boone, Vista Irrigation District
Vice Chair: Tom Scaglione, Vallecitos Water District *(via WebEx)*
 Mark Gardner, Wheeler Ridge Maricopa Water Storage District
 Suha Kilic, Pebble Beach Community Services District *(via WebEx)*
 Dennis Michum, Glenn-Colusa Irrigation District
 Steve Ruettgers, Kern County Water Agency *(via WebEx)*

MEMBERS ABSENT

Michael Grandy, El Toro Water District

STAFF PRESENT

Chief Executive Officer/Secretary: Walter “Andy” Sells
 Linda Craun, Administrative Assistant II
 Dick Damon, Director of Casualty Operations
 David deBernardi, Director of Finance
 Robert Greenfield, Counsel to Casualty Operations
 John Haaf, Risk Management Manager
 Patricia Slaven, Training Manager
 Nancy Stangel, Director of Administration
 Dianna Sutton, Finance Manager
 Bobbette Wells, Executive Assistant to the CEO (Recording Secretary)

OTHERS IN ATTENDANCE

William Deeb, JPPIA Insurance Broker, Aon Risk & Insurance Services

Bruce Eastes, CERBT Reporting and Compliance Specialist
 David Hodgin, Scotts Valley Water District
 W.D. "Bill" Knutson, Yuima Municipal Water District
 Melody McDonald, San Bernardino Valley Water Conservation District
 Sarah Meacham, PFM Asset Management
 Charles Muse, Helix Water District
 John Swedensky, Interim Chief of CalPERS Affiliate Program Services Division

WELCOME

Chairman Boone welcomed everyone in attendance.

CALL TO ORDER AND ANNOUNCEMENT OF QUORUM

Chairman Boone called the meeting to order at 1:04 p.m. He announced there was a quorum.

ANNOUNCEMENT RECORDING OF MINUTES

Chairman Boone noted that the meeting was being recorded to assist in preparation of minutes. Recordings are only kept 30 days following the meeting, as mandated by the California Brown Act.

EVACUATION PROCEDURES

Mr. Sells briefly reviewed the building evacuation procedures.

PUBLIC COMMENT

Chairman Boone noted that, as the agenda stated, members of the public would be allowed to address the Finance & Audit Committee on any agenda item prior to the Committee's decision on that item. Comments on any issues on the agenda, or not on the agenda, were also welcomed. No comments were brought forward.

INTRODUCTION OF GUESTS

Chairman Boone recognized the Executive Committee members and JPIA staff in attendance; as well as Sarah Meacham of PFM Asset Management; Bruce Eastes, CERBT Reporting and Compliance Specialist; and John Swedensky, Interim Chief of CalPERS Affiliate Program Services Division.

ADDITIONS TO OR DELETIONS FROM THE AGENDA

No additions or deletions were noted.

APPROVAL OF MINUTES

Chairman Boone called for approval of the minutes of the March 25, 2014 meeting.

M/S/C (Michum/Scaglione) (Gardner-Yes; Kilic-Yes; Michum-Yes; Ruettgers-Yes; Scaglione-Yes; Boone-Yes): That the Finance & Audit Committee approve the minutes of the March 25, 2014 meeting, with noted correction.

MEETINGS ATTENDED ON BEHALF OF THE JPIA

None reported.

CALPERS PRESENTATION

Mr. Swedensky presented an overview of the California Employer's Retiree Benefit Trust (CERBT), as well as a review of the JPIA's account. As of July 1, 2014, the JPIA's account with CERBT is fully funded, with total assets of \$6.3 million, and covers 54 active and retired employees. The fund has produced a 17.32% average annualized internal rate of return since inception on March 26, 2009.

Mr. Eastes discussed the proposed changes with accounting and financial reporting for pension plans. The changes he discussed were a result of the Governmental Accounting Standards Board (GASB) 67-68 that provide for more prominent disclosure and could result in an increase in Other Post Employment Benefits (OPEB) liability for some employers.

LONG-TERM INVESTMENT PORTFOLIO UPDATE

Ms. Meacham began her presentation with an overview of the economy, labor market, and a 2014 second quarter recap. The diversification of the portfolio and maturity distribution was also discussed.

The JPIA's total return on the portfolio since inception is significantly above the Merrill Lynch 1-5 Year U.S. Government Index benchmark. The portfolio is well diversified and is comprised with high quality securities. There was further discussion of possibly extending the duration of the portfolio for a better return on the fund.

INVESTMENT POLICY

The JPIA's Investment Policy is evaluated on an annual basis and is approved annually by the Board of Directors at the JPIA's Fall Conference. Mr. deBernardi presented a copy of the current Investment Policy that had been marked with recommended revisions made by JPIA staff and investment advisor, PFM Asset Management (PFM).

Mr. deBernardi relayed to the Committee that the majority of the changes to the policy were cosmetic in nature, with one addition of Supranationals. Supranationals can be United States dollar denominated senior unsecured unsubordinated obligation issued or unconditionally guaranteed by institutions such as the International Bank for Reconstruction and Development; International Finance Corporation; and the Inter-American Development Bank; with a maximum remaining maturity of five years or less.

The Committee discussed the addition of Supranationals to the Investment Policy at great length. It was determined that no more than 20% of the portfolio be comprised of this type of investment and that only those with a credit rating of AAA would be permitted.

M/S/C (Scaglione/Ruettgers) (Gardner-Yes; Kilic-Yes; Michum-Yes; Ruettgers-Yes; Scaglione-Yes; Boone-Yes): That the Finance & Audit Committee recommend that the Executive Committee accept the noted changes to the proposed Investment Policy, with final approval of the Board of Directors at Fall Conference.

AUDITOR ROTATION

Mr. deBernardi relayed that each year, the JPIA is required by its Bylaws to obtain an independent audit of its financial statements. Maze & Associates will be performing its sixth audit of the JPIA for fiscal year September 30, 2014.

The Committee discussed the new auditing standards recommending that organizations change or rotate teams within the current auditing firm every seven years. The Committee recommended that Maze & Associates be allowed to conduct a seventh audit, and sometime before then the JPIA would send out a Request for Proposal (RFP) for auditing services.

EXTENDING LINE OF CREDIT FOR MEMBER AGENCIES

Mr. Sells relayed that the topic of establishing a line of credit for member agencies to use in the event of an emergency has come up at several ACWA Conferences.

Working with Alex Tokar of Aon Risk Solutions, staff was able to identify potential markets for a product that could potentially address the topic. The basic concept would be to put in place a "line of credit" (LOC) with different repayment options. The LOC could be accessed individually by participating members immediately after a qualifying event to help facilitate prompt repairs.

The program was reviewed with the Committee to determine the need or potential desire of such a product. The Committee agreed that the JPIA should not be in the business of extending loans or brokering credit to members.

MISCELLANEOUS

Future Agenda Items

None stated.

Availability for Upcoming Meeting(s):

The next meeting of the Finance & Audit Committee will be scheduled in January of 2015.

The Finance & Audit Committee meeting adjourned at 3:03 p.m.

ACWA/JPIA
Long-term Investment Portfolio Update
January 19, 2015

BACKGROUND

In November 2008, PFM Asset Management (PFM) began managing approximately two-thirds of the JPIA's investment portfolio.

CURRENT SITUATION

PFM will present a summary of the investment portfolio managed by them. This presentation will include commentary on the current market and thoughts about managing the investments going forward.

RECOMMENDATION

None, informational only.

ACWA/JPIA
Audited Financial Statements
for Year Ending September 30, 2014
January 19, 2015

BACKGROUND

Each year the JPIA provides for an independent audit of the JPIA's financial statements. Maze & Associates performed the annual audit of the JPIA for the fiscal year of October 1, 2013 through September 30, 2014.

CURRENT SITUATION

The JPIA is receiving an unmodified opinion. The drafted opinion states that the financial statements present fairly, in all material respects, the financial position of ACWA/JPIA as of September 30, 2014, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As in the previous year, the JPIA prepared a Comprehensive Annual Financial Report (CAFR) in accordance with the Government Finance Officers Association (GFOA) standards. Management intends to submit this report to the GFOA for review in order to again obtain a Certificate of Achievement for Excellence in Financial Reporting. Consequently, the annual report has additional reports therein to meet these high standards.

Amy Meyer, CPA of Maze & Associates, will be at the meeting to present the audited financial statements. The Committee will be provided an opportunity to speak with the auditors without staff present.

RECOMMENDATION

That the Finance & Audit Committee approve the 2013/14 Audited Financial Statements as presented.



ASSOCIATION OF CALIFORNIA WATER AGENCIES

JOINT POWERS INSURANCE AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Years Ended September 30, 2014 and 2013

**Prepared by
FINANCE DEPARTMENT**

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

Years Ended September 30, 2014 and 2013

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INTRODUCTORY SECTION

January 19, 2015



**JOINT POWERS
INSURANCE AUTHORITY**

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President

E.G. "Jerry" Gladbach

Vice President

Tom Cuquet

Chief Executive Officer

Walter "Andy" Sells

Executive Committee

Tom Cuquet
Joseph Dion
E.G. "Jerry" Gladbach
David T. Hodgins
W.D. "Bill" Knutson
Melody A. McDonald
Charles W. Muse
Lou Reinkens
Kathleen J. Tieg

Members, Board of Directors
Association of California Water Agencies
Joint Powers Insurance Authority

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) for the year ended September 30, 2014, is hereby respectfully submitted. The JPIA Finance Department prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the JPIA. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the JPIA as measured by the financial activity of its various programs and policy periods; and that all disclosures necessary to enable the reader to gain the maximum understanding of the JPIA's financial affairs have been included.

Maze & Associates, a firm of licensed certified public accountants, has audited the JPIA's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the JPIA for the fiscal year ending September 30, 2014, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Also included is an assessment of the accounting principles used, significant estimates made by management, and an evaluation of the overall financial statement presentation. The auditor concluded, based upon audit, that there was a reasonable basis for rendering an unmodified opinion that the JPIA's financial statements for the fiscal year ending September 30, 2014 are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report. The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

ASSOCIATION OF CALIFORNIA WATER AGENCIES JOINT POWERS INSURANCE AUTHORITY PROFILE

The JPIA is a public entity formed in 1979 by 83 California water agencies. It is a special district in the state of California and its formation and operation are subject to the provisions of the California Government Code.

The JPIA is dedicated to consistently and cost effectively providing the broadest possible affordable insurance coverages and related services to its member agencies. The JPIA provides risk-sharing pools to meet the needs of its members for Liability, Property, Workers' Compensation and Employee Benefits coverage. Besides handling covered claims for its members, it provides risk management services and training programs. Additionally, the JPIA continues to provide members with a training library to help prevent losses.

As of September 30, 2014, the JPIA had 365 members. Each member selects one representative to serve as a director on the JPIA Board of Directors. From this body, eight members are elected to serve with staggered terms as members of the JPIA's Executive Committee. The current Vice President of the Association of California Water Agencies also serves as a voting member on the Executive Committee.

The JPIA's reporting entity includes all activities of the Board of Directors and staff considered part of and controlled by the JPIA. This includes financial activities relating to all programs and insurance pools of the JPIA.

LOCAL ECONOMY

The national economy has been recovering from a recession recently at an increasing rate. From October 2013 through September 2014, the national unemployment went from 7.2% to 5.9% - a favorable change. Meanwhile in the State of California, ranging from 7th to 10th of the world's largest economies, the unemployment rate went from 8.7% in September 2013 to 7.3% at the end of September 2014. This points to the California economy rebounding as the gap between its unemployment rate and the national rate narrowed. This bounce-back however, has been shadowed by the long dry spell that has created a statewide drought. In the City of Roseville, where the JPIA

office resides, the unemployment rate moved from 7.3% in September 2013 to 6.1% in August 2014 - again a positive trend. With the exception of decreased investment income, the JPIA has not been affected as negatively as many organizations in California. Staffing continues to be stable within the JPIA and due to expanded operations by creating the Employee Benefits department; the JPIA increased its employee count in a time when many other organizations had been downsizing. With the attention to federal and state government spending less and reducing deficits, the circumstances have not been ideal for many government agencies. The JPIA has largely been unaffected by these economic changes due to a majority of its expenses being claims related. The JPIA again was able to continue its operations during fiscal year ending September 30, 2014 without any rate increases to its members in the Liability, Property, or Workers' Compensation Programs.

LONG-TERM FINANCIAL PLANNING

In August of 2013, the JPIA held a strategic planning meeting with its Executive Committee. The purpose of this meeting was to better develop plans for the future. Establishing relationships, communication, expansion of services, marketing and exploring different layers of self insured retentions were the topics discussed at the strategic planning meeting. There were no actions taken by the JPIA Executive Committee as a result of this meeting.

In September 2012, the JPIA Executive Committee approved a new monetary policy to cover funding for the Liability and Workers' Compensation Programs. The new monetary policy is two-fold, covering both the Rate Stabilization Fund and the Catastrophic Reserve Fund. The Rate Stabilization Fund is used to add and subtract monies from individual members' accounts as needed to true up policy years annually based on new actuary estimates of losses. This process commences when a policy year reaches four years of history. The monies in these individual accounts kept on behalf of the members are capped at 50% of their basic deposit premium, or approximately \$9 million in the aggregate. The Catastrophic Reserve Fund consists of funds set aside to be used in time of need. Such funds are subject to JPIA Executive Committee approval and are most likely to be used when the JPIA experiences adverse claims experience. The Catastrophic Reserve Fund is capped at ultimate losses estimated by the actuary for all open policy years using a 99% confidence level. Confidence level refers to the degree of certainty the actuary has that losses will be equal to or less than the estimate provided. Based on recent actuarial reports, the Catastrophic Reserve Fund was capped at \$32.8 million – a decrease of \$6.2 million from prior year.

Management believes the above funding policy covers a great deal of scenarios that the future could have and thus is confident these goals are best for the organization. In July 2012, the JPIA embarked on a new program, Employee Benefits. Management is looking to define a policy for funding as well in regards to Employee Benefits. As management better learns the operations of this program, it is fully expected that similar discussions will take place with the JPIA Executive Committee.

The JPIA owns its building and does not foresee any significant capital projects related to buildings or structures. The previous building the JPIA occupied, in Citrus Heights, California, is owned by the JPIA. The JPIA is currently marketing this building for lease and sale.

INTERNAL ACCOUNTING CONTROLS

The JPIA's accounting system is organized so that each program can be accounted for and evaluated independently. Policy periods are also accounted for separately within each program. The assets, liabilities, revenues and expenses of each year are reported on a full accrual basis. All transactions are accounted for in a governmental enterprise fund.

JPIA management is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles, and the activities and reporting of the JPIA are in compliance with relevant laws and regulations. Internal accounting controls are designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

All internal control decisions are made within the above guidelines. Management believes that the JPIA's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

AWARDS & ACKNOWLEDGEMENTS

The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the JPIA for its comprehensive annual financial report for the fiscal year ending September 30, 2013. In order to be awarded a Certificate of Achievement, a

government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

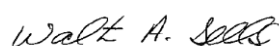
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all staff members who assisted and contributed to the preparation of this report.

Our sincere appreciation is expressed to the members of the JPIA's Finance & Audit Committee and Executive Committee for their support in maintaining the highest standards of professionalism in the management of JPIA finances.

Our appreciation is also extended to each Director and Alternate Director of the Board of Directors and to all Committee members for their commitment to the JPIA.

We stand ready to answer any questions you may have regarding the contents of this report.

Respectively Submitted,



Walter "Andy" Sells
Chief Executive Officer



David deBernardi, CPA
Director of Finance

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

EXECUTIVE COMMITTEE

<u>Name</u>	<u>Office</u>	<u>District</u>
E.G. "Jerry" Gladbach	President	Castaic Lake Water Agency
Thomas A. Cuquet	Vice-President	South Sutter Water District
Joseph Dion	Director	Citrus Heights Water District
David T. Hodgin	Director	Scotts Valley Water District
W.D. "Bill" Knutson	Director	Yuima Municipal Water District
Melody McDonald	Director	San Bernardino Valley WCD
Charles Muse	Director	Helix Water District
Lou Reinkens	Director	Tahoe City Public Utility District
Kathleen Tiegs	At-Large	ACWA Vice-President

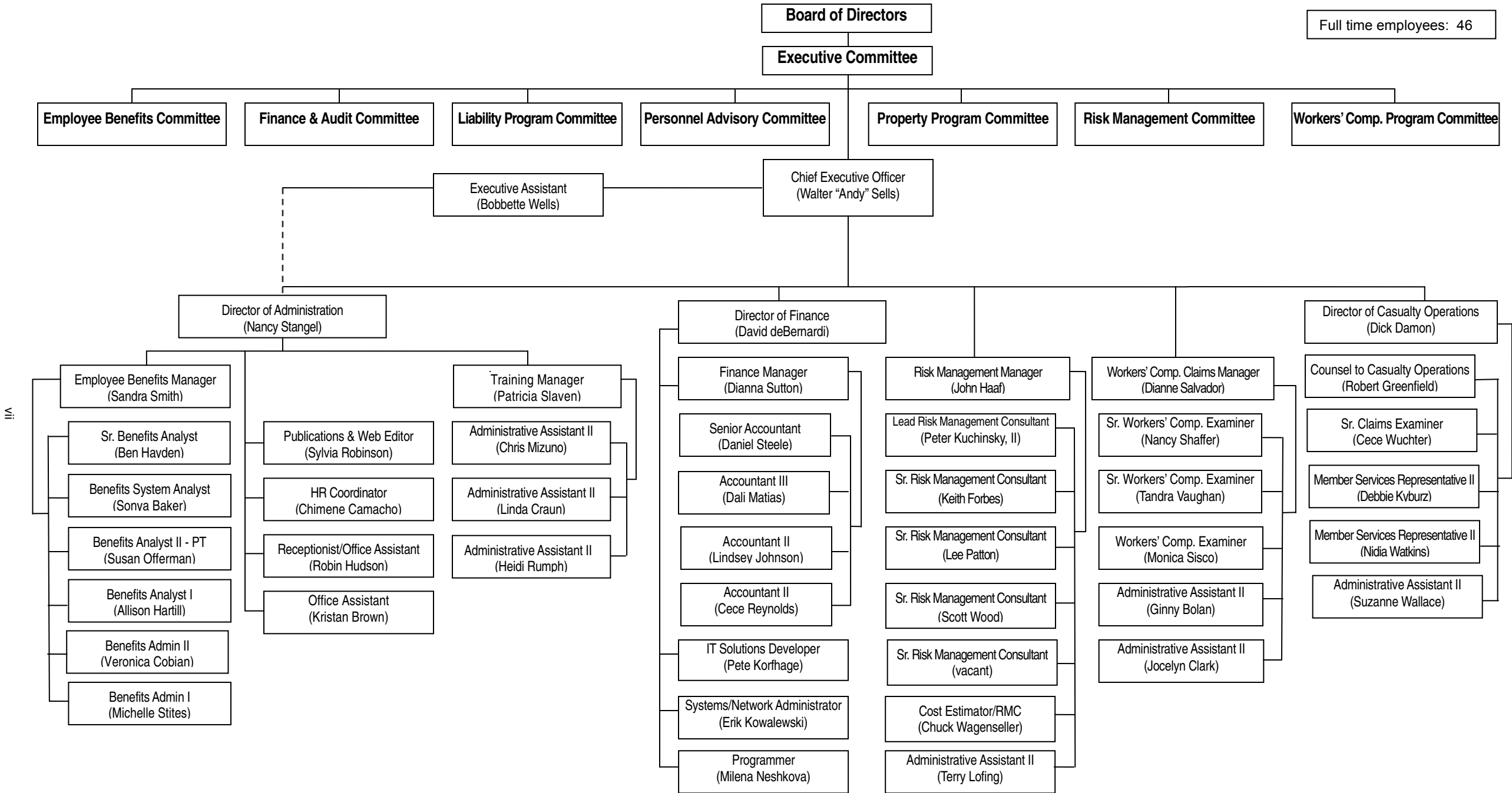
Walter "Andy" Sells Chief Executive Officer

Office Address

2100 Professional Drive
Roseville, California 95661

Report Prepared by the
JPIA Finance Department

David deBernardi, CPA, Director of Finance
Dianna Sutton, Finance Manager
Dan Steele, Senior Accountant
Dalisay Matias, Accountant III
Lindsey Johnson, Accountant II
Cece Reynolds, Accountant II





Government Finance Officers Association

**Certificate of
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for Excellence
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Presented to

**Association of California
Water Agencies Joint Powers
Insurance Authority**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Association of California Water Agencies
Joint Powers Insurance Authority
Roseville, California

We have audited the accompanying basic financial statements of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ACWA/JPIA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ACWA/JPIA'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ACWA/JPIA as of September 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended September 30, 2013 and required certain nomenclature revisions to the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See Note 2 to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ACWA/JPIA's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of the ACWA/JPIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ACWA/JPIA's internal control over financial reporting and compliance.



Pleasant Hill, California
December 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA), we offer readers of the JPIA's financial statements this narrative overview and analysis of the financial activities of the JPIA for the fiscal year ending September 30, 2014. We encourage readers to consider the information here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages i to v of this report.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The JPIA operates as an enterprise fund and utilizes an accrual basis of accounting. The report includes the basic financial statements for the JPIA in accordance with generally accepted accounting principles. The Statements of Net Position present a snapshot of the JPIA's assets, liabilities and net position as of September 30, 2014 and 2013. The Statements of Revenue, Expenses, and Changes in Net Position report the revenues and expenses for the fiscal years resulting in the changes to net position. The Statements of Cash Flows provide the reader with details on cash inflows and outflows during the fiscal years ended. The Notes to the Financial Statements present the reader with additional information to enhance and complement understanding of the financial statements.

CONDENSED FINANCIAL STATEMENTS

CONDENSED STATEMENT OF NET POSITION

	9/30/2014	9/30/2013	9/30/2012	2014 vs. 2013 Variance	2013 vs. 2012 Variance
ASSETS					
Cash and Investments	\$174,476,025	\$163,680,660	\$157,149,039	\$10,795,365	\$6,531,621
Other Assets	14,901,778	24,582,594	23,980,520	(9,680,816)	602,074
Capital Assets	6,206,203	6,560,350	6,904,191	(354,147)	(343,841)
Total Assets	195,584,006	194,823,604	188,033,750	760,402	6,789,854
LIABILITIES					
Current Liabilities	53,163,043	52,189,011	60,219,720	974,032	(8,030,709)
Noncurrent Liabilities	54,463,790	48,118,825	40,450,696	6,344,965	7,668,129
Total Liabilities	107,626,833	100,307,836	100,670,416	7,318,997	(362,580)
NET POSITION					
Net Investment in Capital Assets	6,206,203	6,560,350	6,904,191	(354,147)	(343,841)
Unrestricted	81,750,970	87,955,418	80,459,143	(6,204,448)	7,496,275
TOTAL NET POSITION	\$87,957,173	\$94,515,768	\$87,363,334	\$(6,558,595)	\$7,152,434

The JPIA finished the fiscal year 2014 with very little change to its total assets. The composition of the assets, however, changed significantly with other assets dropping by nearly \$10 million while cash and investments increased almost \$11 million. The decrease in other assets of \$9.6 million was the result of two things. The JPIA had a

significant excess insurance receivable of \$5 million from a claim at the end of fiscal year 2013. During fiscal year 2014 this receivable was collected as the claim was settled. The other reason for the drop in other assets was due to a 10% decrease of rates in the liability program. This decrease directly resulted in a lower member premium receivable at year end September 30, 2014. Cash and investments benefited from the decrease in other assets by improving \$10.7 million.

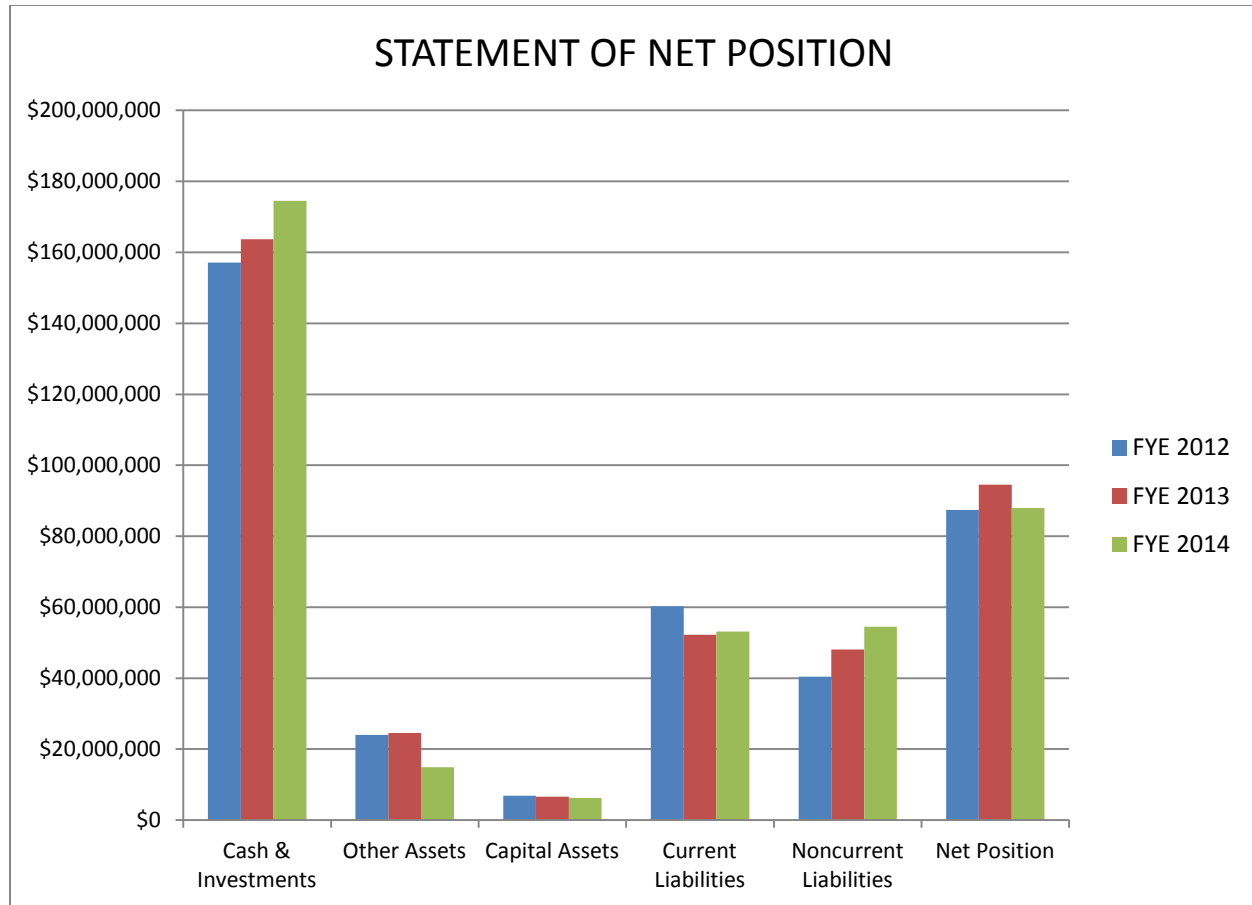
Total liabilities at September 30, 2014 enlarged \$7.3 million from prior year. The majority of this change is comprised of an increase in noncurrent liabilities of \$6.3 million. Noncurrent liabilities most significant changes were in retrospective premium adjustment payables (increase \$4 million) and claims reserves (increase \$2.3 million). The noncurrent retrospective premium adjustment increased primarily due to liability policy year 2013-14 showing favorable funding of \$3.2 million returning to members should current actuarial estimates hold true. The claims reserves uptick was caused by increased reserves of \$1.17 million in the Liability Program and \$1.19 million in the Worker's Compensation Program.

Overall, the JPIA's net position declined \$6.56 million from prior year. This decline was somewhat expected from the JPIA given the recent price structuring of the Employee Benefits Program where past excess funds were earmarked in the budget for price stabilization. The Employee Benefits Program resulted in a decline of \$2.1 million. The other significant factor of the decline in net position was the rate stabilization fund refunds of \$3.4 million.

During fiscal year 2013, total assets increased by nearly \$7 million. This increase was primarily seen in cash and investments that increased by \$6.5 million. The cash and investment rise was due to the increase in the JPIA's net position, \$7.1 million. This is common since the JPIA has little to no capital assets investment needed as part of its operations.

Also during fiscal year 2013, current liabilities decreased by \$8 million. This change was primarily the result of a retrospective premium adjustment for policy year 2007-08 in the liability program of \$5.5 million that was payable in the prior year. Since this was returned to members during fiscal year end 2013 and there were no comparable adjustments at year end 2013, the current liability decreased accordingly. Retrospective premium adjustment payables represent funds payable to member agencies based on current actuarial projections. These liabilities are subject to change based on annual updated actuarial estimates. Noncurrent liabilities at year end 2013, enlarged by \$7.6 million. Once again, the chief cause for this change was the retrospective premium adjustment payable. This liability increased by nearly \$7 million due to both Liability and Workers' Compensation policy years 2011-12 no longer collecting monies for the Self Insured Excess Fund and over \$1 million less in Catastrophic Funds. The Self Insured Excess Fund was merged into the Rate Stabilization Fund during fiscal year 2012. Actuarial goals were set for the Catastrophic Fund and since they were largely met, these collections lessened.

The graph following outlines the changes of the various components in the Statement of Net Position over the last three fiscal years. Reviewing this chart you can see the trending increase of cash and investments as well as the noncurrent liabilities. Also shown is the leveling of net position and capital assets.



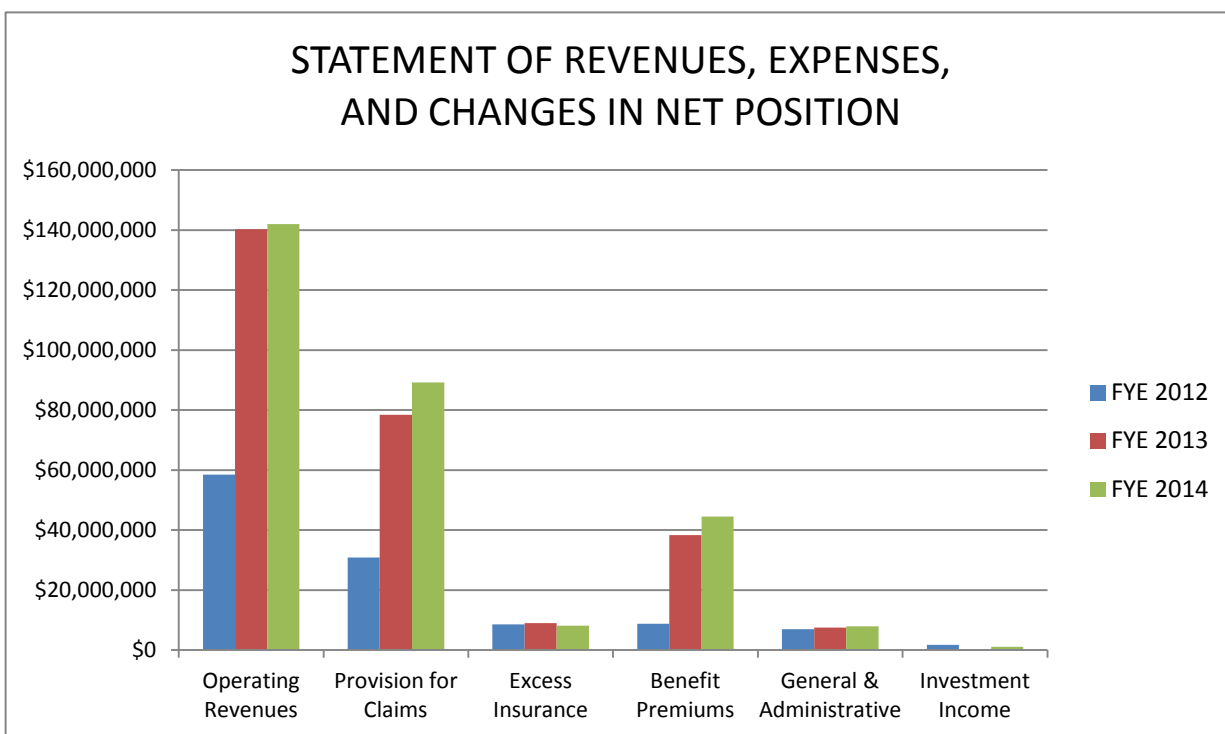
Overall the JPIA's net position decreased by \$6.56 million during fiscal year 2014. This change is reflected on the Statement of Revenues, Expenses, and Changes in Net Position. Member premiums improved by over \$5.7 million. The cause for this revenue increase lies in the Employee Benefits Program where increased premiums were felt across the various programs. These increases were a reflection of prices in the industry. The member premiums from fiscal year 2012 to 2013 skyrocketed \$87 million. This metamorphosis was due to fiscal year 2012 only having three months of activity for the Employee Benefit Program because the JPIA commenced this program in July of 2012. Retrospective premium adjustments decreased by \$4 million for fiscal year end 2014. The largest contributor to this change was the Liability Program where in fiscal year 2013 contributions of over \$2 million were collected for the Catastrophic Fund compared to in fiscal year 2014 where amounts exceeding \$6 million were distributed from the Catastrophic Fund to member Rate Stabilization accounts. These changes were a by-product of significant variances in the actuarial projected losses for the Liability Program.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	9/30/2014	9/30/2013	9/30/2012	2014 vs. 2013 Variance	2013 vs. 2012 Variance
OPERATING REVENUES					
Members Premiums	\$152,994,168	\$147,247,532	\$60,219,073	\$5,746,636	\$87,028,459
Retrospective Premium Adjustments	(10,979,765)	(6,957,472)	(1,782,760)	(4,022,293)	(5,174,712)
Total Operating Revenues	142,014,403	140,290,060	58,436,313	1,724,343	81,853,747
OPERATING EXPENSES					
Provision for Claims	89,145,942	78,442,870	30,804,349	10,703,072	47,638,521
Excess Insurance	8,111,217	9,023,118	8,562,014	(911,901)	461,104
Benefit Premiums	44,511,197	38,312,872	8,739,850	6,198,325	29,573,022
General & Administrative	7,915,833	7,521,114	6,964,898	394,719	556,216
Total Operating Expenses	149,684,189	133,299,974	55,071,111	16,384,215	78,228,863
OPERATING INCOME (LOSS)	(7,669,786)	6,990,086	3,365,202	(14,659,872)	3,624,884
NON-OPERATING REVENUES					
Investment Income	1,111,191	162,348	1,699,881	948,843	(1,537,533)
Net Position Acquired from Merger	0	0	34,986,207	0	(34,986,207)
CHANGE IN NET POSITION	(6,558,595)	7,152,434	40,051,290	(13,711,028)	(32,898,856)
NET POSITION, BEGINNING	94,515,768	87,363,334	47,312,044	7,152,434	40,051,290
NET POSITION, ENDING	\$87,957,173	\$94,515,768	\$87,363,334	\$(6,558,595)	\$7,152,434

There were also some major variances that occurred in fiscal year 2014 for operating expenses. Overall, operating expenses were up \$16.3 million, with provision for claims (\$10.7 million) and benefit premiums (\$6.1 million) being the biggest contributors to this rise. A majority of the provision for claims increase is linked to the Employee Benefits Health Program. During fiscal year 2014, the Health Benefits Program had a 5.5% increase in lives for the self insured portion of the program. This coupled with the rising medical costs that were projected at 8.4% spelled an increase of \$5.3 million in the provision for claims. The cause for increased benefit premiums paid in operating expenses is dual. Insured lives increased by approximately 5.5% causing higher benefit premiums paid. Also, benefit premiums increased 5-18% depending on the plan. These premium increases were a reflection of rising costs in the industry that has been on the rise for several years. Likewise, fiscal year ending 2013 had significant increases for both the provision for claims (\$47.6 million) and benefit premiums (\$29.5 million). Like operating revenues in 2013, the causes for these changes were the Employee Benefits Program that had twelve months of activity vs. three months during fiscal year 2012. Benefit premiums are expenses only related to the Employee Benefits Program. Of the \$78.4 million provision for claims in fiscal year 2013, \$64.8 million of it was from the Employee Benefits Program.

Following is a diagram outlining the various components of the Statement of Revenues, Expenses, and Changes in Net Position over the last three (3) fiscal years. Analyzing the graph you can see that operating revenues, provision for claims and benefit premiums have had momentous trends upwards. The explanation for this returns to the Employee Benefits Program where fiscal year 2012 had three months of revenues/expenses and fiscal year 2013 had twelve months revenues/expense. For the Employee Benefits Program, the JPIA had revenues of \$119.3 and \$112.5 million in fiscal year 2014 and 2013, respectively.

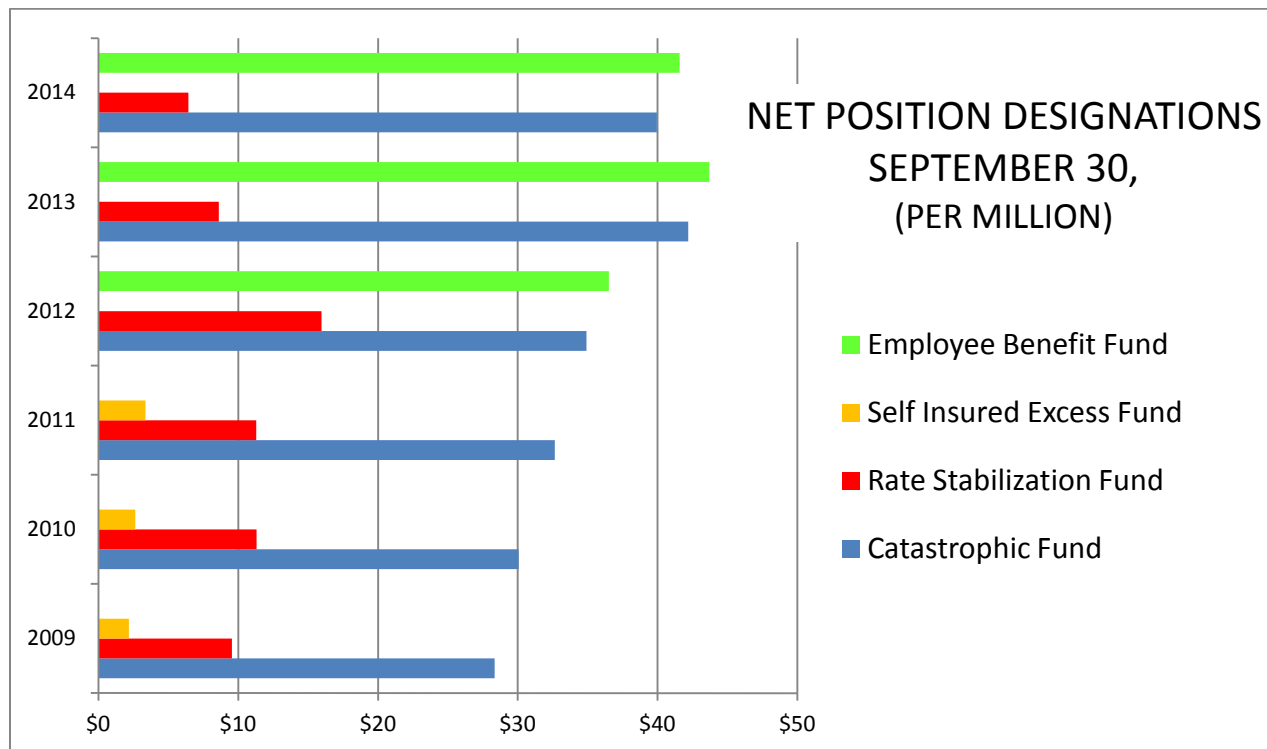


FINANCIAL HIGHLIGHTS

Puzzles can be a great deal of fun – especially experiencing the satisfaction of completing one. When the JPIA undertook the Employee Benefits Program in July 2012, the program posed a financial puzzle. This year's financial statements includes comparative numbers that encompass 12 months operations of the Employee Benefits Program for both years present – 2013 and 2014. In other words, we are looking at a complete picture. This is significant because the Employee Benefits Program has dramatically impacted the JPIA financial statements as demonstrated in the previous graph.

Following is a graph illustrating the changes in the various designations making up the JPIA's net position over the last six (6) years. Upon review, the growth of the Catastrophic Fund through 2013 is apparent. For fiscal year ended 2014, this growth leveled off as the goal (actuarial projections at the 99% confidence level) decreased. The

Catastrophic Fund represents funds collected in addition to the normal member premiums to buffer the effect of adverse claims experience. These funds grew since the need for using these funds has been minimal. In September 2012, the JPIA Executive Committee approved a new policy for this fund where such monies are capped at actuarial gross estimated losses using a 99% confidence level for both Liability and Workers' Compensation Programs. Confidence level refers to the likelihood that the estimated losses will be less than or equal to the estimate. The greater the confidence level, the greater assurance one has of losses being less than the estimated dollar amount. The goal for the Catastrophic Funds based on recent actuarial reports is approximately \$33 million.



The preceding chart also shows the steady balance in the Rate Stabilization Fund. The Rate Stabilization Fund is funds held on members' behalf (capped at 50% of their current year's basic liability premium) to mitigate adverse changes in premiums as well as minimize any future assessments when necessary. During fiscal year 2014, over \$3 million of the Rate Stabilization Fund was refunded to members causing a decrease.

The Self Insured Excess Fund was created to buffer changes made to the self insured retention (SIR) levels. To the extent that claims losses breach the prior SIR level in a given policy year, they are used to pay for these claims losses. Claims activity over the years has been steady enough at this level that such funds have not grown significantly. In September 2012 the JPIA Executive Committee approved transferring this fund's remaining balance into the Rate Stabilization Fund, thus there is no balance at September 30, 2013 and September 30, 2014.

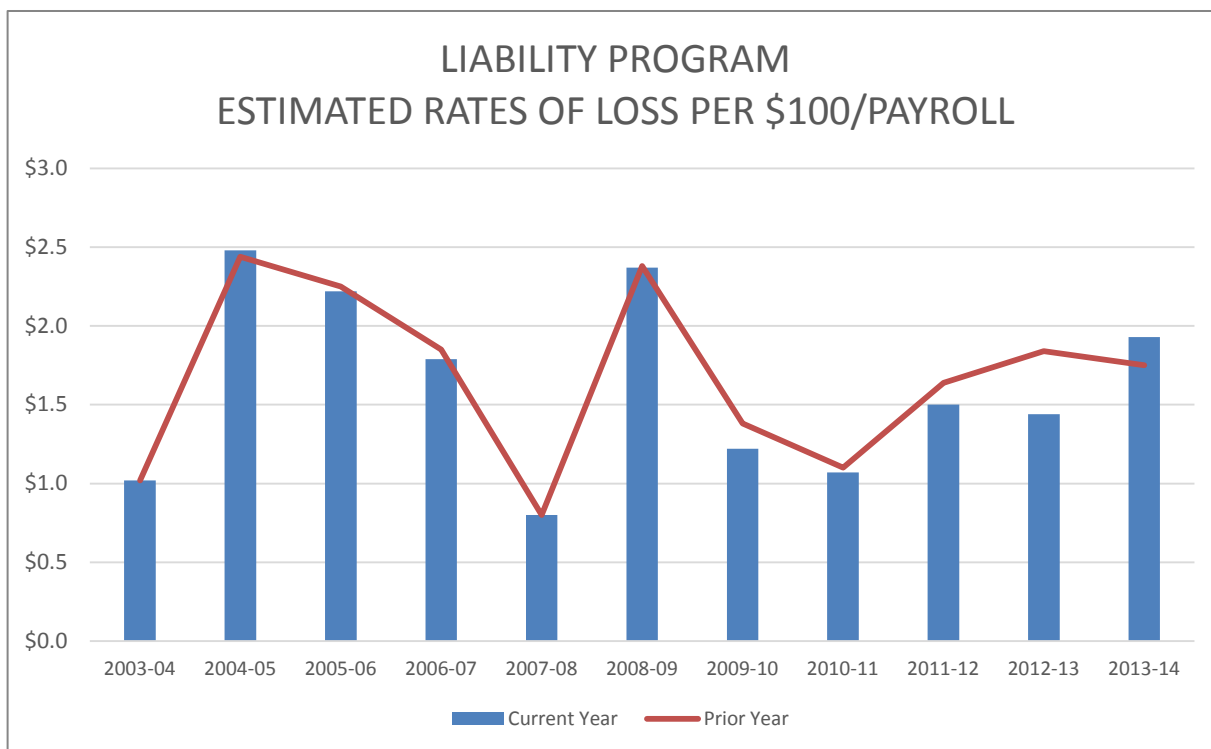
The Employee Benefits Fund was created as part of the Employee Benefits Program. These monies are to be used for rate reductions and/or holidays in the future for this program. Most of this fund's balance was acquired by the JPIA from the program's previous JPA, ACWA Health Benefits Authority. The recent decline in this fund was deliberate as JPIA management priced the program aggressively to save money for the participating members. This was done with the intent of leveling off this fund from previous year's growth.

LIABILITY PROGRAM

The Liability Program in its most recent policy year 2013-2014 covered an estimated \$480 million in member districts' payroll. This was a modest increase of 1.6% from the previous year. The membership in this program has been stable ranging from 285 to 293 participating members over the last five (5) policy years. The average tenure in the program remains strong at 26 years.

Each year the JPIA obtains an independent actuary report to determine estimates of ultimate losses for each policy year the JPIA covers its members. The ultimate loss is the total out of pocket expenses expected to be paid out by the JPIA for self insuring its members in a given policy year. These costs exclude amounts expected to be reimbursed by excess insurance carriers as well as general and administrative expenses necessary to run the program's operations. The following graph depicts the ultimate limited loss rate from recent actuary estimates. "Limited" refers to losses being limited to the JPIA's self insured layer. Or in other words, these amounts exclude losses in the excess layer that the JPIA anticipates excess carriers to pay.

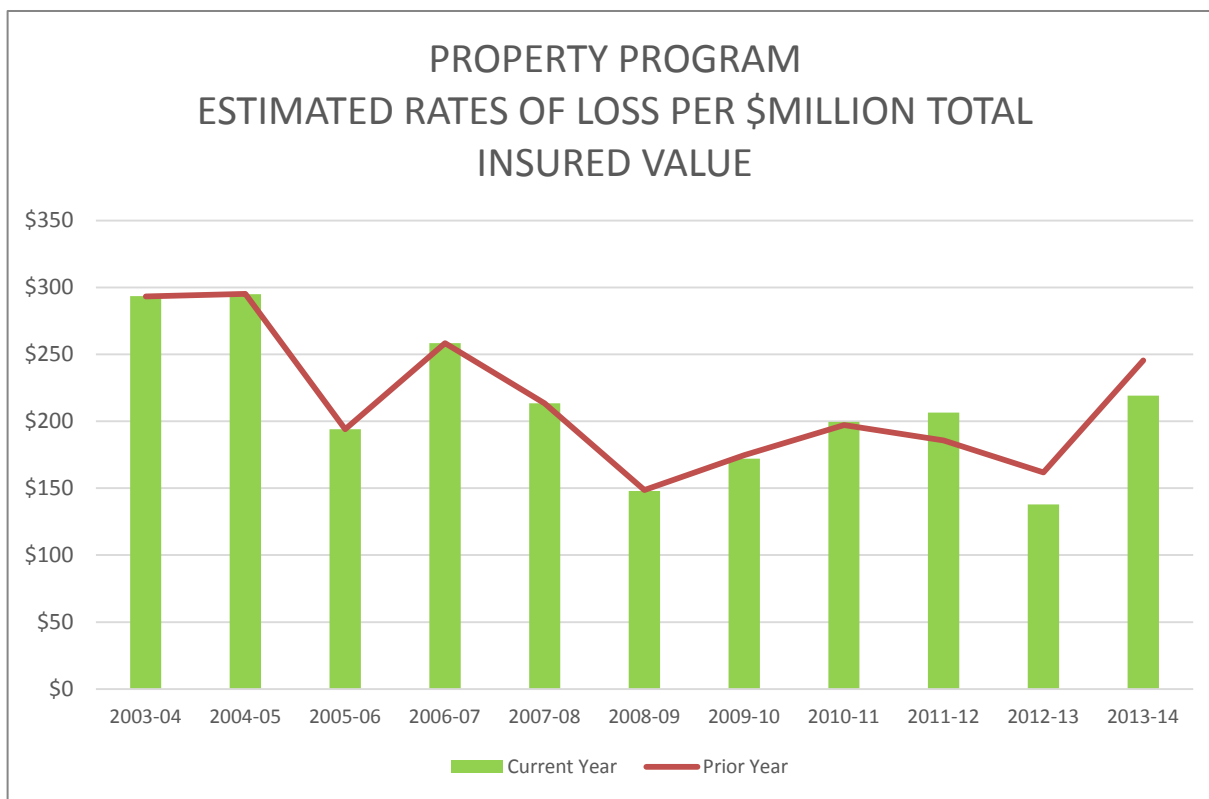
Reviewing the illustration to follow you can see most of the changes from prior year estimates are in the more recent policy years (2009-10 through 2013-14). This is normal as in the early going many claims are yet to be known and as time passes the breadth of claims becomes more and more familiar making such estimates more accurate in time. With the exception of policy year 2013-14 all of these changes were to reduce loss rates; a favorable change. Policy year 2013-14 is only beginning to develop thus too early to analyze with anything tangible.



PROPERTY PROGRAM

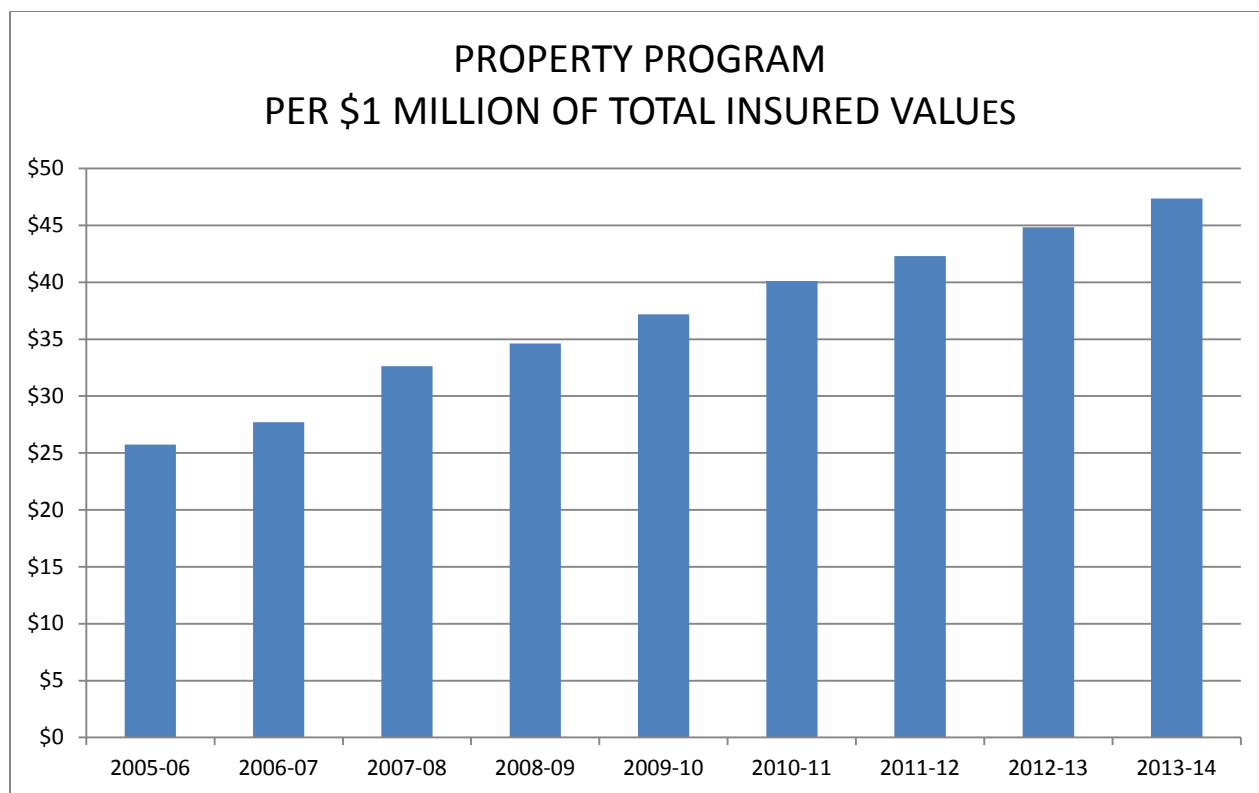
The Property Program has 260 participating districts in its current policy year (2014-15) compared to 265 participants for the previous policy year. The average tenure of the current participating members is 24 years. Premium rates have remained the same for the past six policy years. Until policy year 2013-14, the JPIA had been self insured up to \$50,000 per claim since the 2001-02 policy year. Policy years 2013-14 forward, are self insured up to \$100,000 per claim. This change was to take advantage of cost savings provided for the excess insurance. These self insured retentions limit the severity of the pooled losses.

Like the Liability Program each year the JPIA obtains an independent actuary report to determine estimates of ultimate losses for each policy year the JPIA covers its members. In the following graph, the actuarial estimated rates of loss per million of total insured value are compared current year vs. prior year.



Studying the graph above, the most significant changes are in policy years 2011-12 through 2013-14. Policy year 2011-12 had the estimated loss rate increase from 185 to 206 (11% increase). This is not surprising given that policy year 2011-12 has had seven claims in excess of \$50,000. For policy years 2012-13 through 2013-14, the projected loss rate change was favorable. The loss rate went from 161 to 138 (14% decrease) for policy year 2012-13. Similarly, policy year 2013-14 had the projected loss rate decrease from 245 to 219 (10% decrease). These policy years have only four claims each respectively over \$50,000. The lack of changes in the older policy years is normal. The reason for this is two-fold: the first is that by the nature of the program, property damages are definitive and more easily measured thus settling quickly; the other reason is that the JPIA only self-insures for a small dollar amount per claim, thereby limiting the JPIA's exposure.

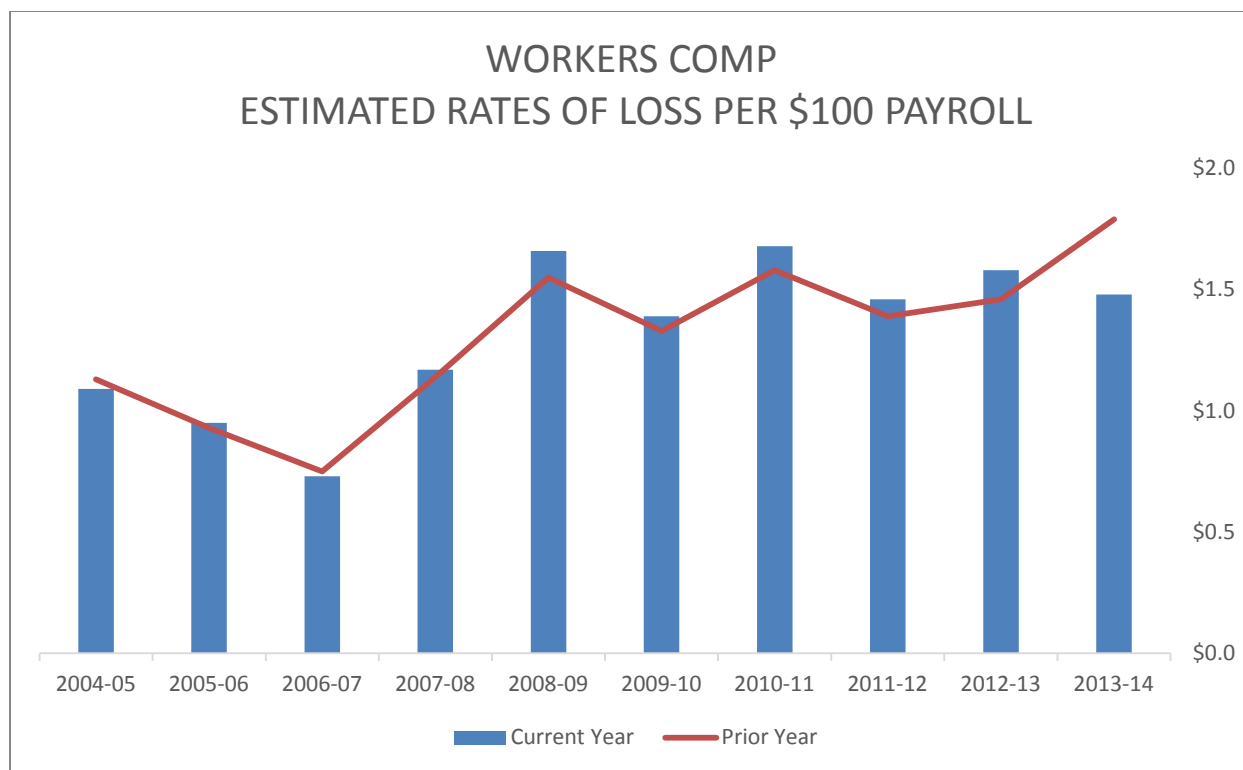
Although the Property Program's membership has been very stable over the years it has grown significantly. The following graph depicts the total insured values for each policy year over the last 10 years:



In the last 10 years the total insured values covered in the Property Program has nearly doubled. The dramatic upward trend is due to members building/purchasing new property to be insured and the ever increasing replacement costs over the years.

WORKERS' COMPENSATION PROGRAM

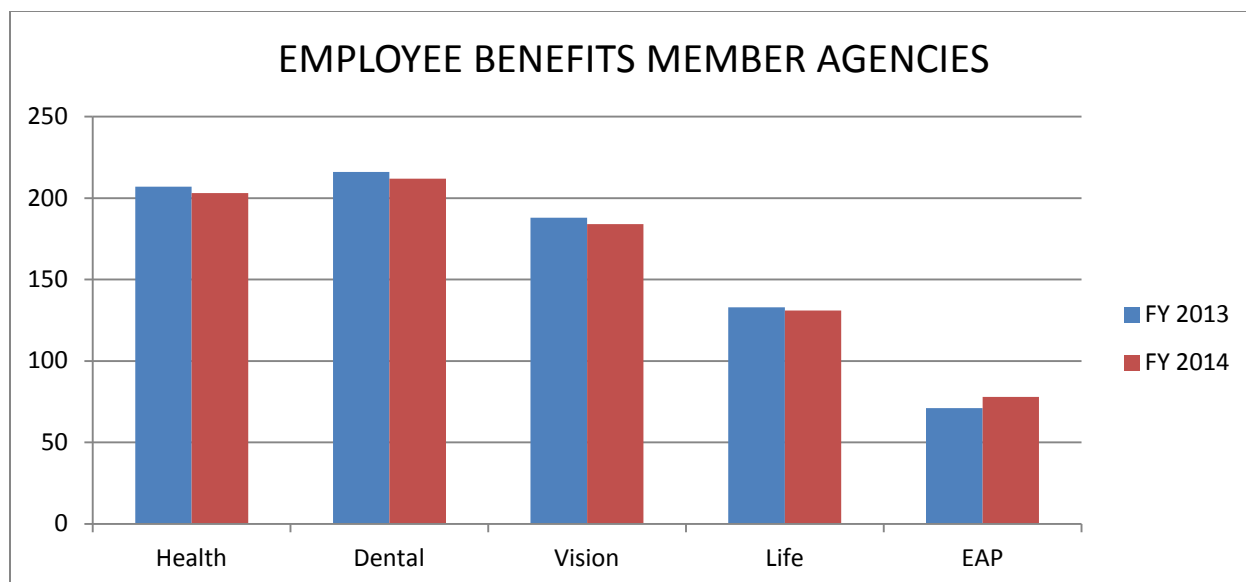
The Workers' Compensation Program has enjoyed modest growth in recent times that has leveled off. The number of participating districts for the past five policy years has gone from 161 to 175 and covered payroll has increased from \$397 million to \$452 million; a 14% increase. Legislative changes, such as SB 899 which was passed in 2004, have shown very positive results throughout the State of California. Coupled with an emphasis on workplace safety through training, the JPIA has benefited from these law changes. Since 2004-05, the JPIA has reduced the rates charged to members by nearly 50 percent. Rates for the current policy year remained overall unchanged even though losses and rates in the industry, as a whole, increased. Member premiums have ranged from \$10.7 million to \$12.2 million over the past five policy years. Since changing the program's self insured retention level from \$650,000 per claim in policy year 2002-03 to \$2 million per claim in policy year 2003-04, the JPIA has had one claim in excess of \$650,000, thus rewarding the program financially. Like other programs each year the JPIA obtains an independent actuary report to determine estimates of ultimate losses for each policy year the JPIA covers its members. In the following graph, the actuarial estimated rates of loss per \$100 of payroll are compared current year vs. prior year.



Reviewing the data above, the changes vary by policy year. Three out of the ten policy years had declines in the estimated loss per \$100 payroll while seven of them had increases in estimated losses. The most significant changes were for policy years 2008-09, 2012-13 and 2013-14. Policy years 2008-09 and 2012-13 both experienced increased estimated rates. At September 30, 2014, policy year 2008-09 has 14 claims over \$100,000 with 11 of them open. Policy year 2012-13, has 15 claims over \$100,000 with all of them open. A majority of these claims from both policy years relate to neck and back injuries. On the favorable side policy year 2013-14 experienced a significant decline in the estimated loss rate. This is mostly attributed to fewer claims reported in the policy year – 334 claims. This compared to the average number of claims in the past 10 years, 394, brought on the decrease. There were no significant changes to the JPIA pricing of its Workers' Compensation Program. The volatile range above illustrates how losses are affected by California law makers passing new bills both favorably and unfavorably thus making losses more difficult to predict accurately.

EMPLOYEE BENEFITS PROGRAM

The JPIA commenced the Employee Benefits Program on July 1, 2012. The Employee Benefits Program offers a few different benefits with the most significant being health, dental and vision. Membership for each of the different benefits offered is separate. At year end September 30, membership within the Employee Benefits was as follows:



Membership in the various Employee Benefits Programs has experienced little change from the prior year. The biggest change was in the Employee Assistance Program (EAP). This was due to an effort to market EAP to current members that were not participating in the EAP program.

The revenue and expenses for Employee Benefits are the most significant of the programs. Employee Benefits revenue and expenses for the fiscal year ended September 30 are as follows:

EMPLOYEE BENEFITS PROGRAM

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Revenues	\$119,699,884	\$112,521,090	\$ 7,145,641
Claims Expense	(74,108,072)	(64,845,335)	(9,299,584)
Benefit Premiums	(44,511,197)	(38,312,872)	(6,198,325)
Excess Insurance	(977,299)	(901,419)	(75,880)
General & Administrative	(2,239,519)	(1,261,151)	(978,368)
Change in Net Position	<u>\$ (2,136,203)</u>	<u>\$ 7,270,313</u>	<u>\$(9,406,516)</u>

Revenues were up \$7.1 million or 6.3% in fiscal year 2014. This increase is commiserating with the increasing prices of the market. Market prices have been increasing for several years due to changes made in the health industry – most notable the passing of the Affordable Care Act that has considerably increased the number of enrollees nationwide for health coverage. All that said a rise of 6.3% is low compared to the industry as a whole where double digit changes have been common. Claims expenses rose \$9.2 million or 14.3%. This again is a reflection of the increased pricing prevailing. Benefit premiums expense also increased significantly at 16.7% or \$6.2 million. Overall, the net position decreased by \$2.1 million in fiscal year 2014. This was not surprising as the JPIA budgeted a reduction in net position to mitigate some of the pricing increases dictated by the industry. A majority of the Employee Benefits Program financial numbers come from the Health Benefits Program. The Health Benefits

Program makes up approximately 90% of both the revenues and expenses and easily has the strongest influence on the Employee Benefits Program financial results.

CASH AND INVESTMENTS

Cash and investments continue to make up the majority of the JPIA's assets. At year end September 30, 2014, total cash and investments were \$174 million – up nearly \$11 million from prior year. This increase was primarily the result of the JPIA collecting on excess insurance receivable of over \$5 million from the prior year. This increase may be surprising given the \$6.5 million decrease in net assets but this decrease was absorbed chiefly by an increase of over \$7 million in total liabilities. At year end September 30, 2013, total cash and investments were \$164 million – up \$7 million from the prior year. This increase was the result of the JPIA's Employee Benefits Program that had revenues in excess of expenses approximating this change.

Investment income went from \$1.6 million to \$1.4 million in for fiscal years 2013 and 2014, respectively. This decrease reflects the past market. With the portfolio's duration averaging just fewer than 2 ½ years much of the investment return is reflective of market rates in 2012 and 2013 where U.S. Treasuries were at historical lows. Cash and investments effective rate of return went from 1.28% to 1.01% for fiscal year end September 30, 2013 and 2014, respectively. This decline is best described as the result of suppressed interest rates over the years. The graph following illustrates the suppressed interest yields for Two Year Nominal U.S. Treasuries. Since the middle of 2011, yields have hovered around 25 basis points. Since the JPIA investment portfolio has an average duration of 2-3 years this is an appropriate comparison. Given the time lag of purchased investments this yield has continued to decline in the recent fiscal year. It is hopeful with many forecasts anticipating the Federal Reserve raising rates in 2015 that the past trend will change favorably.

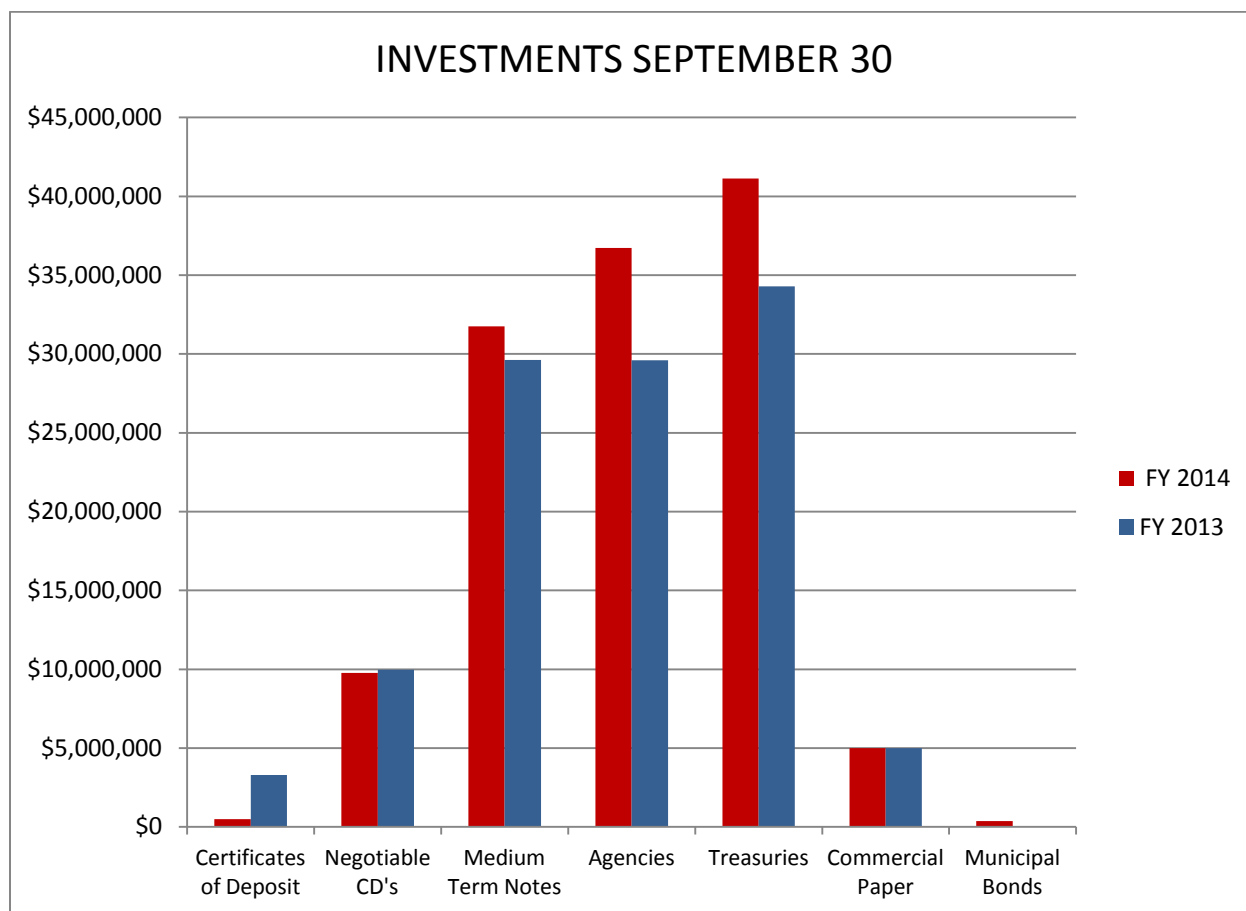
Two-Year U.S. Treasury Yield



Source: FactSet Research Systems Inc., 6/18/2004 to 6/27/2014

The management of the cash and investments is twofold. The JPIA internally manages the cash needed for operations and the majority of the short-term investments. The non-

current portion of investments is managed by PFM Asset Management LLC. The JPIA's investment policy prioritizes safeguarding of principal first, followed by meeting liquidity needs and then optimizing yield. Total investments were \$125 and \$111 million at year end September 30, 2014 and 2013, respectively. The following chart depicts the totals by investment type:

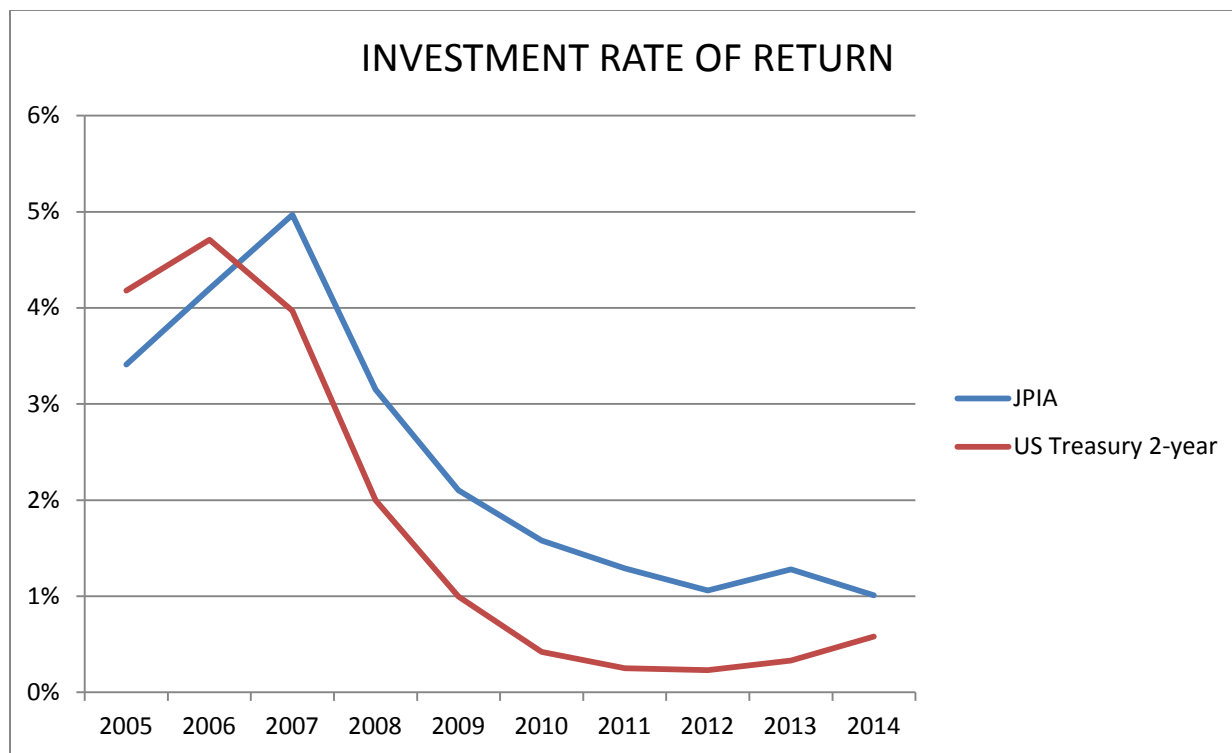


Analyzing the portfolio, the increase of investments was spread around the investment types. The exception being certificates of deposit which the JPIA made a conscious effort to reduce these in-house managed investments in order to maximize long term gains on the investments managed by the JPIA's investment advisor. Municipal bonds were newly added during fiscal year 2014. This was the first time the JPIA investment policy had allowed for such investments after a change made to the policy in the December 2013 Board meeting.

On September 30, 2014, the average number of days to maturity was 905 compared to 891 as of year-end 2013. This represents little change to the duration of the portfolio – largely due to anticipated market change in the near future with the Federal Reserve eyeing raising Treasury rates. The Federal Open Market Committee released an updated “dot plot” showing where members believe the federal funds rate will be at the end of the next several calendar years. The chart showed a surprisingly fast upward trajectory for

short-term rates, which appears to be inconsistent with both Janet Yellen's public comments and persistently low current market rates.

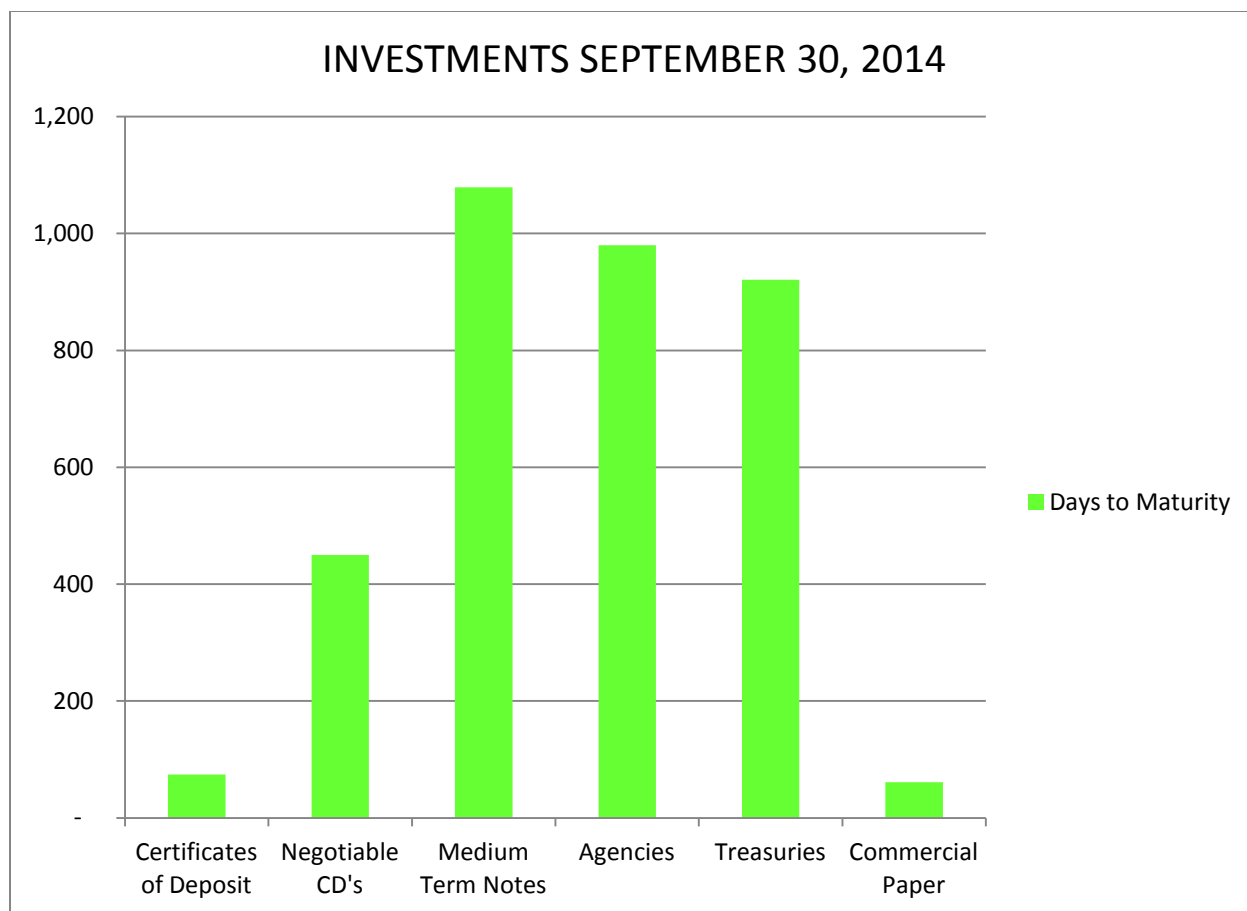
The following graph illustrates the effective rate of returns over the last few years and the impact the investment market has had on these returns:



Contributing factors to the declining yield include monetary easing by central banks, a weak job market, and continuing concerns about medical costs and a rising debt ceiling. These factors coupled with a sluggish U.S. economy have suppressed investment returns.

In the graph above, the JPIA's effective rate of return is compared to the U.S. Treasury 2-year yield. The JPIA's effective rate of return peaked in 2007, at 5%, and since then has gradually declined due to the lowered interest rates the marketplace offered in the slowed economy. The encouraging news is that the lowering trend appears to have leveled off as shown in the graph above. The returns above include all investments, both those managed internally and externally.

Current investments for the fiscal year ending September 30, 2014 have decreased by \$6.5 million. As of September 30, 2014, 2013 and 2012 the current investments were \$8, \$14.5, and \$7 million, respectively. The JPIA continues to use Local Agency Investment Fund (LAIF) to invest a majority of the short term investments that are needed to meet operational needs. The following graph details duration of the JPIA investments as of September 30, 2014:



A majority of the JPIA's non-current investments are medium term notes, agencies and Treasuries. This has been the pattern for several years. Such investments are all managed by the JPIA investment advisor. Negotiable CD's and certificates of deposit are being mostly used as short-term investments.

CAPITAL ASSET ACTIVITY

The JPIA added \$146 thousand in capital assets for software, furniture and equipment during fiscal year 2013. These additions were primarily for new accounting software. Obsolete software related to the the HBA acquisition of \$167 thousand was retired during fiscal year 2013. During fiscal year 2014, the JPIA added \$220 thousand for software. A majority of this addition was for the customized in house accounting software that was put in operation at the beginning of the fiscal year. More detailed information about the capital asset activity can be found in *Note 4* of the accompanying Financial Statements.

FACTS OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULT OF OPERATIONS

The JPIA has set itself apart by offering quality, water-industry specific training at no additional cost to its members. Through face-to-face training, online classes and webinars, the JPIA endeavors to meet the professional development needs of members and help each perform his or her job more effectively, efficiently and lawfully. Therefore, this training reduces claims. The JPIA continues to receive high ratings for its training programs and districts go out of their way to express appreciation for the learning and development opportunities offered.

The JPIA continues to develop our training program to meet the needs of our members. Following is a summary of JPIA training accomplishments for fiscal year-end September 30:

<u>Activity</u>	<u>2014</u>	<u>2013</u>
Classes Delivered	321	364
Class Participants	5,327	6,220
Training Conferences	3	2
Training Conference Participants	113	135
Live Webinars	20	18
Live Webinar Participants	908	995
Recorded Webinar Viewings	803	1,042
Host Facilities	101	74
Target Solutions Online – Districts	164	158
Target Solutions – courses completed	11,680	9,694
PDP Participants	1,138	1,072
PDP Completions	53	39
Lending Library Resources Sent	894	1,403

CONCLUSION

This financial report is designed to provide a general overview of the JPIA's finances. For further information, please visit the JPIA website at, www.acwajpia.com, which provides the most current approved independent audited financial statements. Questions concerning any of the information presented can be sent to the following address:

ACWA/JPIA - Finance Department
2100 Professional Drive, Roseville, CA 95661-3700

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

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STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 49,259,998	\$ 51,897,936
Investments	8,026,439	14,531,838
Accounts receivable:		
Member premiums	8,084,178	11,060,977
Investment income	277,940	382,692
Excess insurance proceeds	656,756	5,092,219
Retrospective premium adjustment	1,718,847	3,734,682
Other	81,960	23,288
Prepaid excess insurance	1,629,292	1,890,905
Other prepaid expenses	166,069	104,160
TOTAL CURRENT ASSETS	69,901,479	88,718,697
NONCURRENT ASSETS		
Investments	117,189,588	97,250,886
Net other post employment benefits	2,286,736	2,293,671
Capital assets - net	6,206,203	6,560,350
TOTAL NONCURRENT ASSETS	125,682,527	106,104,907
TOTAL ASSETS	\$ 195,584,006	\$ 194,823,604
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 811,643	\$ 415,801
Accrued expenses	322,154	408,190
Unearned member premiums	28,229,661	28,605,266
Retrospective premium adjustment payables	5,294,462	4,094,610
Provision for claims	18,505,123	18,665,144
TOTAL CURRENT LIABILITIES	53,163,043	52,189,011
NONCURRENT LIABILITIES		
Retrospective premium adjustment payables	23,364,535	19,395,924
Claims reserves	7,397,421	5,044,879
Claims incurred but not reported	21,248,114	21,715,020
Unallocated loss adjustment liability	2,453,720	1,963,002
TOTAL NONCURRENT LIABILITIES	54,463,790	48,118,825
TOTAL LIABILITIES	\$ 107,626,833	\$ 100,307,836
NET POSITION		
Net investment in capital assets	\$ 6,206,203	\$ 6,560,350
Unrestricted	81,750,970	87,955,418
TOTAL NET POSITION	\$ 87,957,173	\$ 94,515,768

See accompanying notes to financial statements.

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Member premiums	\$ 152,994,168	\$ 147,247,532
Retrospective premium adjustments	(10,979,765)	(6,957,472)
TOTAL OPERATING REVENUES	<u>142,014,403</u>	<u>140,290,060</u>
OPERATING EXPENSES		
Claims expense:		
Claims paid	86,929,610	79,132,931
Change in excess aggregate recovery	0	399,779
Change in claims reserves	1,109,472	1,651,729
Change in claims incurred but not reported	616,144	(2,586,808)
Change in unallocated loss adjustment expense	490,716	(154,761)
	<u>89,145,942</u>	<u>78,442,870</u>
Total claims expense		
Excess insurance	8,111,217	9,023,118
Benefit premiums	44,511,197	38,312,872
General and administrative	7,549,473	7,198,325
Depreciation	366,360	322,789
	<u>149,684,189</u>	<u>133,299,974</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	<u>(7,669,786)</u>	<u>6,990,086</u>
NON-OPERATING REVENUES		
Investment income	1,375,266	1,613,625
Net decrease in investment fair value	(264,075)	(1,451,277)
TOTAL NONOPERATING REVENUES	<u>1,111,191</u>	<u>162,348</u>
CHANGE IN NET POSITION	(6,558,595)	7,152,434
NET POSITION, BEGINNING OF YEAR	<u>94,515,768</u>	<u>87,363,334</u>
NET POSITION, END OF YEAR	<u>\$ 87,957,173</u>	<u>\$ 94,515,768</u>

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 155,908,279	\$ 143,571,418
Cash received from excess/aggregate insurance	5,805,753	3,401,196
Payments for claims	(86,929,610)	(79,132,931)
Payments for excess/aggregate claims	(1,048,935)	(3,166,511)
Payments for excess insurance	(8,415,089)	(9,268,711)
Payments for benefit premiums	(44,511,197)	(38,312,872)
Payments to members	(4,020,942)	(3,979,121)
Payments to vendors	(2,300,318)	(2,032,440)
Payments to employees	(5,249,155)	(4,743,012)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,238,786</u>	<u>6,337,016</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(12,213)	(146,424)
NET CASH USED BY CAPITAL & RELATED FINANCING ACTIVITIES	<u>(12,213)</u>	<u>(146,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,508,637	1,867,130
Purchase of investments	(101,551,603)	(72,616,789)
Proceeds from maturities of investments	88,178,455	68,332,459
NET CASH USED BY INVESTING ACTIVITIES	<u>(11,864,511)</u>	<u>(2,417,200)</u>
Increase (decrease) in cash and cash equivalents	(2,637,938)	3,773,392
Cash and cash equivalents, beginning of year	51,897,936	48,124,544
Cash and cash equivalents, end of year	<u>\$ 49,259,998</u>	<u>\$ 51,897,936</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ (7,669,786)	\$ 6,990,086
Adjustments to net cash used by operating activities:		
Depreciation	366,360	322,789
Loss on retirement of capital asset	0	167,476
Member premiums	2,976,799	(3,547,709)
Excess/aggregate insurance proceeds	4,435,463	503,680
Retrospective premium adjustment receivables	2,015,835	1,909,666
Other post employment benefits (OPEB)	(38,395)	41,896
Other	9,074	(116,861)
Prepays and other assets	141,032	428,572
Accounts payable	79,249	145,289
Accrued expenses	(86,036)	17,174
Unearned member premiums	(375,605)	149,099
Retrospective premium adjustment payables	5,168,463	415,706
Claim liabilities	2,216,333	(1,089,847)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,238,786</u>	<u>\$ 6,337,016</u>
NON CASH ITEMS		
Change in unrealized fair value of investments	\$ (264,076)	\$ (1,451,277)
Loss on Disposition of Capital Assets	0	(167,476)

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2014 and 2013

(1) General Information

Organization and Operations – The Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) was created effective July 5, 1979, by a joint powers agreement among water member districts and agencies organized and operating under the laws of the State of California. ACWA/JPIA was organized pursuant to provisions of the California Government Code for the purpose of providing insurance coverage for its member districts.

ACWA/JPIA currently offers five joint protection programs:

- Public Auto and General Liability
- Workers' Compensation
- Property Insurance
- Underground Storage Tank Liability
- Employee Benefits (Medical, Dental, Vision, Other)

The Utility Excess Liability (UTEL) Program was closed as of September 30, 1997, and is no longer available.

ACWA/JPIA also purchases group insurance for dam failure, pass through insurance (including employee fidelity bonding, difference in condition, boiler and machinery stand alone, and crime), and for the period of July 1, 1995 through June 30, 1998, workers' compensation for electing member districts.

ACWA/JPIA provides joint protection coverage for losses in excess of the member districts' individually specified self-insurance retention levels.

Reporting Entity – The reporting entity includes all activities (operations of the administrative staff, officers, executive board, and board of directors) as they relate to ACWA/JPIA considered to be part of (controlled by or dependent on) ACWA/JPIA. This includes financial activity relating to all of the membership years.

In determining its reporting entity, ACWA/JPIA considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in these financial statements principally because ACWA/JPIA is not financially accountable for any members.

Admission of Members – ACWA/JPIA shall allow entry of new members into its joint protection programs only upon approval by the Board of Directors (the Board), or by the Executive Committee if specifically delegated such authority by resolution of the Board, which may impose such conditions or limitations upon such authority of the Executive Committee as the Board deems appropriate. New member districts shall be required to pay their share of the expenses as determined by the Executive Committee, including expenses necessary to analyze their loss data and determine their premiums.

Withdrawal of Members – Member entities may withdraw from any pooled joint protection program, after a three-year period commencing on the date of the member entity's entry into the pooled joint protection program, by providing written notice twelve months prior to the end

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JOINT POWERS INSURANCE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS
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of the policy year. In addition, no later than 90 days prior to the end of the policy year, any member giving the twelve month notice must make clear its final decision on withdrawal in clear, unambiguous form. Withdrawal from the program does not relieve the former member of any obligation assumed for the years of participation. Member entities may withdraw from any group purchase program at the conclusion of its policy year without being required to give twelve months written notice.

(2) Significant Accounting Policies

Basis of Accounting – The accounting records of ACWA/JPIA are kept on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Insurance Coverage and Deductibles – ACWA/JPIA provides the following major insurance coverage and deductibles:

- a) **Liability Program** – The Liability Program was established to account for the payment of liability claims and administrative costs. Funding is based upon rates established by ACWA/JPIA's Executive Committee. ACWA/JPIA administers claims in-house on behalf of participating members.

ACWA/JPIA provides the following insurance coverage and self-insured retention (SIR):

Member District Retrospective Allocation Point (RAP): \$2,500 to \$100,000

The SIRs for this program by year are as follows:

<u>Year</u>	<u>SIR Amount</u>
10/1/79 - 9/30/86	\$ 500,000
10/1/86 - 9/30/87	1,000,000
10/1/87 - 9/30/05	500,000
10/1/05 - 9/30/11	1,000,000
10/1/11 - 9/30/15	2,000,000

Excess of: \$2,000,000 to a total of \$60,000,000 coverage through various carriers.

Policy Year: October 1 through September 30.

- b) **Property Program** – The Property Program was established to account for the payment of property claims and administrative costs. Funding is based upon rates established by ACWA/JPIA's Executive Committee. ACWA/JPIA administers claims in-house on behalf of participating members.

ACWA/JPIA provides the following insurance coverage, deductibles and SIR:

Member District Deductible: \$500 to \$50,000

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Years Ended September 30, 2014 and 2013

The SIRs for this program by year are as follows:

<u>Year</u>	<u>SIR Amount</u>
1/1/83 - 3/31/85	Various
4/1/85 - 3/31/86	\$5,000
4/1/86 - 3/31/88	50,000
4/1/88 - 3/31/01	10,000
4/1/01 - 3/31/13	50,000
4/1/13 - 3/31/15	100,000

Excess of: \$100,000 up to a total of \$100,000,000 coverage with various sub limits through Liberty Mutual.

Policy Year: April 1 through March 31.

- c) Workers' Compensation Program** – The Workers' Compensation Program was established to account for the payment of workers' compensation claims and administrative costs. Funding is based upon rates established by ACWA/JPIA's Executive Committee. ACWA/JPIA administers claims in-house on behalf of participating members.

ACWA/JPIA provides the following insurance coverage and SIR:

Member District RAP: \$250 to \$25,000

The SIRs for this program by year are as follows:

<u>Year</u>	<u>SIR Amount</u>
7/1/86 - 6/30/87	\$125,000
7/1/87 - 6/30/88	150,000
7/1/88 - 6/30/89	175,000
7/1/89 - 6/30/91	200,000
7/1/91 - 6/30/92	225,000
7/1/92 - 6/30/01*	250,000
7/1/01 - 6/30/02	350,000
7/1/02 - 6/30/03	650,000
7/1/03 - 6/30/15	2,000,000

Excess of: \$2,000,000 to statutory limits through Arch Insurance Company.

Policy Year: July 1 through June 30

*From July 1, 1995 through June 30, 1998, the Workers' Compensation Program functioned as a group purchase program.

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NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2014 and 2013

- d) Employee Benefits Program** – In January 2012, both ACWA/JPIA's Executive Committee and the Health Benefits Authority (HBA) approved the transition of the HBA program into ACWA/JPIA. In March 2012, the HBA Board of Directors voted to dissolve the HBA programs. As a result, ACWA/JPIA's Employee Benefits Program was established on July 1, 2012, to provide medical, dental and vision coverage for members' employees and dependents. The preferred provider organization plans offered in the medical and dental coverage are self-insured. Funding is based upon rates established by ACWA/JPIA's Executive Committee. ACWA/JPIA utilizes a third party to administer these claims on behalf of participating members.

ACWA/JPIA carries reinsurance with Sun Life Assurance Company of Canada for coverage losses in excess of ACWA/JPIA's self-insured retention of \$500,000 per beneficiary incurred during the policy period, and paid during the policy period and six-month period immediately following the end of the policy period. The policy year is January 1 through December 31.

Statements of Cash Flows – With regards to the statements of cash flows, ACWA/JPIA considers cash in banks, all money market funds, cash in Capital Asset Management Program (CAMP) and Local Agency Investment Fund (LAIF) to be cash equivalents. Investments maturing within three months from the date of purchase are also considered to be cash equivalents.

Investments in debt securities are recorded at fair value. For purposes of these financial statements, fair value is equivalent to investment market value at September 30, 2014 and 2013. Changes in the fair value of investments, both realized and unrealized, are included in the Statement of Revenues, Expenses, and Changes in Net Position as a component of non-operating revenues.

Prepaid Excess Insurance – Expenses for the portions of excess insurance that extend into future accounting periods have been recorded as prepaid excess insurance.

Capital Assets – Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of three years for computer equipment, five years for office equipment and building improvements, and 30 years for buildings. ACWA/JPIA uses a capitalization threshold of \$10,000 when determining capital asset additions.

Unearned Member Premiums – ACWA/JPIA bills its members in advance for certain of its programs. The amount billed represents unearned member premium revenue until earned.

Claims Liabilities – ACWA/JPIA establishes liabilities for claims based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability and workers' compensation. Claims liabilities are recomputed annually using a variety of actuarial

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Years Ended September 30, 2014 and 2013

and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation is implicit in the calculation of estimated future claims costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Compensated Absences – ACWA/JPIA's vacation policy provides for the accumulation of earned vacation leave with such leave being fully vested when earned. Pending years of service, employees are allowed to accrue a maximum of 40 days of vacation. A liability for accrued vacation has been computed and recorded based on unused vacation days times the current rate of pay. As of September 30, 2014 and 2013, the accrued vacation was \$285,510 and \$249,793, respectively.

ACWA/JPIA's sick leave policy provides for accumulation of sick leave. Unused sick leave will not be paid if an employee is terminated, or voluntarily resigns prior to retirement from ACWA/JPIA.

At retirement, any unused sick leave will be converted to CalPERS service credit by number of days of ACWA/JPIA reported sick leave times .004.

Claims Administration – Prior to July 1, 1995, ACWA/JPIA self-insured workers' compensation claims. Third party administrators handled these claims until January 1998, at which time the remaining open claims were brought in-house. For three years beginning July 1, 1995, ACWA/JPIA was fully insured for workers' compensation claims incurred during that time period. Then, effective July 1, 1998 to current, ACWA/JPIA once again began self-insuring and administering workers' compensation claims in-house. Claims for ACWA/JPIA's Liability and Property Programs are administered in-house. Claims for ACWA/JPIA's Employee Benefit Program are handled by a 3rd party.

Unallocated Loss Adjustment Expenses – Amounts have been estimated for the cost of administering current and future claims. An actuary, in connection with other loss development information, determined these amounts.

Member Premiums are calculated based upon each member district's respective payroll (or insured values for the Property Program) and loss history. For the Employee Benefits Program premiums are calculated based upon approved rates by the ACWA/JPIA Executive Committee.

Member premiums are recognized as revenue over the periods covered by the policies. For the liability, property and workers' compensation policies, a retrospective premium adjustment for each policy year is made annually, starting four years after a program policy year begins.

Operating and Non-operating Revenues – Operating revenues include all program contributions, related fees and assessments that are integral to the financing of the insurance programs. Investment income is classified as non-operating revenue.

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Allocation of Indirect Expenses – Indirect expenses are allocated among insurance programs based on predefined formulas that approximate each programs' share.

Income Taxes – As a public agency under the State of California, ACWA/JPIA is exempt from federal and state income taxes under Internal Revenue Code Section 115 and California Revenue and Taxation Code Section 17131, respectively.

(3) Cash and Investments

Cash and investments as of September 30 are classified in the accompanying financial statements as follows:

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 49,259,998	\$ 51,897,936
Investments	8,026,439	14,531,838
Noncurrent Assets:		
Investments	<u>117,189,588</u>	<u>97,250,886</u>
Total cash and investments	<u>\$174,476,025</u>	<u>\$163,680,660</u>

Cash and investments as of September 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 200	\$ 200
Deposits with financial institutions	14,803,440	10,104,576
Managed pool accounts	3,071,542	3,059,743
Local Agency Investment Fund	31,390,118	38,733,417
Investments	<u>125,210,725</u>	<u>111,782,724</u>
Total cash and investments	<u>\$174,476,025</u>	<u>\$163,680,660</u>

Investments Authorized by ACWA/JPIA's Investment Policy – The following table identifies the investment types authorized for ACWA/JPIA by the California Government Code Section 53601 (or ACWA/JPIA's investment policy where more restrictive). Also following are tables identifying certain provisions of the California Government Code (or ACWA/JPIA's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

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**NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2014 and 2013**

<u>AUTHORIZED INVESTMENT TYPE</u>	<u>MAXIMUM MATURITY*</u>	<u>MAXIMUM PERCENTAGE OF PORTFOLIO</u>	<u>MAXIMUM INVESTMENT IN ONE ISSUER</u>	<u>MINIMUM CREDIT QUALITY</u>
Federal Agency	5 years	100%	50%	None
Federal Agency MBS	5 years	20%	20%	None
Bankers' Acceptance	180 days	20%	5%	Highest by NRSRO
Commercial Paper	270 days	25%	5%**	Highest by NRSRO
Negotiable Certificates of Deposits	5 years	30%	5%	A-
Time Certificates of Deposits	5 years	30%	FDIC/NCUA Limits	Banks S&L / CU Insured
Repurchase Agreements	92 days	20%	20%	Primary Dealer
Medium-Term Notes	5 years	30%	5%	A-
Local Government Investment Pools	N/A	50%	N/A	AAAm
Local Agency Investment Fund	Daily	50%	N/A	N/A
Money Market Funds	N/A	20%	20%	Treasury / Agency Only
U.S. Treasury	5 years	100%	100%	None
California State Obligations	5 years	100%	5%	A-
California Local Government Obligations	5 years	100%	5%	A-
Other State Obligations	5 years	100%	5%	A-

* The average life of the total portfolio at any time shall not exceed four years.

** Purchases may not represent more than 10% of the outstanding paper of an issuing company.

Concentration of Credit Risk – Investments at September 30 in any one issuer, other than U.S. Treasury Securities, LAIF and LGIP, that represent 5% or more of the total investments of ACWA/JPIA are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>2014</u>	<u>2013</u>
Federal Home Loan Mortgage Corp	U.S. Agency Securities	N/A	\$ 6,560,579
Federal National Mortgage Corp	U.S. Agency Securities	\$23,764,101	23,040,425
Federal Home Loan Bank	U.S. Agency Securities	7,031,489	N/A

Custodial Credit Risk is the risk that in the event of a bank failure, ACWA/JPIA's deposits may not be returned to it. California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of ACWA/JPIA's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law, this collateral is held in a separate investment pool by another institution in ACWA/JPIA's name and places it ahead of general creditors of the institution.

Interest Rate Risk is the possibility 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. As a means of highlighting exposure to interest rate risk, the fair value of all securities is calculated and

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reported monthly to the two oversight committees of ACWA/JPIA for investments. Investment fair value and duration at September 30 are as follows:

<u>Authorized Investment Type</u>	<u>2014</u>	<u>Effective Duration</u>
U.S. Treasury Obligations	\$41,130,655	2.462
Federal Agency Securities	36,714,161	2.604
Mortgage Pass-through Securities	221	0.926
Medium-Term Notes	31,740,956	2.844
Time Certificates of Deposit	500,000	0.199
Negotiable Certificates of Deposit	9,761,668	1.217
Commercial Paper	5,000,000	0.085
Municipal Bonds	363,063	2.399

<u>Authorized Investment Type</u>	<u>2013</u>	<u>Effective Duration</u>
U.S. Treasury Obligations	\$34,279,682	2.068
Federal Agency Securities	29,601,004	2.940
Mortgage Pass-through Securities	321	2.874
Medium-Term Notes	29,628,890	3.337
Time Certificates of Deposit	3,299,000	0.540
Negotiable Certificates of Deposit	9,973,827	1.364
Commercial Paper	5,000,000	0.085

Local Agency Investment Funds – ACWA/JPIA is a participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of ACWA/JPIA's investment in this pool is reported in the accompanying financial statements at amounts based upon ACWA/JPIA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

Local Government Investment Pools (Managed Pool Accounts) – ACWA/JPIA is a participant in the California Asset Management Program (CAMP) which invests available cash under California Government Code Section 53601 and 53635. CAMP is a joint powers authority organized under California law and is managed by participant elected trustees. The fair value of ACWA/JPIA's investment in this pool is reported in the accompanying financial statements at amounts based upon ACWA/JPIA's pro-rata share of the fair value. Financial information can be obtained from 50 California Street, Suite 2300, San Francisco, CA 94111.

ACWA/JPIA is a participant in the CalTRUST external investment pool regulated by the California State Association of Counties (CSAC) under the management of Wells Capital Management Inc. and Union Bank of California. The fair value of ACWA/JPIA's investment in this pool is reported in the accompanying financial statements at amounts based upon its pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based

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**NOTES TO FINANCIAL STATEMENTS
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on the accounting records maintained by CalTRUST, which are recorded on a net position value basis.

Disclosures Relating to Credit Risk – Information about the risk that an issuer or other counterparty to an investment will not fulfill its obligations is provided by the following tables:

<u>Authorized Investment</u>	<u>Amount</u>	<u>Exempt from Disclosure</u>	<u>Aaa</u>	<u>Aa (1-3)</u>	<u>A (1-3)</u>	<u>Not Rated</u>
As of September 30, 2014						
Cash	\$ 200	\$ 200				
Deposits with Financial Institutions	14,803,440					\$14,803,440
Time Certificates of Deposit	500,000					500,000
Negotiable Certificates of Deposit	9,761,669			\$ 2,513,335	\$ 7,248,334	
Managed Pool Accounts	3,071,542					3,071,542*
LAIF	31,390,118					31,390,118
U.S. Treasury Obligations	41,130,655	41,130,655				
Federal Agency Securities	36,714,161		\$36,714,161			
Mortgage Pass thru Securities	221					221
Municipal Bonds	363,063			363,063		
Commercial Paper	5,000,000			5,000,000		
Medium-Term Notes	31,740,956		593,517	12,719,082	18,428,357	
Totals	\$174,476,025	\$41,130,855	\$37,307,678	\$20,595,480	\$25,676,691	\$49,760,019

*The managed pool accounts are comprised of \$3,046,407 in CalTRUST Short Term Fund and \$25,135 in CAMP. Neither investment is rated by Moody's and thus shown as not rated. However, each investment is rated by Standard and Poor's. CalTrust is rated AAf/S1+ and CAMP is rated Aaa.

<u>Authorized Investment</u>	<u>Amount</u>	<u>Exempt from Disclosure</u>	<u>Aaa</u>	<u>Aa (1-3)</u>	<u>A (1-3)</u>	<u>Not Rated</u>
As of September 30, 2013						
Cash	\$ 200	\$ 200				
Deposits with Financial Institutions	10,104,576					\$10,104,576
Time Certificates of Deposit	3,299,000					3,299,000
Negotiable Certificates of Deposit	9,973,827			\$ 4,919,534	\$ 5,054,293	
Managed Pool Accounts	3,059,743					3,059,743*
LAIF	38,733,417					38,733,417
U.S. Treasury Obligations	34,279,682	34,279,682				
Federal Agency Securities	29,601,004		\$29,601,004			
Mortgage Pass thru Securities	321					321
Commercial Paper	5,000,000				5,000,000	
Medium-Term Notes	29,628,890		589,306	15,825,223	13,214,361	
Totals	\$163,680,660	\$34,279,882	\$30,190,310	\$20,744,757	\$23,268,654	\$55,197,057

*The managed pool accounts are comprised of \$3,034,624 in CalTRUST Short Term Fund and \$25,119 in CAMP. Neither investment is rated by Moody's and thus shown as not rated. However, each investment is rated by Standard and Poor's. CalTRUST is rated AAf/S1 and CAMP is rated AAAM.

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(4) Capital Assets

The following is a schedule of changes in capital assets for the years ended September 30:

	<u>9/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>9/30/2014</u>
<u>NON-DEPRECIABLE ASSETS:</u>					
Land	\$ 874,241	\$ 0	\$ 0	\$ 0	\$ 874,241
Undeveloped Software	<u>217,117</u>	<u>2,923</u>	<u>0</u>	<u>(220,040)</u>	<u>0</u>
Total Non-depreciable Assets:	<u>1,091,358</u>	<u>2,923</u>	<u>0</u>	<u>(220,040)</u>	<u>874,241</u>
<u>DEPRECIABLE ASSETS:</u>					
Building & Improvements	6,665,233	0	0	0	6,665,233
Furniture & Equipment	585,205	9,290	24,493	0	570,002
Software	<u>370,097</u>	<u>0</u>	<u>146,828</u>	<u>220,040</u>	<u>443,309</u>
Total Depreciable Assets	<u>7,620,535</u>	<u>9,290</u>	<u>171,321</u>	<u>220,040</u>	<u>7,678,544</u>
<u>LESS ACCUMULATED DEPRECIATION:</u>					
Building & Improvements	(1,447,450)	(224,622)	0	0	(1,672,072)
Furniture & Equipment	(335,243)	(102,518)	(24,493)	0	(413,268)
Software	<u>(368,850)</u>	<u>(39,220)</u>	<u>(146,828)</u>	<u>0</u>	<u>(261,242)</u>
Total Accumulated Depreciation	<u>(2,151,543)</u>	<u>(366,360)</u>	<u>(171,321)</u>	<u>0</u>	<u>(2,346,582)</u>
Capital Assets - Net	<u>\$ 6,560,350</u>	<u>\$(354,147)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,206,203</u>

	<u>9/30/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>9/30/2013</u>
<u>NON-DEPRECIABLE ASSETS:</u>					
Land	\$ 874,241	\$ 0	\$ 0	\$ 0	\$ 874,241
Undeveloped Software	<u>75,301</u>	<u>141,816</u>	<u>0</u>	<u>0</u>	<u>217,117</u>
Total Non-depreciable Assets:	<u>949,542</u>	<u>141,816</u>	<u>0</u>	<u>0</u>	<u>1,091,358</u>
<u>DEPRECIABLE ASSETS:</u>					
Building & Improvements	6,665,233	0	0	0	6,665,233
Furniture & Equipment	580,597	4,608	0	0	585,205
Software	<u>537,573</u>	<u>0</u>	<u>167,476</u>	<u>0</u>	<u>370,097</u>
Total Depreciable Assets	<u>7,783,403</u>	<u>4,608</u>	<u>167,476</u>	<u>0</u>	<u>7,620,535</u>
<u>LESS ACCUMULATED DEPRECIATION:</u>					
Building & Improvements	(1,222,111)	(225,339)	0	0	(1,447,450)
Furniture & Equipment	(239,461)	(95,782)	0	0	(335,243)
Software	<u>(367,182)</u>	<u>(1,668)</u>	<u>0</u>	<u>0</u>	<u>(368,850)</u>
Total Accumulated Depreciation	<u>(1,828,754)</u>	<u>(322,789)</u>	<u>0</u>	<u>0</u>	<u>(2,151,543)</u>
Capital Assets - Net	<u>\$ 6,904,191</u>	<u>\$(176,365)</u>	<u>\$ 167,476</u>	<u>\$ 0</u>	<u>\$ 6,560,350</u>

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(5) Excess Insurance and Reinsurance

ACWA/JPIA purchases specific occurrence excess insurance from commercial excess carriers, reinsurance carriers, or other pooling agencies for the Liability, Workers' Compensation, Property Programs and Employee Benefit Programs. The specific excess insurance provides coverage for losses related to individual occurrences above the corresponding policy year's specified self-insured retention (SIR) and is limited to that policy year's specific excess coverage limit. Additionally, for Liability Program policy years 1983-84 through 1986-87 and 1991-92 through 2004-05, ACWA/JPIA purchased aggregate excess insurance that provides coverage for losses, net of specific excess insurance recoveries, to the extent that the net losses exceed the policy year's specified aggregate attachment point. The aggregate excess coverage is limited to the amounts by policy year.

Reinsurance contracts do not relieve ACWA/JPIA from its obligations to policyholders. Failure of these reinsurers to honor their obligations could result in losses to ACWA/JPIA. Any amounts deemed uncollectible from reinsurers have been written off. ACWA/JPIA evaluates the fiscal condition of its reinsurers to minimize exposure to significant losses for insolvencies.

(6) Retrospective Premium Adjustments

Retrospective premium adjustments are determined for each policy year as the sum of the following:

- a) Direct charge for the portion of each loss incurred within the member's allocation level.
- b) Losses in excess of a member's allocation level are shared by the members in the same and greater allocation levels, based on each member's premiums as a percentage of all members' premiums in each allocation level.
- c) Other costs, net of investment income, including unallocated claims expense, excess insurance premiums, and administrative expense are charged to each member, based on premiums.
- d) The allocation for contributions to that portion of designated equity designated for catastrophic losses and the reserve for claims incurred but not reported is based on each member's premiums as a percentage of all members' premiums.

The retrospective premium adjustments (RPA) for all applicable policy years have been estimated based on losses and other costs, net of investment income, incurred through September 30, 2014 and 2013. RPAs are subject to change as the ultimate cost of claims becomes known, investment income is realized, and ACWA/JPIA's indirect costs are allocated to each policy year.

The initial RPA is made at the end of the fourth full year of operations of each program of ACWA/JPIA except the Employee Benefits Program. After that, RPAs represent annual cumulative adjustments to the original premiums (net of prior RPAs, if any) previously billed and held at ACWA/JPIA. Although accrued RPA payables to and receivables from program members are calculated monthly, the accrual billing/refunding process takes place only once per year. RPAs are calculated separately for each policy and program year.

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Beginning with fiscal year 1998-99, ACWA/JPIA established an RPA Stabilization Fund for the Liability Program to help stabilize future RPAs. ACWA/JPIA maintains a separate RPA Stabilization Fund for each member and future RPAs are to flow through the member's individual RPA Stabilization Fund. When the balance of a member's fund exceeds 50% of the current year's basic liability premium, the difference will be put in the member's Catastrophic Fund. During the fiscal year 2002-03 the RPA Stabilization Fund was expanded to include the Property and Workers' Compensation pooled Programs.

(7) Reconciliation of Claims Liabilities

The following represents changes in the aggregate liabilities for all programs during the past year:

September 30:	<u>2014</u>	<u>2013</u>
Discounted Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	<u>\$47,388,045</u>	<u>\$48,477,892</u>
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Fiscal Year	67,962,298	63,297,962
Increase in Provision of Insured Events of Prior Fiscal Years	<u>21,183,644</u>	<u>14,745,122</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>89,145,942</u>	<u>78,043,084</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	58,318,396	54,373,374
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Fiscal Years	<u>28,611,213</u>	<u>24,759,557</u>
Total Payments	<u>86,929,609</u>	<u>79,132,931</u>
Discounted Unpaid Claims and Claim Adjustment Expenses at End of Fiscal Year	<u>\$49,604,378</u>	<u>\$47,388,045</u>
COMPONENTS:		
Provision for Claims (Current)	\$18,505,123	\$18,665,144
Claims Reserves	7,397,421	5,044,879
Claims Incurred But Not Reported	21,248,114	21,715,020
Unallocated Loss Adjustment Liability	<u>2,453,720</u>	<u>1,963,002</u>
Total Claims Liability	<u>\$49,604,378</u>	<u>\$47,388,045</u>

At September 30, 2014, unpaid losses of \$52,809,941 are presented at their net present value of \$49,604,378. These losses are discounted at a rate of 1% for Liability, 1.5% for Workers' Compensation, and .25% for Property.

At September 30, 2013, unpaid losses of \$49,912,018 are presented at their net present value of \$47,388,045. These losses are discounted at a rate of 1% for Liability, 1.5% for Workers' Compensation, and .25% for Property.

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(8) Operating Leases

ACWA/JPIA owns its previously occupied building and leases it out under separate operating leases. ACWA/JPIA intends to sell this building. Total gross rental income received during the years ended September 30, 2014 and 2013 was \$63,049 and \$63,748, respectively.

Beginning in fiscal year 2014, ACWA/JPIA also subleases its leased space located on Northgate Blvd. Total gross rent paid/received to lease/sublease this property during fiscal year 2014 was \$77,211 and \$42,606, respectively.

Minimum future rentals to be received under these leases as of September 30:

<u>Year Ending</u>	<u>Amounts</u>
2015	\$ 117,776
2016	103,216
2017	43,903
2018	<u>22,887</u>
TOTAL	<u>\$287,782</u>

(9) Net Position Designations

There are three categories that make up net position: the Catastrophic Reserve (CAT) Fund, Employee Benefit Fund, and the RPA Stabilization Fund. The CAT Fund is established to protect members from excessive losses, shared by all members in a given policy year. Contributions to the CAT Fund are typically calculated as 10% of premiums earned for the Underground Storage Tank Programs. Beginning with the fiscal year 2012-2013 the Liability and Workers' Compensation Programs limited the CAT Fund to 99% of the actuarially determined Gross Liability for Unpaid Losses. If a member has over 99%, a refund is put into their RSF Fund balance as long as the fund has a sufficient balance. The Employee Benefits Fund is specifically for future use in the Employee Benefits Program. The RPA Stabilization Fund is established to minimize excessive RPA's for prior policy years.

Net position is designated in the following manner:

	September 30:	<u>2014</u>	<u>2013</u>
Catastrophic Reserve (CAT) Fund		\$39,942,123	\$42,201,349
Employee Benefits Fund		41,576,054	43,712,265
RPA Stabilization Fund		<u>6,438,996</u>	<u>8,602,154</u>
Net Position		<u>\$87,957,173</u>	<u>\$94,515,768</u>

(10) Joint Ventures

ACWA/JPIA participated in a joint venture under a joint powers agreement with Local Agency Workers' Compensation Excess (LAWCX) during the fiscal years 1992-93; 1993-94; and 1994-95. The relationship between ACWA/JPIA and LAWCX is such that LAWCX is not a component unit of ACWA/JPIA for financial reporting purposes.

LAWCX arranges for and provides excess workers' compensation coverage for its members. A board consisting of a representative from each member agency governs LAWCX. The board controls the operations of LAWCX, including selection of management and approval of

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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 its participation in LAWCX.

LAWCX prepares separate annual financial statements, which may be obtained from Bickmore Risk Services, Inc., 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

(11) Pension Plan

Plan Description - ACWA/JPIA's defined benefit pension plan, the Miscellaneous Plan of ACWA/JPIA, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The benefit formulas are 2% at age 60 for employees hired before January 1, 2013 and 2% at age 62 for new employees hired on or after January 1, 2013. The Miscellaneous Plan of ACWA/JPIA is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. ACWA/JPIA selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board approval. ACWA/JPIA's additionally elected benefits for employees hired before January 1, 2013, are the highest 12 months of pay for the final compensation, post retirement survivor, improved non-industrial disability allowance, and fourth level 1959 survivor benefits. For new employees hired on or after January 1, 2013, the benefits are three years for the final compensation, post retirement survivor, improved non-industrial disability allowance, and fourth level 1956 survivor benefits. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy - Active plan members in the Miscellaneous Plan of ACWA/JPIA hired prior to January 1, 2013, are required to contribute 7% of their annual covered salary and those hired after January 1, 2013 are required to contribute 6.5%. ACWA/JPIA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the period of October 1, 2013 through June 30, 2014 was 9.205%. Beginning July 1, 2014 the rate was 9.145%. The rate for employees hired on or after January 1, 2013, is 6.7%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Beginning in fiscal year 1998-99, ACWA/JPIA also pays the employees' portion of their CalPERS salary reduction, provided the employee has been employed for five years or more and was hired prior to January 1, 2013. For ACWA/JPIA fiscal years 2014 and 2013, the contribution for the employees' portion of CalPERS amounted to \$191,098 and \$179,346, respectively.

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Annual Pension Cost - For fiscal year 2013-14, ACWA/JPIA's annual pension cost and contribution was \$309,390. For fiscal year 2012-13, ACWA/JPIA's annual pension cost and contribution was \$290,607. ACWA/JPIA's covered payroll for PERS was \$3,468,578 and \$3,213,924 for the years ended September 30, 2014 and 2013, respectively. The required contribution for fiscal year 2013-2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included a 7.5% discount rate (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.3 to 14.2% for miscellaneous members, (c) an inflation component of 2.75% and payroll growth of 3%. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payrolls on a closed basis over fifteen years. The actuarial value of the Miscellaneous Plan of ACWA/JPIA was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year period. For each of the fiscal years shown below, ACWA/JPIA contributed at the actuarially determined rate provided by CalPERS actuaries.

Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2012	\$253,746	100.00%	\$0
9/30/2013	\$290,607	100.00%	\$0
9/30/2014	\$309,390	100.00%	\$0

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As required by State law effective July 1, 2005, ACWA/JPIA's Miscellaneous Plan was terminated and the employees in the plan were required by CALPERS to join a state-wide pool. The funding history below shows the actuarial accrued liability, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll for the classic employees covered (2% at 60):

Valuation Date	Accrued Liabilities (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2011	\$14,655,843	\$12,258,420	\$2,397,423	83.6%	\$2,840,943	84.4%
6/30/2012	\$15,836,224	\$12,639,533	\$3,196,691	79.8%	\$2,929,538	109.1%
6/30/2013	\$17,571,093	\$14,815,180	\$2,755,913	84.3%	\$3,088,558	89.2%

The funding history below shows the actuarial accrued liability, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll for the PEPRA employees covered (2% at 62):

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Valuation Date	Accrued Liabilities (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2013	\$4,008	\$5,377	\$(1,369)	134.2%	\$205,098	0%

(12) Retiree Medical Benefits

Financial reporting standards for employers providing postemployment benefits other than pensions (OPEB) required disclosures are presented below:

ACWA/JPIA employees who retire at age 55 or older with a minimum of ten years of service with the organization are eligible to receive lifetime medical benefits. Benefits are also provided to spouses and surviving spouses of participating retirees. As of September 30, 2014 and 2013, there were ten participants receiving these health care benefits. ACWA/JPIA contributes 100% of the cost of coverage for employees who retire with age plus years of service equal to 75 or more.

The amount of benefit a retiree receives is based on the following schedule:

Age + Years of Service	65	66	67	68	69	70	71	72	73	74	75+
Percentage of Premium	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%

During fiscal year 2008-09, ACWA/JPIA joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CalPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, PO Box 942703, Sacramento, CA 94229-2703.

Funding Policy and Actuarial Assumptions - ACWA/JPIA's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the ACWA/JPIA's Executive Committee approval in March 2009. The annual required contribution (ARC) was determined as part of a July 1, 2013 actuarial valuation using the entry age normal cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate, (b) 3.25% annual rate of increase in payroll (c) health care cost trend rates from 5.0% to 6.7%. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least triennially as results are compared to past expectations and new estimates are made about the future. The

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ACWA/JPIA's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The study indicates that as of July 1, 2014, the actuarial accrued liability was estimated to be \$5,348,592.

Funding Progress and Funded Status - Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. As ACWA/JPIA is fully funded during the fiscal year 2012-13, no contributions were made to the Plan. In fiscal year 2013-14, ACWA/JPIA contributed \$167,584 to the Plan which was comprised of pay-as-you-go funding of \$122,254 and prefunding contributions to the CERBT Trust of \$45,330. As a result, ACWA/JPIA has calculated and recorded the Net OPEB Asset, representing the normal cost of the ARC, amortization and contributions, as presented below:

<u>September 30:</u>	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 193,007	\$ 142,045
Interest on net OPEB obligation	(174,549)	(179,214)
Adjustment to annual required contribution	<u>156,061</u>	<u>79,065</u>
Annual OPEB cost	<u>174,519</u>	<u>41,896</u>
Contributions made:		
Premiums paid	122,254	112,696
Prefunding contributions	45,330	0
Premiums reimbursed by CERBT	<u>0</u>	<u>(112,696)</u>
Net contributions	<u>167,584</u>	<u>0</u>
Change in net OPEB asset	6,935	41,896
Net OPEB Obligation (Asset) at beginning of year	<u>(2,293,671)</u>	<u>(2,335,567)</u>
Net OPEB Obligation (Asset) at end of year	<u>(\$2,286,736)</u>	<u>(\$ 2,293,671)</u>

The actuarial accrued liability (AAL) representing the present value of future benefits at July 1, 2014 and 2013 was estimated to be \$5,348,592 and \$4,913,093, respectively. The AAL was fully funded due to the transferring of assets into CERBT during the fiscal year September 30, 2009. The June 30, 2014 actual contribution of \$167,584 was 100% of the OPEB ARC for the fiscal year July 1, 2013 through June 30, 2014. The Plan's annual OPEB cost and actual contributions for the fiscal years ended September 30 are set forth as follows:

<u>Fiscal Year</u>	<u>OPEB Annual Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9/30/2012	\$110,004	\$ 0	0%	\$(2,335,567)
9/30/2013	41,896	0	0%	(2,293,671)
9/30/2014	174,519	167,584	96%	(2,286,736)

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The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Contributions to the CERBT did not begin until April 2009, thus these assets were excluded from the October 1, 2008 actuarial study. Trend data from the actuarial studies is presented following:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Unfunded) Overfunded Actuarial Accrued Liability (A - B)	Funded Ratio (A/B)	Covered Payroll (C)	(Unfunded) Overfunded Actuarial Liability as Percentage of Covered Payroll (A - B)/C]
10/1/2010	\$4,509,414	\$3,640,718	\$ 868,696	123%	\$2,856,377	30%
7/1/2011	4,966,241	3,798,912	1,167,329	131%	2,881,255	41%
7/1/2013	5,322,383	4,913,093	409,290	108%	3,213,924	13%

(13) Deferred Compensation Plan

ACWA/JPIA employees may defer a portion of their compensation under an employer sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by ING Direct. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not ACWA/JPIA's property and are not subject to its control, they have been excluded from these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Liability Program	Property Program	Workers' Compensation Program	Employee Benefits Program	Total
Unpaid Claims and Claim Adjustment at Beginning of the Fiscal Year:	\$ 19,509,927	\$ 593,961	\$ 20,604,399	\$ 6,679,758	\$ 47,388,045
Incurring Claims and Allocated Claim Adjustment Expense:					
Provisions for Insured Events of the Current Fiscal Year	9,354,929	808,039	5,278,916	52,520,414	67,962,298
Increase (Decrease) in Provision for Incurred Events of Prior Fiscal Years	<u>(3,473,540)</u>	<u>335,147</u>	<u>2,734,380</u>	<u>21,587,658</u>	<u>21,183,645</u>
Total Incurred Claims and Allocated Claim Adjustment Expenses:	<u>5,881,389</u>	<u>1,143,186</u>	<u>8,013,296</u>	<u>74,108,072</u>	<u>89,145,943</u>
Payments:					
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	2,058,691	761,580	1,129,542	54,368,583	58,318,396
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of Prior Fiscal Years	<u>5,652,280</u>	<u>292,399</u>	<u>4,018,609</u>	<u>18,647,926</u>	<u>28,611,214</u>
	7,710,971	1,053,979	5,148,151	73,016,509	86,929,610
Discounted Unpaid Claims and Allocated Claim Adjustment Expense at the End of the Fiscal Year:	<u>\$ 17,680,345</u>	<u>\$ 683,168</u>	<u>\$ 23,469,544</u>	<u>\$ 7,771,321</u>	<u>\$ 49,604,378</u>
Components:					
Provision for Claims (Current)	\$ 6,535,802	\$ 556,000	\$ 3,642,000	\$ 7,771,321	\$ 18,505,123
Claims Reserves	1,856,858	0	5,540,563	0	7,397,421
Claims IBNR	8,894,945	88,863	12,264,306	0	21,248,114
Unallocated Loss Adjustment Liability	392,740	38,305	2,022,675	0	2,453,720
Total Claims Liability	<u>\$ 17,680,345</u>	<u>\$ 683,168</u>	<u>\$ 23,469,544</u>	<u>\$ 7,771,321</u>	<u>\$ 49,604,378</u>

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

TEN - YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF SEPTEMBER 30, 2014

LIABILITY PROGRAM

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
1. Required contribution and investment revenue:										
Earned	\$ 15,929,982	\$ 18,674,056	\$ 17,862,903	\$ 19,359,347	\$ 18,142,431	\$ 18,854,964	\$ 18,927,896	\$ 19,642,620	\$ 17,772,512	\$ 16,537,285
Ceded	4,747,844	4,376,544	4,468,104	4,926,828	4,906,389	4,608,867	4,595,419	4,145,093	4,080,300	3,659,722
Net earned	11,182,138	14,297,512	13,394,799	14,432,519	13,236,042	14,246,097	14,332,478	15,497,527	13,692,212	12,877,563
2. Unallocated expenses	1,707,859	2,135,027	1,596,469	2,081,532	3,069,845	2,008,871	2,126,634	2,026,008	1,180,629	566,719
3. Estimated claims and expenses end of policy year:										
Incurred	6,580,599	8,598,359	7,700,683	7,600,857	8,977,902	7,422,043	9,537,161	11,501,735	11,340,999	12,098,155
Ceded	1,800,000	935,920	1,073,855	1,159,832	800,459	775,277	1,482,000	3,340,797	2,803,191	2,935,740
Net incurred	4,780,599	7,662,439	6,626,828	6,441,025	8,177,443	6,646,766	8,055,161	8,160,938	8,537,808	9,162,415
4. Net paid (cumulative) as of :										
End of policy year	1,150,852	1,434,048	1,434,048	1,095,952	1,194,315	1,740,230	1,304,594	980,968	1,327,647	2,058,691
One year later	3,320,294	3,786,406	4,053,763	1,853,377	2,482,488	2,768,106	2,536,953	2,347,481	2,892,313	
Two years later	6,323,408	5,169,466	5,647,981	2,085,152	4,668,354	4,178,258	3,380,763	5,333,836		
Three years later	7,549,628	6,106,886	6,835,600	2,383,841	7,081,902	4,952,630	3,840,217			
Four years later	8,610,027	6,676,427	7,367,448	2,750,344	7,645,834	4,962,995				
Five years later	8,654,189	8,030,678	7,361,962	3,561,241	7,933,851					
Six years later	8,478,124	8,018,959	7,371,125	3,566,680						
Seven years later	8,877,903	8,108,973	7,371,125							
Eight years later	8,877,903	8,363,334								
Nine years later	8,877,903									
5. Reestimated claims and expenses:	7,270,729	250,000	455,000	53,370	7,070,000	170,000	360,000	420,000	900,000	700,000
6. Reestimated net incurred claims and expenses:										
End of policy year	4,780,599	7,662,439	6,626,828	6,441,025	8,177,443	6,646,766	8,055,161	8,160,938	8,537,808	9,162,415
One year later	7,032,978	8,550,714	6,979,182	4,525,102	6,818,148	6,683,075	6,436,591	7,445,949	6,729,662	
Two years later	8,681,737	7,252,155	7,502,499	3,568,668	7,278,037	6,092,815	4,951,214	6,853,715		
Three years later	8,981,147	7,763,514	7,510,266	3,913,545	9,129,176	6,150,522	4,825,003			
Four years later	9,285,468	7,861,560	7,401,853	3,641,003	10,326,885	5,420,192				
Five years later	8,819,438	8,094,201	7,469,027	3,562,805	10,248,532					
Six years later	8,660,694	8,018,959	7,603,551	3,566,680						
Seven years later	8,625,337	8,763,897	7,371,126							
Eight years later	8,877,903	8,961,166								
Nine years later	9,025,865									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year:	<u>\$ 4,245,266</u>	<u>\$ 1,298,727</u>	<u>\$ 744,298</u>	<u>\$ (2,874,344)</u>	<u>\$ 2,071,089</u>	<u>\$ (1,226,574)</u>	<u>\$ (3,230,157)</u>	<u>\$ (1,307,224)</u>	<u>\$ (1,808,146)</u>	<u>\$ 0</u>

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

TEN - YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF SEPTEMBER 30, 2014

PROPERTY PROGRAM

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
1. Required contribution and investment revenue:										
Earned	\$ 2,948,323	\$ 3,343,606	\$ 3,632,491	\$ 4,194,825	\$ 3,925,177	\$ 4,143,019	\$ 4,397,768	\$ 4,606,475	\$ 4,875,501	\$ 5,108,657
Ceded	1,867,051	1,826,508	2,004,909	2,227,970	2,251,832	2,643,369	2,855,737	3,050,768	3,368,987	3,472,990
Net earned	1,081,271	1,517,098	1,627,582	1,966,855	1,673,345	1,499,650	1,542,031	1,555,707	1,506,515	1,635,668
2. Unallocated expenses	368,304	369,796	398,495	56,524	92,801	193,540	200,019	253,124	188,799	331,781
3. Estimated claims and expenses end of policy year:										
Incurred	1,939,157	1,589,407	1,898,330	2,332,725	2,221,251	2,464,985	3,475,186	2,458,165	2,532,879	3,122,568
Ceded	525,942	672,468	703,289	1,065,112	1,667,792	1,751,000	2,653,624	1,665,007	1,815,000	1,917,000
Net incurred	1,413,215	916,939	1,195,041	1,267,613	553,459	713,985	821,562	793,158	717,879	1,205,568
4. Net paid (cumulative) as of :										
End of policy year	724,302	617,464	813,264	800,917	464,893	692,003	775,702	661,882	596,198	952,945
One year later	680,147	562,783	648,592	682,101	512,365	694,396	790,438	760,239	616,432	
Two years later	679,872	562,783	731,532	697,498	512,122	689,284	790,438	822,930		
Three years later	679,747	549,471	731,871	696,769	511,822	689,621	801,074			
Four years later	679,472	549,714	733,997	696,769	512,340	689,621				
Five years later	679,222	553,692	733,995	696,769	512,340					
Six years later	678,872	553,692	733,997	696,769						
Seven years later	678,572	553,692	734,497							
Eight years later	678,297	553,692								
Nine years later	677,947									
5. Reestimated claims and expenses:	616,126	418,702	1,882,113	1,375,733	189,526	2,430,379	1,699,387	1,612,235	551,081	386,243
6. Reestimated net incurred claims and expenses:										
End of policy year	1,413,215	916,939	1,195,041	1,267,613	553,459	713,985	821,562	793,158	717,879	1,205,568
One year later	698,855	562,783	690,516	682,301	522,443	704,286	810,318	767,256	618,919	
Two years later	679,872	562,783	734,009	697,712	514,843	699,244	790,438	899,853		
Three years later	679,748	549,472	734,009	696,769	514,594	699,611	801,074			
Four years later	679,473	549,722	733,997	696,770	512,340	689,621				
Five years later	679,223	553,692	733,995	696,769	512,340					
Six years later	678,872	553,692	733,997	696,769						
Seven years later	678,572	553,692	734,497							
Eight years later	678,297	553,692								
Nine years later	677,947									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (735,268)	\$ (363,247)	\$ (460,544)	\$ (570,844)	\$ (41,119)	\$ (24,365)	\$ (202,643)	\$ 412,410	\$ (239,535)	\$ 0

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

TEN - YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF SEPTEMBER 30, 2014

WORKERS' COMPENSATION

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
1. Required contribution and investment revenue:										
Earned	\$ 17,890,972	\$ 17,803,179	\$ 15,577,413	\$ 12,130,193	\$ 9,777,981	\$ 10,730,115	\$ 12,040,502	\$ 12,230,029	\$ 12,961,758	\$ 12,218,905
Ceded	811,186	709,319	783,738	691,916	494,603	481,560	466,931	413,858	516,165	504,358
Net earned	17,079,787	17,093,860	14,793,675	11,438,277	9,283,378	10,248,555	11,573,571	11,816,171	12,445,593	11,714,547
2. Unallocated expenses:	3,592,532	4,172,578	2,394,223	2,791,122	2,684,481	2,380,724	2,517,289	1,706,411	1,620,802	1,009,905
3. Estimated claims and expenses end of policy year:										
Incurred	11,930,997	7,906,844	6,268,068	5,857,450	4,888,910	6,088,843	5,645,152	6,404,310	5,915,673	6,196,556
Ceded	450,000	600,000	0	0	0	40,000	80,000	230,000	32,500	130,000
Net incurred	11,480,997	7,306,844	6,268,068	5,857,450	4,888,910	6,048,843	5,565,152	6,174,310	5,883,173	6,066,556
4. Net paid (cumulative) as of :										
End of policy year	911,448	693,346	933,153	1,074,127	1,285,587	1,473,433	1,316,557	1,512,505	1,665,717	1,472,839
One year later	1,422,036	1,037,637	1,405,383	1,673,630	2,330,555	2,397,814	2,473,734	2,351,310	3,039,536	
Two years later	2,167,424	1,401,183	1,595,606	2,085,838	2,995,227	3,072,147	3,042,230	2,901,384		
Three years later	2,728,731	1,676,493	1,784,855	2,403,800	3,540,747	3,511,922	3,579,172			
Four years later	2,856,007	2,045,001	1,940,339	2,640,404	3,996,495	3,973,600				
Five years later	2,934,179	2,107,194	1,996,710	2,967,301	4,311,695					
Six years later	2,995,906	2,172,929	2,058,170	3,188,732						
Seven years later	3,073,424	2,390,505	2,075,772							
Eight years later	3,120,280	2,460,110								
Nine years later	3,134,798									
5. Reestimated claims and expenses:	0	0	0	0	0	0	0	195	0	0
6. Reestimated net incurred claims and expenses:										
End of policy year	11,480,997	7,306,844	6,268,068	5,857,450	4,888,910	6,048,843	5,565,152	6,174,310	5,883,173	6,066,556
One year later	5,510,957	3,960,203	3,826,938	4,491,065	6,099,868	5,409,694	6,406,747	5,377,941	6,382,564	
Two years later	4,582,367	3,967,718	3,674,253	4,565,633	5,222,307	5,588,999	5,978,804	5,632,117		
Three years later	4,339,313	3,606,324	3,249,121	4,106,558	5,524,329	4,997,277	6,286,812			
Four years later	3,987,428	3,449,072	2,614,453	4,251,724	5,656,262	5,181,837				
Five years later	3,855,472	3,097,203	2,482,261	4,204,544	5,988,258					
Six years later	3,627,083	3,040,809	2,493,798	4,283,451						
Seven years later	3,543,944	2,931,271	2,382,348							
Eight years later	3,486,173	2,998,197								
Nine years later	3,371,512									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year:	<u>\$ (8,109,485)</u>	<u>\$ (4,308,647)</u>	<u>\$ (3,885,720)</u>	<u>\$ (1,573,999)</u>	<u>\$ 1,099,348</u>	<u>\$ (867,005)</u>	<u>\$ 721,659</u>	<u>\$ (542,193)</u>	<u>\$ 499,391</u>	<u>\$ 0</u>

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

TEN - YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF SEPTEMBER 30, 2014

EMPLOYEE BENEFITS

	<u>2012</u>	<u>2013</u>
1. Required contribution and investment revenue:		
Earned	\$ 56,825,128	\$ 114,325,331
Ceded	541,419	836,491
Net earned	<u>56,283,709</u>	<u>113,488,840</u>
2. Unallocated expenses:	737,231	1,691,477
3. Estimated claims and expenses end of policy year:		
Incurred	31,943,031	69,673,817
Ceded	-	-
Net incurred	<u>31,943,031</u>	<u>69,673,817</u>
4. Net paid (cumulative) as of :		
End of policy year	31,943,031	69,673,817
One year later	32,327,809	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
5. Reestimated claims and expenses:	2,772,115	852,371
6. Reestimated net incurred claims and expenses:		
End of policy year	31,943,031	69,673,817
One year later	35,484,702	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
7. Increase in estimated incurred claims and expense from end of policy year	<u>\$ 3,541,671</u>	<u>\$ 0</u>

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

Notes to Required Supplementary Information
Year Ended September 30, 2014

(1) Reconciliation of Claims Liabilities by Type of Contract

These schedules represent the changes in claims liabilities in the past year for the Liability, Property, Workers' Compensation, and Employee Benefit Programs.

(2) Claims Development Information

The table illustrates how earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses as of the end of each of the past ten years.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs including overhead and claims expense not allocable to individual claims.
3. This line shows the gross incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred.
4. This section of ten rows shows the cumulative net amounts paid as of the net of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section shows the annually re-estimated results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

SUPPLEMENTARY INFORMATION

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

SCHEDULE OF REVENUES AND EXPENSES BY PROGRAM
YEAR ENDED SEPTEMBER 30, 2014

	LIABILITY	DAM FAILURE	PROPERTY	PASS - THROUGHS	WORKERS' COMP	STORAGE TANKS	EMPLOYEE BENEFITS	RSF REFUNDS	TOTALS
OPERATING REVENUES									
Member premiums	\$ 16,246,463	\$ 255,503	\$ 5,152,136	\$ 260,521	\$ 11,687,415	\$ 21,376	\$ 119,370,754	\$ 0	\$ 152,994,168
Retrospective premium adjustments	(6,789,205)	0	487,796	0	(1,209,176)	(12,217)	0	(3,456,963)	(10,979,765)
	<u>9,457,258</u>	<u>255,503</u>	<u>5,639,932</u>	<u>260,521</u>	<u>10,478,239</u>	<u>9,159</u>	<u>119,370,754</u>	<u>(3,456,963)</u>	<u>142,014,403</u>
TOTAL OPERATING REVENUES									
OPERATING EXPENSES									
Claims expense:									
Claims paid	7,710,971	0	1,053,979	0	5,148,151	0	73,016,509	0	86,929,610
Change in excess aggregate recovery	0	0	0	0	0	0	0	0	0
Change in claims reserves	627,764	0	78,509	0	403,199	0	0	0	1,109,472
Change in claims incurred but not reported	(2,394,915)	0	6,156	0	1,913,340	0	1,091,563	0	616,144
Change in unallocated loss adjustment expense	(62,431)	0	4,541	0	548,606	0	0	0	490,716
Total claims expense	<u>5,881,389</u>	<u>0</u>	<u>1,143,185</u>	<u>0</u>	<u>8,013,296</u>	<u>0</u>	<u>74,108,072</u>	<u>0</u>	<u>89,145,942</u>
Excess insurance	3,659,723	250,000	2,497,210	258,930	457,795	10,260	977,299	0	8,111,217
Benefit premiums	0	0	0	0	0	0	44,511,197	0	44,511,197
General and administrative & Depreciation	<u>1,889,556</u>	<u>5,503</u>	<u>1,285,417</u>	<u>1,591</u>	<u>2,494,247</u>	<u>0</u>	<u>2,239,519</u>	<u>0</u>	<u>7,915,833</u>
TOTAL OPERATING EXPENSES	<u>11,430,668</u>	<u>255,503</u>	<u>4,925,812</u>	<u>260,521</u>	<u>10,965,338</u>	<u>10,260</u>	<u>121,836,087</u>	<u>0</u>	<u>149,684,189</u>
OPERATING INCOME	<u>(1,973,410)</u>	<u>0</u>	<u>714,120</u>	<u>(0)</u>	<u>(487,099)</u>	<u>(1,101)</u>	<u>(2,465,333)</u>	<u>(3,456,963)</u>	<u>(7,669,786)</u>
NONOPERATING REVENUES									
Investment income	587,945	0	58,740	0	422,521	5,590	300,470	0	1,375,266
Other income	(146,582)	0	(25,366)	0	(118,415)	(2,372)	28,660	0	(264,075)
TOTAL NONOPERATING REVENUES	<u>441,363</u>	<u>0</u>	<u>33,374</u>	<u>0</u>	<u>304,106</u>	<u>3,218</u>	<u>329,130</u>	<u>0</u>	<u>1,111,191</u>
CHANGE IN NET POSITION	<u>\$ (1,532,047)</u>	<u>\$ -</u>	<u>\$ 747,494</u>	<u>\$ (0)</u>	<u>\$ (182,993)</u>	<u>\$ 2,117</u>	<u>\$ (2,136,203)</u>	<u>\$ (3,456,963)</u>	<u>\$ (6,558,595)</u>

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

SCHEDULE OF REVENUE AND EXPENSES BY PROGRAM
YEARS ENDED SEPTEMBER 30, 2013

	LIABILITY	DAM FAILURE	PROPERTY	PASS - THROUGHS	WORKERS' COMP	STORAGE TANKS	EMPLOYEE BENEFITS	RSF REFUNDS	TOTALS
OPERATING REVENUES									
Member premiums	\$ 16,948,211	\$ 265,276	\$ 4,921,198	\$ 250,736	\$ 12,344,604	\$ 18,315	\$ 112,499,192	\$ 0	\$ 147,247,532
Retrospective premium adjustments	2,588,846	0	449,783	0	(6,204,981)	(11,775)	0	(3,779,346)	(6,957,472)
	<u>19,537,057</u>	<u>265,276</u>	<u>5,370,981</u>	<u>250,736</u>	<u>6,139,623</u>	<u>6,540</u>	<u>112,499,192</u>	<u>(3,779,346)</u>	<u>140,290,060</u>
TOTAL OPERATING REVENUES									
OPERATING EXPENSES									
Claims expense:									
Claims paid	5,878,277	0	708,744	0	4,760,843	0	67,785,067	0	79,132,931
Change in excess aggregate recovery	399,779	0	0	0	0	0	0	0	399,779
Change in claims reserves	1,341,191	0	38,388	0	272,150	0	0	0	1,651,729
Change in claims incurred but not reported	1,451,674	0	110,735	0	(1,209,485)	0	(2,939,732)	0	(2,586,808)
Change in unallocated loss adjustment expense	56,506	0	12,902	0	(224,169)	0	0	0	(154,761)
Total claims expense	<u>9,127,427</u>	<u>0</u>	<u>870,769</u>	<u>0</u>	<u>3,599,339</u>	<u>0</u>	<u>64,845,335</u>	<u>0</u>	<u>78,442,870</u>
Excess insurance	4,080,300	260,045	3,004,139	247,120	519,656	10,439	901,419	0	9,023,118
Benefit premiums	0	0	0	0	0	0	38,312,872	0	38,312,872
General, Administrative & Depreciation	2,798,481	5,231	71,865	3,616	3,380,770	0	1,261,151	0	7,521,114
TOTAL OPERATING EXPENSES	<u>16,006,208</u>	<u>265,276</u>	<u>3,946,773</u>	<u>250,736</u>	<u>7,499,765</u>	<u>10,438</u>	<u>105,320,777</u>	<u>0</u>	<u>133,299,974</u>
OPERATING INCOME	<u>3,530,849</u>	<u>0</u>	<u>1,424,208</u>	<u>0</u>	<u>(1,360,142)</u>	<u>(3,898)</u>	<u>7,178,415</u>	<u>(3,779,346)</u>	<u>6,990,086</u>
NONOPERATING REVENUES									
Investment income	707,078	0	136,976	0	581,777	12,772	175,022	0	1,613,625
Other income	(734,850)	0	(63,689)	0	(492,573)	(7,041)	(153,124)	0	(1,451,277)
TOTAL NONOPERATING REVENUES	<u>(27,772)</u>	<u>0</u>	<u>73,287</u>	<u>0</u>	<u>89,204</u>	<u>5,731</u>	<u>21,898</u>	<u>0</u>	<u>162,348</u>
CHANGE IN NET POSITION	<u>\$ 3,503,077</u>	<u>\$ 0</u>	<u>\$ 1,497,495</u>	<u>\$ 0</u>	<u>\$ (1,270,938)</u>	<u>\$ 1,832</u>	<u>\$ 7,200,313</u>	<u>\$ (3,779,346)</u>	<u>\$ 7,152,434</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the Association of California Water Agencies Joint Powers Insurance Authority's (ACWA/JPIA) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about ACWA/JPIA's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how ACWA/JPIA's financial performance and well-being have changed over time. They show how revenues and expenses have developed over years. They show how the Net Position has changed.

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Statements of Revenues, Expenses and Changes in Net Position.....	52
Revenues by Program.....	53
Expenses by Program.....	54
Schedule of Rate Stabilization Fund Activity.....	55

Demographic and Economic Information

These schedules offer demographic and economic information indicators to help the reader understand the environment with ACWA/JPIA's financial activities take place. The number of liability, property and workers' compensation claims is an indicator of the claims expenses. Payrolls for liability and workers' compensation, together with claims experience are an indicator for premium revenues. Property values are indicators for property premiums.

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Economic Statistics.....	56
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Covered Payrolls/Property Values.....	59

Schedules showing trends for property tax rates and revenues along with corresponding assessed valuations are not presented since ACWA/JPIA does not levy such taxes.

Schedules showing bonded debt and related legal debt ratios are also not applicable.

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

STATEMENTS OF NET POSITION
Last Ten Fiscal Years

	Fiscal Year September 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets										
Current assets	\$ 32,566,115	\$ 75,048,968	\$ 90,677,479	\$ 69,852,266	\$ 74,941,366	\$ 48,403,357	\$ 47,799,175	\$ 76,819,567	\$ 88,718,697	\$ 69,901,479
Noncurrent assets	59,091,461	27,167,262	20,799,234	48,012,298	49,125,661	79,562,048	78,970,791	111,214,183	106,104,907	125,682,527
TOTAL ASSETS	91,657,576	102,216,230	111,476,713	117,864,564	124,067,027	127,965,405	126,769,966	188,033,750	194,823,604	195,584,006
Liabilities										
Current liabilities	36,876,348	29,496,534	36,651,610	35,783,642	38,564,342	38,507,711	41,867,839	60,219,720	52,189,011	53,163,043
Noncurrent liabilities	29,753,515	43,852,343	43,299,236	43,720,624	45,429,021	45,455,820	37,590,083	40,450,696	48,118,825	54,463,790
TOTAL LIABILITIES	66,629,863	73,348,877	79,950,846	79,504,266	83,993,363	83,963,531	79,457,922	100,670,416	100,307,836	107,626,833
Net Position										
Net investment in capital assets	1,119,835	1,039,286	964,200	875,335	978,142	4,974,593	6,862,991	6,904,191	6,560,350	6,206,203
Unrestricted	23,907,878	27,828,067	30,561,667	37,484,963	39,095,522	39,027,281	40,449,053	80,459,143	87,955,418	81,750,970
TOTAL NET POSITION	\$ 25,027,713	\$ 28,867,353	\$ 31,525,867	\$ 38,360,298	\$ 40,073,664	\$ 44,001,874	\$ 47,312,044	\$ 87,363,334	\$ 94,515,768	\$ 87,957,173

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Last Ten Fiscal Years

	Fiscal Year Ended September 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES										
Member premiums	\$ 30,917,293	\$ 34,421,079	\$ 30,636,804	\$ 31,155,506	\$ 29,469,780	\$ 30,328,626	\$ 32,175,664	\$ 60,219,073	\$ 147,247,532	\$ 152,994,168
Retrospective premium adjustments	(7,944,835)	(17,257,023)	(11,224,912)	(4,279,423)	(8,387,426)	(3,276,537)	(4,026,190)	(1,782,760)	(6,957,472)	(10,979,765)
TOTAL OPERATING REVENUES	22,972,458	17,164,056	19,411,892	26,876,083	21,082,354	27,052,089	28,149,474	58,436,313	140,290,060	142,014,403
EXPENSES										
Claims paid	8,308,231	8,422,347	10,361,897	10,075,155	9,134,958	9,818,161	12,316,974	27,272,010	79,132,931	86,929,610
Change in excess aggregate recovery	0	0	(95,777)	0	(88,462)	(87,603)	(215,529)	(8,186)	399,779	0
Change in claim reserves	(3,210,048)	(1,379,012)	(448,216)	(1,086,328)	2,281,381	2,112,946	(451,162)	395,087	1,651,729	1,109,472
Change in claims incurred but not reported	2,847,345	(2,336,107)	(917,405)	(642,041)	(65,834)	352,164	383,658	3,058,785	(2,586,808)	616,144
Change in unallocated loss adjustment expenses	478,982	(431,939)	(161,063)	(109,356)	63,789	133,186	(153,673)	86,653	(154,761)	490,716
TOTAL CLAIMS EXPENSE	8,424,510	4,275,289	8,739,436	8,237,430	11,325,832	12,328,854	11,880,268	30,804,349	78,442,870	89,145,942
Excess insurance and premium payments	7,584,856	7,443,235	7,974,435	8,447,857	8,439,434	8,350,340	8,507,507	17,301,864	47,335,990	52,622,414
General and administrative	4,108,304	4,414,648	4,453,752	4,837,353	5,841,653	5,278,142	5,664,370	6,641,962	7,198,325	7,549,473
Depreciation	102,237	95,289	87,086	88,865	57,051	51,921	234,085	322,936	322,789	366,360
TOTAL OPERATING EXPENSES	20,219,907	16,228,461	21,254,709	21,611,505	25,663,970	26,009,257	26,286,230	55,071,111	133,299,974	149,684,189
OPERATING INCOME (LOSS)	2,752,551	935,595	(1,842,817)	5,264,578	(4,581,616)	1,042,832	1,863,244	3,365,202	6,990,086	(7,669,786)
SPECIAL ITEM										
Net position acquired from merger								34,986,207		
NONOPERATING REVENUES AND EXPENSES										
Net investment income	910,121	2,894,232	4,501,331	1,569,853	6,294,982	2,885,378	1,446,926	1,699,881	162,348	1,111,191
Other	0	9,813	0	0	0	0	0	0	0	0
CHANGE IN NET POSITION	\$ 3,662,672	\$ 3,839,640	\$ 2,658,514	\$ 6,834,431	\$ 1,713,366	\$ 3,928,210	\$ 3,310,170	\$ 40,051,290	\$ 7,152,434	\$ (6,558,595)

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

REVENUES BY PROGRAM

For the Fiscal Year Ending September 30,

Fiscal Year	Liability	Dam	Property	Pass- Throughs	Workers' Compensation	Underground Storage Tanks	UTEL	Employee Benefits	Change in Rate Stabilization Fund	Totals
2004-05	\$ 5,759,133 24.11%	\$ 249,581 1.05%	\$ 4,834,686 20.24%	\$ 232,687 0.97%	\$ 13,333,606 55.83%	\$ 14,296 0.06%	\$ 0 0.00%		\$ (541,410) -2.26%	\$ 23,882,579
2005-06	\$ 15,874,115 79.10%	\$ 306,958 1.53%	\$ 2,501,186 12.46%	\$ 219,013 1.09%	\$ 1,668,654 8.31%	\$ 14,603 0.07%	\$ 0 0.00%		\$ (516,428) -2.56%	\$ 20,068,101
2006-07	\$ 14,229,262 59.50%	\$ 316,615 1.32%	\$ 4,388,159 18.35%	\$ 273,531 1.14%	\$ 5,277,836 22.07%	\$ 13,891 0.06%	\$ (64,999) -0.27%		\$ (521,072) -2.17%	\$ 23,913,223
2007-08	\$ 14,304,593 50.29%	\$ 315,872 1.11%	\$ 2,869,123 10.09%	\$ 298,048 1.05%	\$ 6,752,445 23.74%	\$ 12,415 0.04%	\$ 0 0.00%		\$ 3,893,440 13.68%	\$ 28,445,936
2008-09	\$ 14,546,456 53.13%	\$ 288,670 1.05%	\$ 3,108,219 11.35%	\$ 275,582 1.01%	\$ 7,601,621 27.77%	\$ (31,136) -0.11%	\$ (35,759) -0.13%		\$ 1,623,683 5.93%	\$ 27,377,336
2009-10	\$ 11,993,302 40.06%	\$ 272,341 0.91%	\$ 3,431,116 11.46%	\$ 263,801 0.88%	\$ 12,222,543 40.83%	\$ 10,822 0.04%	\$ 0 0.00%		\$ 1,743,542 5.82%	\$ 29,937,467
2010-11	\$ 18,307,796 61.86%	\$ 272,341 0.92%	\$ 3,785,935 12.79%	\$ 258,198 0.87%	\$ 6,963,609 23.53%	\$ 9,747 0.03%	\$ 0 0.00%		\$ (1,226) 0.00%	\$ 29,596,400
2011-12	\$ 17,338,107 28.83%	\$ 258,944 0.43%	\$ 4,068,841 6.77%	\$ 246,167 0.41%	\$ 11,235,128 18.68%	\$ 12,269 0.02%	\$ 0 0.00%	\$ 26,901,485 44.73%	\$ 75,253 0.13%	\$ 60,136,194
2012-13	\$ 16,490,152 11.74%	\$ 265,276 0.19%	\$ 3,946,776 2.81%	\$ 250,736 0.18%	\$ 8,044,738 5.73%	\$ 12,271 0.01%	\$ 0 0.00%	\$ 112,521,087 80.11%	\$ (1,078,628) -0.77%	\$ 140,452,408
2013-14	\$ 11,430,667 8.0%	\$ 255,503 0.2%	\$ 4,925,813 3.4%	\$ 260,521 0.2%	\$ 10,965,338 7.7%	\$ 12,378 0.0%	\$ 0 0.0%	\$ 119,699,883 83.6%	\$ (4,424,509) -3.1%	\$ 143,125,594

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

EXPENSES BY PROGRAM

For the Fiscal Year Ending September 30,

Fiscal Year	Liability	Dam	Property	Pass- Throughs	Workers' Compensation	Underground Storage Tanks	UTEL	Employee Benefits	OPEB Reclass Not Allocated	Totals
2004-05	\$ 4,419,004 21.90%	\$ 249,581 1.24%	\$ 4,835,670 23.97%	\$ 232,687 1.15%	\$ 10,472,452 51.91%	\$ 11,492 0.06%	\$ 0 0.00%		\$ (45,675) -0.23%	\$ 20,175,211
2005-06	\$ 13,719,826 84.54%	\$ 306,958 1.89%	\$ 2,501,186 15.41%	\$ 219,013 1.35%	\$ (485,601) -2.99%	\$ 11,802 0.07%	\$ 0 0.00%		\$ (44,723) -27.00%	\$ 16,228,461
2006-07	\$ 12,756,384 60.02%	\$ 316,615 1.49%	\$ 4,388,159 20.65%	\$ 273,531 1.29%	\$ 3,622,251 17.04%	\$ 11,066 0.05%	\$ (65,000) -0.31%		\$ (48,297) -0.23%	\$ 21,254,709
2007-08	\$ 12,226,757 56.58%	\$ 315,872 1.46%	\$ 2,869,122 13.28%	\$ 298,048 1.38%	\$ 5,924,044 27.41%	\$ 9,590 0.04%	\$ 0 0.00%		\$ (31,928) -0.15%	\$ 21,611,505
2008-09	\$ 14,437,187 56.25%	\$ 288,670 1.12%	\$ 3,108,219 12.11%	\$ 275,582 1.07%	\$ 7,270,670 28.34%	\$ 6,461 0.03%	\$ 0 0.00%		\$ 277,181 1.08%	\$ 25,663,970
2009-10	\$ 11,206,756 43.09%	\$ 272,341 1.05%	\$ 3,431,116 13.19%	\$ 263,801 1.01%	\$ 10,826,804 41.63%	\$ 8,439 0.03%	\$ 0 0.00%		\$ 0 0.00%	\$ 26,009,257
2010-11	\$ 16,161,779 61.48%	\$ 272,341 1.04%	\$ 3,785,935 14.40%	\$ 258,198 0.98%	\$ 5,797,445 22.06%	\$ 10,532 0.04%	\$ 0 0.00%		\$ 0 0.00%	\$ 26,286,230
2011-12	\$ 14,478,675 26.29%	\$ 258,944 0.47%	\$ 4,068,841 7.39%	\$ 246,167 0.45%	\$ 10,632,214 19.31%	\$ 10,532 0.02%	\$ 0 0.00%	\$ 25,375,738 46.08%	\$ 0 0.00%	\$ 55,071,111
2012-13	\$ 16,006,207 12.01%	\$ 265,276 0.20%	\$ 3,946,774 2.96%	\$ 250,736 0.19%	\$ 7,499,767 5.63%	\$ 10,438 0.01%	\$ 0 0.00%	\$ 105,320,776 79.01%	\$ 0 0.00%	\$ 133,299,974
2013-14	\$ 11,430,667 7.64%	\$ 255,503 0.17%	\$ 4,925,813 3.29%	\$ 260,522 0.17%	\$ 10,965,338 7.33%	\$ 10,260 0.01%	\$ 0 0.00%	\$ 121,836,086 81.40%	\$ 0 0.00%	\$ 149,684,189

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

SCHEDULE OF RATE STABILIZATION FUND ACTIVITY

For the Fiscal Years Ending September 30

Fiscal Year	2005 **	2006	2007	2008	2009	2010	2011	2012	2013	2014
<u>Liability</u>										
Payroll Adjustments *	\$ 0	\$ (950,168)	\$ (194,895)	\$ (424,268)	\$ (417,934)	\$ (360,462)	\$ (233,722)	\$ (41,178)	\$ 8,771	\$ 77,449
RPA's *	0	2,796,161	1,065,131	4,205,849	(1,500,203)	1,598,011	1,602,017	(414,298)	3,871,891	(1,193,460)
10% Program *	0	0	(912,697)	(453,659)	(610,203)	(546,891)	(1,165,719)	(1,006,330)	(861,439)	(416,028)
Cat Funds *	0	0	0	0	997,823	1,000,197	0	0	(5,357,186)	1,106,460
<u>Property</u>										
RPA's *	0	442,540	229,549	19,494	34,265	593,611	496,479	770,282	1,497,493	747,493
<u>Workers' Comp</u>										
RPA's *	0	(2,190,329)	472,072	3,009,393	6,489,431	7,473,796	5,745,357	5,120,265	(1,815,910)	(182,993)
Cat Funds									(911,678)	1,154,883
<u>Underground - Storage Tanks</u>										
RPA's *	0	0	0	0	169,480	0	10,713	0	0	0
Cat Funds *	0	0	0	0	40,274	0	2,521	0	0	0
<u>UTEL</u>										
RPA's *	0	0	0	(93,969)	0	0	0	0	0	0
Cat Funds *	0	0	0	0	35,762	0	0	0	0	0
Totals	\$ 0	\$ 98,204	\$ 659,160	\$ 6,262,840	\$ 5,238,695	\$ 9,758,262	\$ 6,457,647	\$ 4,428,741	\$ (3,568,058)	\$ 1,293,803
<u>Cash Flow</u>										
Members Billed	316,594	683,283	236,074	59,044	56,923	0	89	2,766	8,551	7,556
Self Insured Fund into RSF								4,573,112	-	-
Refunds to Members	(858,004)	(1,297,915)	(1,416,305)	(2,428,441)	(3,671,934)	(8,014,717)	(6,458,960)	(4,356,252)	(3,787,895)	(3,464,519)
Net Total	\$ (541,410)	\$ (516,428)	\$ (521,071)	\$ 3,893,443	\$ 1,623,684	\$ 1,743,545	\$ (1,225)	\$ 4,648,367	\$ (7,347,403)	\$ (2,163,160)

* The Rate Stabilization Fund (RSF) contains the Retrospective Premium Adjustments (RPA's), Liability Payroll Adjustments, and closed Catastrophic Funds.

For qualifying members of the 10% Liability Program, the RSF is used to reduce current Liability Premiums. Where noted "***" a bracketed number "()" means the members owed the JPIA funds and it reduces the RSF account while a positive amount increases the account.

Each September 30th members' accounts are reconciled. Active members' with accounts over 60% of their current basic Liability Program Premium receive a refund.

** The 2005 fiscal year RSF process was recorded in the 2006 fiscal year.

ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

ECONOMIC STATISTICS

(000's Omitted)

For the Fiscal Year September 30,

Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Liability										
Total Number of Claims (Cumulative)	8,352	8,717	9,015	9,275	9,551	9,769	10,063	10,309	10,614	10,792
Closed Claims (Cumulative)	8,139	8,480	8,806	9,130	9,381	9,598	9,897	10,158	10,402	10,640
Open Claims (at year end)	213	237	209	145	170	171	166	151	212	152
Covered Payroll (Cumulative)	\$ 4,905,511	\$ 5,273,435	\$ 5,738,277	\$ 6,139,822	\$ 6,577,859	\$ 7,029,623	\$ 7,482,521	\$ 7,970,475	\$ 8,438,819	\$ 8,937,912
Property										
Total Number of Claims (Cumulative)	1,420	1,502	1,605	1,713	1,801	1,888	1,978	2,079	2,181	2,275
Closed Claims (Cumulative)	1,393	1,482	1,573	1,681	1,775	1,857	1,944	2,030	2,142	2,244
Open Claims (at year end)	27	20	32	32	26	31	34	49	39	31
Covered Payroll (Cumulative)	\$ 29,827,752	\$ 32,785,344	\$ 34,563,800	\$ 38,127,056	\$ 41,376,694	\$ 45,367,786	\$ 49,613,566	\$ 54,070,573	\$ 58,803,203	\$ 63,798,940
Workers' Compensation										
Total Number of Claims (Cumulative)	5,985	6,384	6,775	7,194	7,613	7,978	8,435	8,808	9,164	9,507
Closed Claims (Cumulative)	5,621	6,056	6,434	6,806	7,213	7,562	7,996	8,378	8,724	9,075
Open Claims (at year end)	364	328	341	388	400	416	439	430	440	432
Covered Payroll (Cumulative)	\$ 2,555,200	\$ 2,871,939	\$ 3,318,109	\$ 3,706,551	\$ 4,110,740	\$ 4,510,594	\$ 4,922,605	\$ 5,350,300	\$ 5,787,648	\$ 6,241,955
Number of Employees	34	36	37	37	38	39	39	39	43	46
Ratio of Premium to Payroll/TIV										
Liability Program	3.78%	4.12%	3.67%	3.64%	3.60%	3.56%	4.14%	4.09%	4.07%	4.02%
Property Program	0.13%	0.12%	0.13%	0.12%	0.11%	0.11%	0.12%	0.12%	11.00%	11.00%
Workers' Comp. Program	4.39%	3.73%	2.68%	2.46%	2.34%	2.40%	2.82%	2.81%	2.81%	2.79%

Association of California Water Agencies
Joint Powers Insurance Authority
Demographic Statistics by Employer

Employer	2013			2004		
	Number of Employees	Rank	Percentage of Total City Employees	Number of Employees	Rank	Percentage of Total City Employees
Kaiser Permanente	3,724	1	6.2%	3,000	2	3.8%
Hewlett-Packard	3,200	2	4.5%	3,803	1	7.0%
Sutter Roseville Medical Center	1,654	3	1.8%	1,800	3	1.6%
Roseville Joint Union High School District	1,299	4	2.3%	982	6	2.3%
City of Roseville	1,254	5	1.8%	1,046	5	1.4%
Union Pacific Railroad	1,168	6	1.6%	1,294	4	2.0%
PRIDE Industries	1,021	7	1.3%	800	7	1.0%
Roseville Elementary School District	929	8	1.1%			
Wal-Mart (2 stores)	790	9	0.9%		13	0.8%
Telefunken Semiconductors America	600	10	0.9%			
NEC Electronics				725	8	1.3%
Surewest Communications				683	9	1.1%
State Farm Insurance				560	10	1.0%
Subtotal	<u>15,639</u>		<u>22.5%</u>	<u>14,693</u>		<u>18.1%</u>
Total Employment*	<u>71,067</u>			<u>64,117</u>		

*Total Employment as used above represents the total employment of all employees located within the City of Roseville, which is the office location of the JPIA.

Note--Fiscal year 2014 data not available, therefore, the most recent data available is presented.

Association of California Water Agencies
Joint Powers Insurance Authority
Demographic Statistics by Population

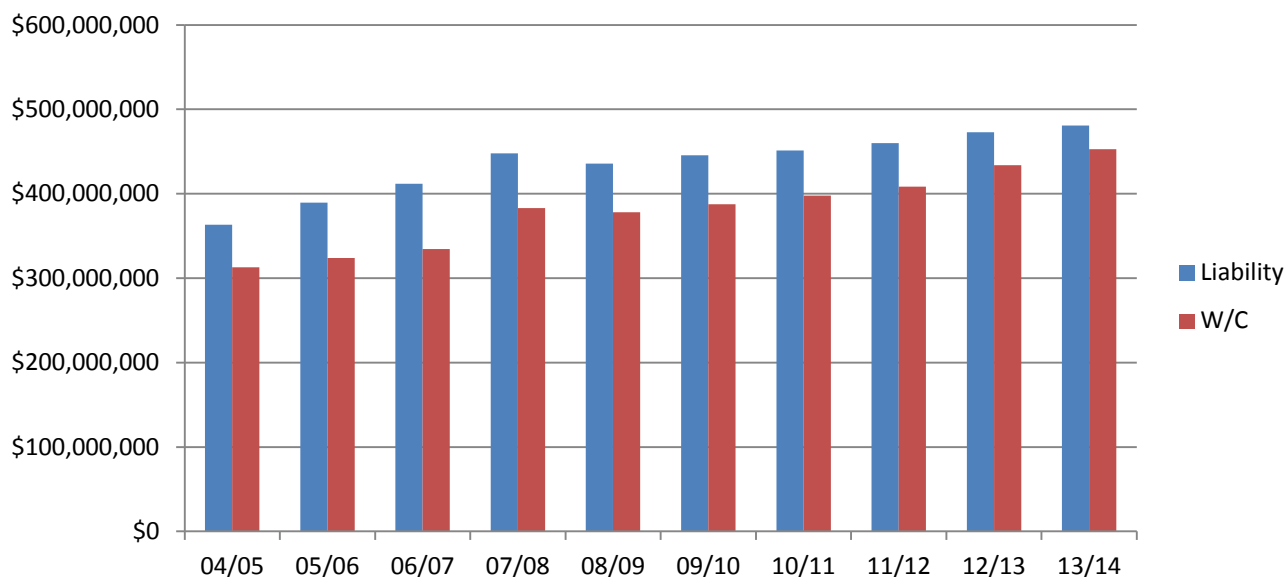
Fiscal Year	City of Roseville Population	County Total Personal Income (a)	County Per Capita Personal Income	Unemployment Rate	Placer County Population	City Population % of County
2004	96,600	11,933,069	38,958	4.5%	292,235	33.06%
2005	102,191	13,070,082	41,248	4.0%	305,675	33.43%
2006	104,655	14,247,775	43,937	4.2%	316,508	33.07%
2007	106,266	15,101,855	45,471	4.9%	324,495	32.75%
2008	109,154	16,252,937	47,657	6.6%	333,401	32.74%
2009	112,343	15,898,900	45,614	10.6%	339,577	33.08%
2010	115,781	16,464,986	47,012	11.3%	347,102	33.36%
2011	120,593	17,312,666	48,476	11.4%	357,138	34.26%
2012	122,060	(b)	(b)	10.0%	355,328	34.35%
2013	124,255	(b)	(b)	7.5%	(b)	(b)

(a) In thousands of dollars

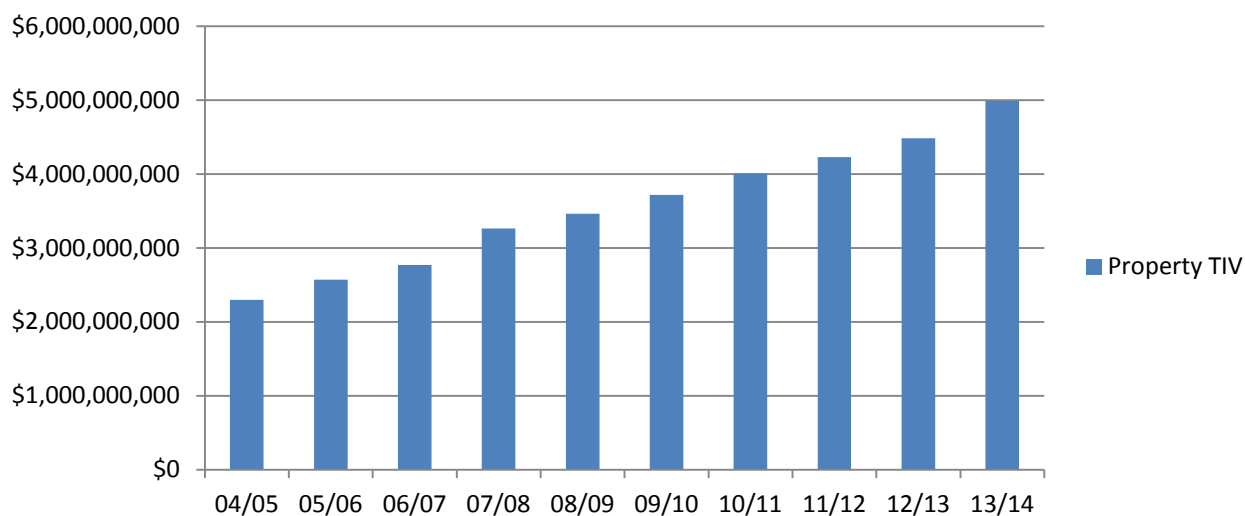
(b) Information not available

Note--The JPIA's office located in the City of Roseville. Fiscal year 2014 data not available, therefore, the most recent data available is presented.

ACWA/JPIA
LIABILITY & WORKERS' COMP COVERED PAYROLL
 September 30, 2014



ACWA/JPIA
PROPERTY TOTAL INSURED VALUES
 September 30, 2014



OTHER INDEPENDENT AUDITOR'S REPORT

**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
 Association of California Water Agencies
 Joint Powers Insurance Authority
 Roseville, 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 basic financial statements of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated DATE.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACWA/JPIA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACWA/JPIA's internal control. Accordingly, we do not express an opinion on the effectiveness of ACWA/JPIA's internal control.

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

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated DATE which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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

Pleasant Hill, California
DATE

**ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

**MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2014**

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended September 30, 2014

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MEMORANDUM ON INTERNAL CONTROL

Board of Directors
Association of California Water Agencies
Joint Powers Insurance Authority
Roseville, California

We have audited the basic financial statements of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) for the year ended September 30, 2014, and have issued our report thereon dated OPINION DATE. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the ACWA/JPIA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ACWA/JPIA's internal control. Accordingly, we do not express an opinion on the effectiveness of the ACWA/JPIA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the ACWA/JPIA'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 and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the ACWA/JPIA.

The ACWA/JPIA's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Pleasant Hill, California
OPINION DATE

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2014-01 Timely Posting of Journal Entries and Retention of Supporting Documentation for Journal Entries

Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. The ACWA/JPIA's journal entries should be prepared and reviewed in a timely manner for the period in which the entry is to be posted, in order to keep accounts up to date with current information.

We selected of forty journal entries for testing and noted the following:

- Twenty-eight were prepared and approved more than thirty days after the period they were intended to adjust.
- One journal entry was not accompanied by supporting documentation to verify the entry was accurate.

Without timely recording of journal entries, financial records do not reflect the current financial position of the ACWA/JPIA, and without the retention of supporting documentation, entries may contain errors.

We understand the ACWA/JPIA was undergoing general ledger system changes that lead to some difficulties in keeping the journal entry process up to date. We noted the ACWA/JPIA staff was not able to catch up to recording the journal entries for the month of September 2013 until March 2014, which delayed the subsequent months. As for the journal entry tested that did not have supporting documentation, we understand the support is a perpetual worksheet and the worksheet was overwritten with new data after the entry we tested was prepared and approved.

We understand that the ACWA/JPIA experienced many challenges with the implementation of the new general ledger system. However, we recommend the ACWA/JPIA continue to develop procedures to ensure journal entries are written, approved, and posted in a timely manner and all entries are accompanied by supporting documentation to reduce the chance of undetected errors.

Management's Response:

OPEN

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2014-02 Incorrect and Improper Documentation of Employee Benefits Premiums

The ACWA/JPIA should bill program premiums and fees in accordance with the applicable approved master fee schedules.

We selected forty premium payments, including nine employee benefit premium payments, for testing and noted the following:

- Two employees of a member District were being charged the Kaiser North Employee Benefits Rate of \$295.56; however, the District is located in the Los Angeles Area, which is subject to the Kaiser South Rate of \$176.35.

We understand the Kaiser North rate was charged, because the employees live in northern California. However, the Kaiser rates are supposed to be based on the *employer's* zip code, not the *employee's* zip code.

- One member District invoice included premiums for retirees' vision coverage that did not agree to the rate in the Vision Services Plan (VSP). ACWA/JPIA staff provided documentation that the rates charged had been adopted by ACWA/JPIA, but those rates had not been updated in the VSP.

The ACWA/JPIA should develop procedures to ensure that the correct premium is charged for employees that live outside of their employer's coverage area (zip code). In addition, the VSP should be updated to reflect the premiums adopted by ACWA/JPIA.

Management's Response:
OPEN

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents a new pronouncement taking affect in the next year. We cite it here to keep you abreast of developments:

EFFECTIVE FISCAL 2015:

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions* discussed in the Current Status of Prior Year Schedule of Other Matters section below. The issue relates to determining the beginning balances of deferred inflows and outflows required under the provisions of GASB Statement No. 68 and amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68 (Continued)

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

ASSOCIATION OF CALIFORNIA
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STATUS OF PRIOR YEAR
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2013-01 Compliance with the Investment Policy for Multiple Certificates of Deposit with the Same Financial Institution

The ACWA/JPIA's Investment Policy allows for the investment in FDIC insured or fully collateralized time certificates of deposit (Time CD) and no more than the FDIC-insured amount may be invested in the Time CDs of one financial institution. In addition, California Government Code Section 53652 requires that if invested balances exceed the FDIC insurance limits, the excess balance must be fully collateralized by government securities pledged by the financial institution. The ACWA/JPIA has a consultant that assists with finding financial institutions that offer applicable time certificates of deposit for investment, and recommendations are made to ACWA/JPIA staff for approval prior to any investment.

During fiscal year 2013, the ACWA/JPIA invested in two time certificates of deposit with the same bank in the amounts of \$249,000 and \$250,000. Although the first time certificate of deposit and a portion of the second are FDIC insured up to \$250,000, the remaining balance of the second time certificate of deposit is not FDIC insured or collateralized. When approving the second investment, ACWA/JPIA staff did not review other balances with the financial institution and as a result, did not enter into an agreement to provide the required collateralization of the balance. The second investment is not in compliance with the limitations of the Investment Policy requiring collateralization and limiting Time CD investments to the FDIC insurance limit per bank.

Although ACWA/JPIA staff noted the issue prior to the start of the audit and we understand they are working to determine how best to remedy the situation, investment approval procedures must be revised. Prior to making future investments, the individual investment purchases should be reviewed for compliance with the Investment Policy's permitted investments and for the investment's impact on the investment portfolio to ensure compliance with all limitations of the Investment Policy and the California Government Code.

Current Status:

As directed by the Finance Committee, the JPIA sold one of the CDs in February 2014 to be in compliance.

2013-02 Internal Controls Over the Journal Entry Process

The ACWA/JPIA's journal entries should be prepared and reviewed in a timely manner for the period in which the entry is to be posted, in order to keep accounts up to date with current information.

We tested a sample of forty journal entries and noted the following:

- Thirty-five were prepared more than a month after the periods the entries were intended to adjust.
- Fifteen entries were reviewed more than a month after the original journal entry was prepared.

Without timely recording of the journal entries, financial records do not reflect the current financial position of the ACWA/JPIA, and without the timely review of journal entries there is an increased risk of an error going undetected.

ASSOCIATION OF CALIFORNIA
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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
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2013-02 Internal Controls Over the Journal Entry Process (Continued)

We understand the ACWA/JPIA staff has experienced workloads due to the absorption of the Employee's Benefit program. However, we recommend the ACWA/JPIA develop procedures to ensure journal entries are prepared, reviewed, and posted in a timely manner to ensure that the financial records are current and reduce the chance of undetected errors.

Current Status:

The finance department implemented new internally programmed software (SIP) for fiscal year 2014. This accounting software requires approval of journal entries by a different individual and requires approval immediately in order for them to post thus eliminating any such delays noted by the auditors.

See also current year comment 2014-01.

2013-03 Controls over Calculations of Premiums and Fees

The ACWA/JPIA should bill program premiums and fees in accordance with the applicable approved master fee schedules, including any applicable administrative fees.

We selected forty premium payments, including thirteen employee benefit premium payments, for testing and noted one exception in the employee benefits premium calculations in which one employee was not charged the administrative fee for dental and vision benefits.

Although we understand the ACWA/JPIA will apply a retroactive adjustment to the account, the ACWA/JPIA should develop procedures to ensure that there is a review and approval of the premium charges when rates are being added to the system and check invoices for potential errors. At a minimum, premium billings should be periodically sampled and recalculated to ensure they are being calculated correctly using the current rates and administrative fees.

Current Status:

Implemented. The JPIA Employee Benefits department converted to new software during fiscal year 2014 called B-Swift. Unlike the previous software used, this new software does not separately charge administrative fees but has it built into one rate charged the members. We are not aware of any issues related to administrative fees billed.

2013-04 Supporting Documentation for Member Premium Calculations

The figures used in the ACWA/JPIA's calculation of member premiums should be traceable to supporting documentation to recalculate the amounts and verify their accuracy. And, the ACWA/JPIA has a "Deposit Premium Calculation" document available on the website and it should include information regarding all components of the calculations.

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STATUS OF PRIOR YEAR
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2013-04 Supporting Documentation for Member Premium Calculations (Continued)

During our testing of a sample of 40 member premiums, we noted rates from the NAVRISK system which we were not able to trace to supporting documentation. These rates include: payroll modifier, log of payroll and average rate. In addition, the \$15,000 (claims over RAP) and \$75,000 (Amount used in E-MOD calculation) are not clearly defined and could not be traced to supporting documentation.

We understand that these rates have been consistently used by the ACWA/JPIA and have not been updated for many years. However, we recommend the ACWA/JPIA establish documentation for all rates and factors used for the calculations of member premiums. In addition, the Deposit Premium Calculation document available on the ACWA/JPIA's website should be updated to include all definitions and variables used in the calculations of premiums.

Current Status:

To eliminate confusion, the JPIA removed this documentation from the website since it is no longer deemed necessary for the benefit of its members.

2013-05 Electronic Vendor Payments

The ACWA/JPIA has developed procedures to make payments to certain vendors electronically. Although these payments are subject to the same level of review and approval as "regular" disbursements, they pose a greater risk as ACWA/JPIA staff are responsible for making individual transfers to the applicable vendor bank accounts, rather than producing a tangible vendor check. The vendor bank accounts are identified by a routing number and bank account number, rather than a physical address. This also means the electronic payments are not subject to the positive pay process in which the ACWA/JPIA staff informs the bank of approved checks and amounts, and the bank pays only checks in which the amount agrees.

As the ACWA/JPIA staff fine-tunes the controls over this new process, ACWA/JPIA staff should ensure that the review and approval procedures continue to include a review of the vendor's routing number and bank account number, and that there is a spot check of a number of transfers each disbursement period to ensure the correct routing and account numbers were actually used. In addition, the employee responsible for making the electronic transfers to the vendors should not be involved with obtaining the routing number and account number information from the vendor.

Finally, to further control the process, the ACWA/JPIA should consider establishing a separate bank account in which the total dollar amount of electronic payments is deposited for later transfer to the vendors. This would isolate the amount of approved each transfers each month and not expose the ACWA/JPIA's main checking account to the vendor accounts.

Current Status:

The JPIA has set up security controls with its bank where the employees that enter electronic bank transactions are not able to add any new vendors. The JPIA believes this security measure mitigates its exposure to unauthorized disbursements.

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STATUS OF PRIOR YEAR
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NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you abreast of developments:

EFFECTIVE FISCAL 2014:

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods **beginning after June 15, 2013**. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
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GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees (Continued)

How the Changes in this Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

EFFECTIVE FISCAL 2015:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement could have material impact on the ACWA/JPIA's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

**ASSOCIATION OF CALIFORNIA
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MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)**

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Single and Agent Employers

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.
- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.
- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.
- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

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GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.
- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:
 - For the current year, sources of changes in the net pension liability
 - Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.
 - The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.
 - Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:
 - Sources of changes in the net pension liability
 - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
 - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

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STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

- Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

- Government-wide and accrual basis of accounting financial statements: A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its **proportionate** share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.
- A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.
- In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

ASSOCIATION OF CALIFORNIA
WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

- In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.
- Notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.
- This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

REQUIRED COMMUNICATIONS

Board of Directors
 Association of California Water Agencies
 Joint Powers Insurance Authority
 Roseville, California

We have audited the basic financial statements of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) as of and for the year ended September 30, 2014 and have issued our report thereon dated OPINION DATE. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ACWA/JPIA are described in Note 2 to the financial statements.

The following pronouncement became effective, but did not have a material effect on the financial statements:

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the ACWA/JPIA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the ACWA/JPIA's financial statements were:

Estimated Fair Value of Investments: As of September 30, 2014, the ACWA/JPIA held approximately \$174.5 million of cash and investments as measured by fair value as disclosed in Note 3 to the Financial Statements. Fair value is essentially market pricing in effect as of September 30, 2014. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to September 30, 2014.

Estimated Provision for Claims, Claims Reserves and Claims Incurred but Not Reported: Management's estimate of the claims liabilities, including claims incurred but not reported, are disclosed in Note 7 to the financial statements and is based on actuarial studies determined by consultants, which are based on the claims experience of the ACWA/JPIA. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated OPINION DATE.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor 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.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

This report is intended solely for the information and use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Pleasant Hill, California
OPINION DATE

ACWA/JPIA
Catastrophic Funds
January 19, 2015

BACKGROUND

In the fall of 2012, the Executive Committee approved converting Catastrophic Funds into separate individual member accounts for both Liability and Workers' Compensation Programs. A threshold was set for these individually tracked district funds to each districts' proportionate share of estimated losses at 99% confidence level using gross figures from the JPIA's independent actuary. This actuarial estimate is updated each year. Funds from individual members' rate stabilization funds are used to build the individual member catastrophic funds up to the 99% goal as needed. Any excess monies in the individual catastrophic funds are transferred to members' rate stabilization fund.

Nearly 200 JPIA members received refunds in early 2014 as a result of their individual rate stabilization fund being overfunded.

CURRENT SITUATION

Over the last three years the 99% confidence level goal for both programs combined provided by the actuary changed as follows:

	<u>Gross 99% Confidence Level</u>	<u>Central Estimate</u>	<u>Cat Fund Goal</u>
2014 Report	\$77,300	\$44,432	\$32,868
2013 Report	83,098	43,968	39,130
2012 Report	89,540	48,885	40,655

Over the last three years the goal has decreased by nearly \$8 million. The volatility of this goal provides some unanticipated challenges.

RECOMMENDATION

That the Finance & Audit Committee recommend for approval by the Executive Committee using a three year average of the 99% confidence level figures from the actuary to determine the goal going forward. The three year average numbers are as follows:

<u>3 YEAR AVERAGE</u>	
Gross 99% Confidence Level	\$83,313
Central Estimate	<u>45,762</u>
Cat Fund Goal	<u>\$37,551</u>

This equates to \$4.68 million difference and more importantly lessons the volatility of the goal from year to year.



ACWA/JPIA COMMITTEE MEETING SCHEDULE 2015

MEETING DATES	BOARD OF DIRECTORS	EXECUTIVE	PERSONNEL ADVISORY	FINANCE & AUDIT	PROGRAMS				RISK MGMT
					Employee Benefits	Liability	Property	Work Comp	
JAN 19				1:00 PM	9:00 AM		3:00 PM		
JAN 20		8:30 AM							
FEB 5			ONTARIO 10:30 AM						
MAR 30				1:00 PM				3:00 PM	10:00 AM
MAR 31		8:30 AM							
**APR 16			ONTARIO 10:30 AM						
MAY 4 SACRAMENTO	1:30 PM	10:15 AM							
JUN 29					1:00 PM				
JUN 30		8:30 AM							
JUL 16			ONTARIO 10:30 AM						
AUG 17				1:00 PM		3:00 PM			
AUG 18		8:30 AM							
SEP 10			ONTARIO 10:30 AM						
**SEP 24		11:00 AM							
NOV 30 INDIAN WELLS	1:30 PM	10:15 AM							

***Potential meeting conflict – to be rescheduled at a later date*

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
JPIA CLOSED	1	16			25		3		7	12	11/26/27	24/25
MGR MEETINGS	16	20	20	17	15	19	17	21	18	16	20	18
STAFF Q&A	14	11	11	8	13	10	8	12	9	14	4	10
RM @ JPIA		10/11		8/9		10/11		12/13		14/15		10/11