

**STATEWIDE ASSOCIATION OF
COMMUNITY COLLEGES**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

TORRANCE, CALIFORNIA

JUNE 30, 2013

MEMBERS

MEMBER

Bay Area Community College Districts JPA
Cabrillo Community College District
Cerritos Community College District
Chabot-Los Positas Community College District
Citrus Community College District
Coast Community College District
Compton Community College District
Desert Community College District
El Camino Community College District
Lake Tahoe Community College District
Long Beach Community College District
Mt. San Jacinto Community College District
Northern California Community Colleges
Palomar Community College District
Pasadena Area Community College District
San Bernardino Community College District
San Joaquin Delta Community College District
San Diego Community College District
Santa Clarita Community College District
Santa Monica Community College District
Shasta-Tehama-Trinity Joint Community College District
Sonoma County Junior College District
South Orange County Community College District
Southwestern Community College District
Ventura County Community College District
Victor Valley Community College District
West Hills Community College District
West Kern Community College District

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Mr. Edralin Maduli
Ms. Victoria Lewis
Mr. David El Fattal
Mr. Lorenzo Legaspi
Ms. Carol Horton
Ms. Colleen Rymas
Dr. Keith Curry
Mr. Wade Ellis
Mr. Thomas Fallo
Ms. Kindred Murillo
Ms. Ann-Marie Gabel
Ms. Becky Elam
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Ms. Dianne Gonzales
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Mr. Robert Isomoto
Mr. Morris Rodrigue
Mr. Doug Roberts
Ms. Debra Fitzsimons
Mr. Steven Crow
Vacant
Ms. Deedee Orta
Mr. Ken Stoppenbrink
Mr. Jim Nicholas

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors
Statewide Association of Community Colleges
Torrance, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Statewide Association of Community Colleges (SWACC) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SWACC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SWACC'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 SWACC'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Statewide Association of Community Colleges as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and claims development information on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of the Statewide Association of Community Colleges 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 Statewide Association of Community Colleges internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 24, 2013

PRESIDENT

Dr. Thomas Fallo
*El Camino
Community College District*

VICE PRESIDENT

Mr. Peter Goldstein
*San Francisco
Community College District*

SECRETARY

Ms. Sherry Hassan
*Pasadena
Community College District*

TREASURER

Ms. Carol Horton
*Citrus
Community College District*

This discussion and analysis provides an overview of the financial condition of Statewide Association of Community Colleges (SWACC) for the fiscal years ended June 30, 2012 and 2013. It examines and reviews SWACC's financial operations and analyzes the significant financial changes from the prior year. Readers should review the financial management information report and the independent financial audit in conjunction with this report to enhance their understanding of SWACC's financial performance.

Mission Statement

The Statewide Association of Community Colleges mission is to be the premier of property and liability programs for California Community College Districts.

Introduction and Background

SWACC's property and liability program is a public risk sharing pool established pursuant to a Joint Power Agreement in 1986 to meet the needs of California Community College Districts. At that time, schools were faced with skyrocketing insurance premiums and an inability to obtain adequate coverage. SWACC has provided its members:

- Comprehensive coverage
- Competitive rates
- Financial security through prudent rate structures
- Risk sharing/risk management programs
- Flexibility to pursue the most expeditious funding alternatives on behalf of its members in light of changing market conditions

SWACC continually reviews the coverage provided to the members and provides the broadest possible property and liability protection available to California's Community College Districts. By efficiently transferring through reinsurance, SWACC incorporates all of the following coverage into a single document:

- Property – General Liability
- Automobile Liability
- Errors and Omissions/EPLI
- Trustee Legal Liability
- Crime
- Equipment Breakdown
- Electronic Data Processing
- Builder's Risk
- Employment Practice Liability



STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

In addition, SWACC also provides coverage for the following unique exposures:

- Asbestos defense and indemnity
- Injunctive Relief defense
- Breach of Contract defense
- Employee Benefits Error and Omissions defense

For its excess property and liability needs SWACC, in conjunction with So Cal ReLiEF (SCR) and No Cal ReLiEF (NCR), formed the Schools Association for Excess Risk (SAFER) which provides reinsurance for these exposures.

Continually accredited with Excellence by the California Association of Joint Powers Authorities (CAJPA), SWACC has maintained the highest level of performance, member satisfaction, and fiscal stewardship among organizations of its kind.

Membership

SWACC's membership consists of two Joint Power Authority (JPA) members (which represent 19 districts) and 26 individual member districts for a total of 45 Community College Districts. A Full Board of Directors comprised of one representative from each member governs SWACC. Each Board Member is allocated a number of votes determined by a weighted system that is based on the Full-Time Equivalent Students (FTES) of each member. The Board elects from its members a President, Vice President, Secretary, and Treasurer.

SWACC continues to attract new members through a breadth and diversity of risk management services, constant innovation with respect to school coverage needs, and the enthusiastic participation of dedicated members. Membership comes from virtually every county in California. Members of this pool have proven that their continued commitment to this successful program has enabled them to enjoy affordable property and liability solutions to traditional insurance products.

Financial Management and Control

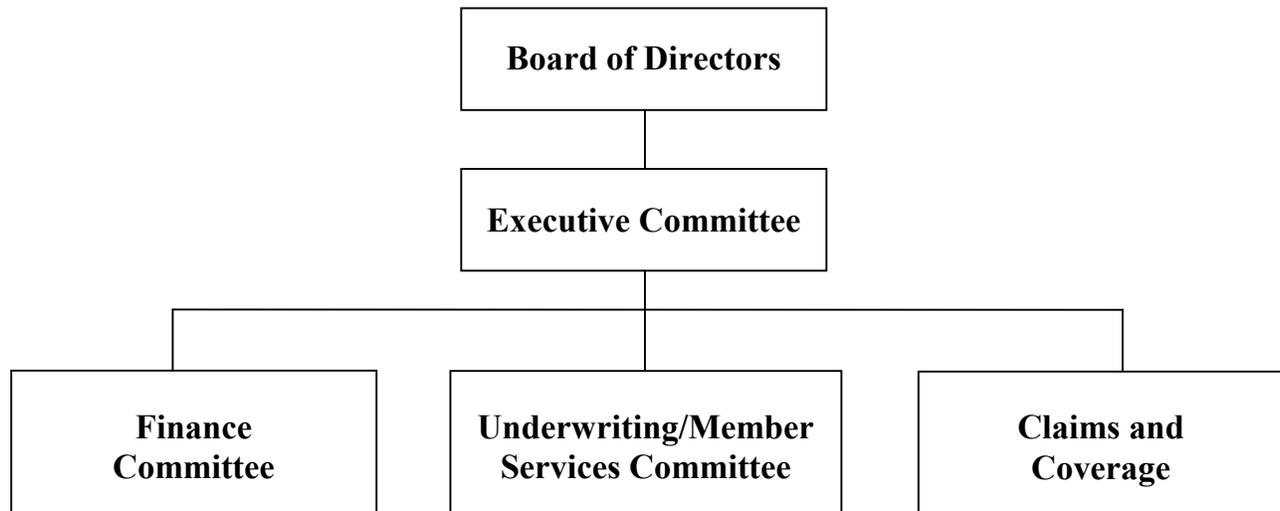
SWACC is responsible for establishing and maintaining an internal control structure designed to ensure that net position is protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

SWACC has established committees to meet on a regular basis to review the various aspects of the operation.



- **THE EXECUTIVE COMMITTEE** was established to meet intermittently and as needed between Board of Directors meetings. It exercises all of the powers of the Board except those powers that are specifically reserved for the Board of Directors. The Executive Committee provides a forum for discussion of governance issues and acts in an advisory capacity to the Committee Chairs and SWACC's Administrator in all matters.
- **THE FINANCE COMMITTEE** assists the Board in providing financial management and accountability, closely monitors SWACC's investment portfolio, and ensures the fiscal affairs are in order. The Committee concerns itself with the budgeting, accounting, banking and investment policies, and practices of SWACC.
- **THE UNDERWRITING/MEMBER SERVICES COMMITTEE** reviews and advises on all issues that directly or indirectly impact SWACC's solvency. Recommends risk transfer/risk retention levels, reinsurance, and analyzes losses and exposures to identify appropriate risk management solutions. Works closely with SWACC's independent actuary for annual funding and reserving studies. In addition, the Committee is responsible for member services which ensure the needs of the members are met and facilitates the creation of any new products or services for the benefit of the members.
- **THE CLAIMS AND COVERAGE COMMITTEE** advises and makes recommendations on all claims handling policies and procedures, litigation management, and monitors the status of claims. The Committee reviews all large claims, provides settlement authority to SWACC's claims administrator, and acts as a court of appeal for any member concerns. The Committee also oversees independent claims audit.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SWACC has contracted with Keenan & Associates for administrative responsibilities, which includes ensuring that SWACC meets its goals of operational efficiency and organizational integrity. Keenan & Associates is also responsible for implementing policies established by the Board of Directors, as set forth in organizational documents and bylaws. Service Enhancement Technologies (SETECH), a Division of Keenan & Associates, provides financial management, budget planning, and financial reporting for the Board. Budgetary control is provided by verification of budgeted amounts prior to expenditures and includes a year-end analysis of all account totals compared to budgeted amounts. Detailed financial statements and Treasurer's Reports include budget-to-actual comparisons and are provided to the SWACC Board. A comprehensive Financial Management Information report is provided annually and is the basis for the independent financial audit.

Wells Fargo Advisors provides investment oversight of the independent Money Managers engaged on behalf of SWACC and is required to provide quarterly statements for review by the Finance Committee and Board of Directors. These statements ensure compliance with *California Government Codes* and SWACC's current Investment Policy. SWACC has also contracted with Bay Actuarial Consultants to provide an independent actuarial review of the overall program. This study confirms the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for all program years. And finally, Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, have performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

Basic Financial Statements

SWACC's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position provides information on SWACC's program position and liabilities, with the difference reported as Designated/Undesignated Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents information showing total revenues versus total expenses for fiscal years 2011-2012 and 2012-2013 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal years 2011-2012 and 2012-2013 in cash and cash equivalents.

SWACC calculates the financial position of each program year on the basis that each year stands on its own. Specifically, that means that the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenditures of each claim year are accounted for in the year they are incurred. At the close of each year, an evaluation of the fund balance position of individual program years is conducted, and any funds remaining after taking into account outstanding liabilities and other obligations are considered eligible for return to members. The future capital funding/contingency margin fund is set at above a 90 percent confidence level to be attained over a six-year period. Once the net position is calculated, the sum of those funds is reduced by the capital funding/contingency margin and the balance is identified for return to members upon approval by the Board of Directors.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

FINANCIAL ANALYSIS

Statement of Net Position

Below is a summary of the Statement of Net Position showing total assets versus total liabilities along with the percentage change between program years 2013 and 2012.

	Fiscal Year Ended June 30,		Difference	Percentage
	2013	2012		
Current Assets				
Deposits and Investments	\$ 28,149,871	\$ 19,247,869	\$ 8,902,002	46.25 %
Prepaid Expense	-	23,000	(23,000)	(100.00)
Accounts/Interest Receivable	69,725	158,780	(89,055)	(56.09)
Total Current Assets	28,219,596	19,429,649	8,789,947	45.24
Non-Current Assets				
Investments	24,118,274	29,444,962	(5,326,688)	(18.09)
Total Non-Current Assets	24,118,274	29,444,962	(5,326,688)	(18.09)
Total Assets	52,337,870	48,874,611	3,463,259	7.09
Current Liabilities				
Accounts Payable	1,702,989	1,680,390	22,599	1.34
Claims Liabilities and ULAE	5,500,000	7,250,000	(1,750,000)	(24.14)
Total Current Liabilities	7,202,989	8,930,390	(1,727,401)	(19.34)
Non-Current Liabilities				
Claims Liabilities and ULAE	13,891,916	12,335,631	1,556,285	12.62
Total Non-Current Liabilities	13,891,916	12,335,631	1,556,285	12.62
Total Liabilities	21,094,905	21,266,021	(171,116)	(0.80)
Undesignated	19,464,557	15,576,354	3,888,203	24.96
Designated - Capital Fund	10,000,000	10,000,000	-	-
Designated - Rate Stabilization Fund	1,737,999	2,025,750	(287,751)	(14.20)
Designated - Risk Management Reserve	40,409	6,486	33,923	523.02
Total Net Position	\$ 31,242,965	\$ 27,608,590	\$ 3,634,375	13.16 %

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Assets

The overall Assets of SWACC increased in 2012-2013 by \$3,463,259 or 7.09 percent, which is mainly attributed to:

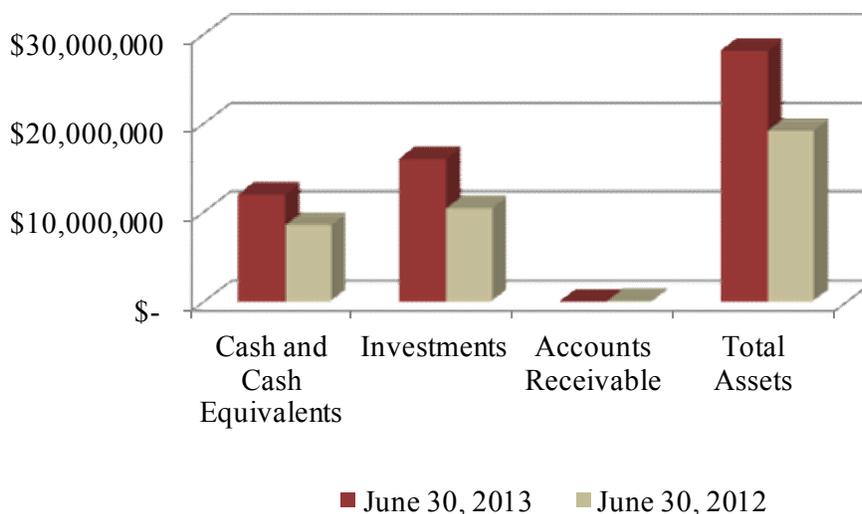
- The deposits of 2012-2013 member contributions for future claims of \$8,810,098,

Offset by:

- Claims paid in 2012-2013 of \$5,201,564.

The Investment Portfolio (including money market accounts and prepaid interest) increased by \$174,684 to \$40,234,297. SWACC invests those funds not immediately necessary for the payment of claims in order to optimize the investment return. Funds are invested in a manner that will protect principal, allow for cash flow needs and optimize returns, and are in conformity with all Federal, State, and local statutes governing such investment of public funds. Those Assets needed for current operations are maintained in the Local Agency Investment Fund (LAIF) in Sacramento, California, which is administered by the State Treasurer's Office.

This increase in assets can be seen below for June 30, 2012 and 2013.

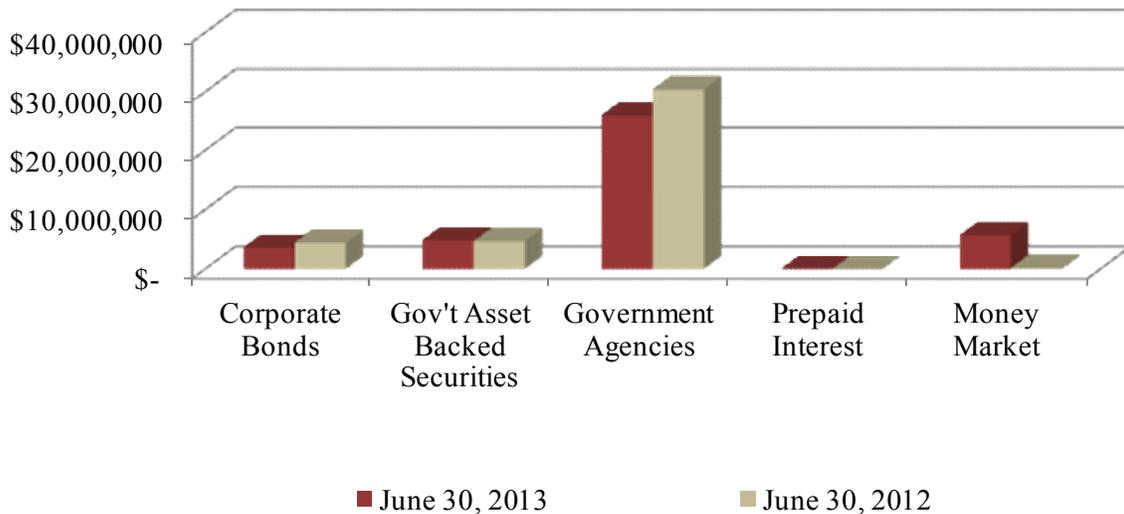


SWACC annually reviews their official Investment Policy, which allows for up to 15 percent of the total funds may be invested at any one time in corporate securities (bonds, notes, debentures, preferred stock, etc.) having a minimum equivalent rating of AA or better by both S&P and Moody's. Total funds in corporate securities exposure can be increased to 30 percent of portfolio provided no less than 50 percent of the corporate exposure is made in FDIC Insured Corporate Debt qualifying under the FDIC Temporary Liquidity Guarantee Program.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

The Investment Portfolio, including Money Market Funds and Prepaid Interest as of June 30, 2013, is \$40,234,297 and is compared below to the June 30, 2012 balance of \$40,059,613.



SWACC purchases reinsurance for property claims up to \$249,750,000, in excess of \$250,000, including the Member Retained Limit (MRL) and liability reinsurance of \$4 million excess of \$1 million including member's MRL. Over 90 percent of the membership purchases liability reinsurance of \$20 million excess of \$5 million including member's MRL. Initially all claim payments, including any amounts for reinsurance, are paid by SWACC; subsequent to these payments, SWACC's claims administrator submits a reinsurance recovery request to the reinsurer. Reinsurance Recoverable decreased in 2012-2013 by \$23,493. Industry standards are generally 90 days for recovery of the claims amounts from date of submission of proof of loss to the reinsurer.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Liabilities

The liabilities of SWACC decreased in 2012-2013 by \$171,116 or 0.80 percent is due to:

- A net decrease in the actuarially-determined estimated ultimate incurred of \$1,144,194, particularly for program years 2008-2009 and 2010-2011 due to better than expected loss experience,
- Claim expenditures of \$5,201,564,

Offset by:

- Recognition of the actuarially determined estimated ultimate incurred of \$7,111,616 for claims incurred in the 2012-2013 program year.

Net Position

In order to prevent premature release of the Net Position, SWACC has established a capital fund for equity that functions well within the changing levels of reinsurance. Net Position will be adjusted only for those years that are mature after six years from the inception of the program. The capital funding/contingency margin is set at no less than an actuarially determined 90 percent confidence level to be attained over a continuous six-year period utilizing the most recent program years. The aforementioned process is subject to an annual review and approval of the Finance Committee and subsequent approval/ratification by the Board of Directors.

SWACC established a Risk Management Fund during the 2000-2001 program year by allocating \$1,000,000 into the fund from prior years' undesignated fund net position. The purpose of the fund is to cover expenditures associated with mandated risk management programs such as building appraisals, site inspections and playground inspections, as well as other approved risk management programs. An additional \$1,000,000 was funded in the 2001-2002 program year from prior year's undesignated fund net Position. In subsequent program years, the members have funded the program based on a set rate and their FTES.

SWACC established a Rate Stabilization Fund during the 2012-2013 program year by allocating \$1,737,999 into the fund from prior years' undesignated net position. This fund was utilized for the 2012-2013 property and liability retained rates, future funding and utilization will be reviewed by the Board each program year.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Statement of Revenues, Expenses, and Changes in Net Position

Revenues exceeded expenses by \$3,634,372 in 2012-2013, resulting in an increase to the Net Position of 13.16 percent as shown in the Condensed Statement of Revenues, Expenses and Changes in Net Position shown below.

	Fiscal Year Ended June 30,		Difference	Percentage
	2013	2012		
Operating Revenue				
Member Contributions	\$ 19,142,335	\$ 19,908,505	\$ (766,170)	(3.85) %
Excess Insurance	(8,960,665)	(9,472,338)	511,673	(5.40)
Total Operating Revenues	<u>10,181,670</u>	<u>10,436,167</u>	<u>(254,497)</u>	<u>(2.44)</u>
Operating Expenses				
Claims Activity	5,007,849	5,313,065	(305,216)	(5.74)
Administration/Management Fee	1,020,900	1,042,451	(21,551)	(2.07)
Administration Expense	114,154	81,491	32,663	40.08
Legal Costs	720	1,174	(454)	(38.67)
Risk Management Reserve Expense	273,713	272,400	1,313	0.48
Total Operating Expenses	<u>6,417,336</u>	<u>6,710,581</u>	<u>(293,245)</u>	<u>(4.37)</u>
Non-Operating Income and Expenses				
Interest Income	444,996	620,380	(175,384)	(28.27)
Net Adjustment for Fair Value	(542,058)	(283,965)	(258,093)	90.89
Realized Losses on Investment	(32,900)	143,729	(176,629)	(122.89)
Net Non-Operating Income and Expenses	<u>(129,962)</u>	<u>480,144</u>	<u>(610,106)</u>	<u>(127.07)</u>
Changes in Net Position	3,634,372	4,205,730	(571,358)	(13.59)
Beginning Net Position	<u>27,608,593</u>	<u>23,402,863</u>	<u>4,205,730</u>	<u>17.97</u>
Ending Net Position	<u>\$ 31,242,965</u>	<u>\$ 27,608,593</u>	<u>\$ 3,634,372</u>	<u>13.16 %</u>

Operating revenues consist of contributions received from the members offset by payments for excess insurance. Total operating revenues decreased from \$10,436,167 to \$10,181,670 in 2012-2013, a decrease of 2.44 percent due to:

- The withdrawal of a member that represented 5.02 percent of the program,
- A decrease in FTES of 2.07 percent for existing membership.

Offset by:

- An increase in TIV of 6.01 percent for existing membership,
- An overall increase to the unmodified self-funded liability and property rates of 2.02 percent and 4.68 percent respectively.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

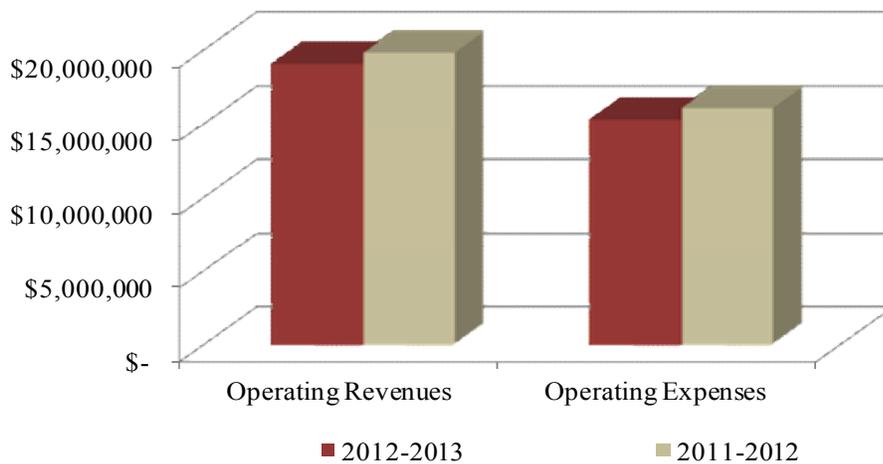
Total operating expenditures, including the provision for covered events, decreased 4.37 percent in 2012-2013 to \$6,417,336 mainly due to:

- A net decrease in the actuarially-determined estimated ultimate incurred of \$1,144,194, particularly for program years 2008-2009 and 2010-2011 due to better than expected loss experience,
- Claim expenditures of \$5,201,564,

Offset by:

- The increase in discounted claim liabilities due to the addition of \$7,111,616 for claims incurred in the 2012-2013 program year.

Below is a graph reflecting operating income and expense in 2012-2013 and 2011-2012.



Non-Operating revenues/expenses decreased in 2012-2013 by \$529,458, which is due to a decrease in the investment income of \$175,384 and a decrease of \$354,074 in the Fair Value (FV) on Investments/Realized Losses on Investments. "Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale."

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Budgetary Highlights

Each year the SWACC Board of Directors approves a budget and establishes rates and funding levels for the program year. The preliminary budget is brought to the Board of Directors in April, with a final budget to be approved by the Full Board no later than October 31st. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. SWACC is not required to make mid-year budget adjustments.

Below is a summary of the budget information with a comparison to actual expenditures. Variances in total revenue are due to additional endorsements to the Memorandum of Coverage, including rental value coverage added during the program year. Variances in other insurance are also due to additional coverage and include the increase in the claim liabilities as previously discussed.

	<u>Final Budget</u>	<u>Actual</u>	<u>Budget/ Actual Variance</u>	<u>Percentage</u>
Operating Revenues				
Member Contributions	\$ 19,001,931	\$ 19,142,335	\$ 140,404	0.74 %
Excess Insurance	(8,857,801)	(8,960,665)	(102,864)	1.16
Total Operating Revenues	<u>10,144,130</u>	<u>10,181,670</u>	<u>37,540</u>	<u>0.37</u>
Operating Expenses				
Claims Activity	7,565,369	5,007,849	(2,557,520)	(33.81)
Administration/Management Fee	1,018,190	1,020,900	2,710	0.27
Administrative Expenses	176,353	114,154	(62,199)	(35.27)
Legal Costs	45,000	720	(44,280)	(98.40)
Risk Management Reserve Expense	307,636	273,713	(33,923)	(11.03)
Total Operating Expenditures	<u>9,112,548</u>	<u>6,417,336</u>	<u>(2,695,212)</u>	<u>(29.58)</u>
Non-Operating Income and Expenditures				
Interest Income	534,936	444,996	(89,940)	(16.81)
Net Adjustment for Fair Value	(275,384)	(542,058)	(266,674)	96.84
Realized Losses on Investments	-	(32,900)	(32,900)	-
Net Non-Operating Income and Expenditures	<u>259,552</u>	<u>(129,962)</u>	<u>(389,514)</u>	<u>(150.07)</u>
Change in Net Position	1,291,134	3,634,372	2,343,238	181.49
Beginning Net Position	27,608,593	27,608,593	-	-
Ending Net Position	<u>\$ 28,899,727</u>	<u>\$ 31,242,965</u>	<u>\$ 2,343,238</u>	<u>8.11 %</u>

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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

As predicted previously, the soft markets of the past few years have now become harder, due to increased loss costs as a result of both catastrophic losses and higher awards on non-catastrophic losses. For the first half of 2013, the industry has seen average monthly increases of five percent to 10 percent for property and casualty accounts.

Public entity business is also experiencing more underwriting scrutiny than usual due especially to the continuing increase in frequency and severity of sexual abuse, molestation, employment practice and crisis losses such as shootings.

For the near future we expect to see rates rising in all sectors, as the industry has reverted to a more disciplined approach to maintain reasonable loss ratios; their investment portfolios returns have seriously diminished and there are little or no excess reserves available for release to bolster results. Even with this overall outlook those risks which are big enough and can demonstrate commitment to prudent risk management will continue to be viewed by underwriters on their own merits and good experience will be rewarded.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

STATEMENT OF NET POSITION JUNE 30, 2013

ASSETS

Current Assets

Deposits and cash equivalents	\$ 17,745,410
Prepaid expense	120
Receivables	69,725
Short-term investments	<u>10,404,341</u>
Total Current Assets	<u>28,219,596</u>

Non-Current Assets

Investments	<u>24,118,274</u>
Total Non-Current Assets	<u>24,118,274</u>
Total Assets	<u>52,337,870</u>

LIABILITIES

Current Liabilities

Accounts payable	1,702,989
Current portion of unpaid claims and claim adjustment expenses	<u>5,500,000</u>
Total Current Liabilities	7,202,989

Unpaid claims and claim adjustment expenses, non-current portion

Total Liabilities	<u>13,891,916</u> <u>21,094,905</u>
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NET POSITION

\$ 31,242,965

The accompanying notes are an integral part of these financial statements.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES

Contributions	\$ 18,854,584
Excess insurance	<u>(8,960,665)</u>
Total Operating Revenues	<u>9,893,919</u>

OPERATING EXPENSES

Claims paid	5,201,564
Credit for loss reserves	(297,102)
Provision for claims adjustment expenses	103,387
Claims administration - property program	119,456
Claims administration - liability program	901,444
Administration expenses	113,944
Legal costs	930
Risk management reserve expenditures	<u>273,713</u>
Total Operating Expenses	<u>6,417,336</u>

Operating Income 3,476,583

NON-OPERATING REVENUES

Investment income, net of investment fees of \$100,805	444,996
Realized gains on sale of investments	32,900
Net adjustment to fair value of investments	<u>(320,107)</u>
Total Non-Operating Revenues	<u>157,789</u>

INCREASE IN NET POSITION 3,634,372

NET POSITION, BEGINNING OF YEAR 27,608,593

NET POSITION, END OF YEAR \$ 31,242,965

The accompanying notes are an integral part of these financial statements.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from members and others	\$ 18,861,774
Cash paid for claims and settlements	(5,074,996)
Cash paid for excess insurance	(8,960,665)
Cash paid to suppliers for goods and services	(1,392,735)
Cash paid to members	(74,348)
Net Cash Provided by Operating Activities	<u>3,359,030</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	503,368
Purchase of investments	(9,886,944)
Proceeds from maturities/sales of investments	<u>4,522,087</u>
Net Cash Used in Investing Activities	<u>(4,861,489)</u>

NET DECREASE IN CASH (1,502,459)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 19,247,869

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 17,745,410

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	<u>\$ 3,476,583</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in receivables	30,683
Decrease in prepaids	22,880
Increase in accounts payable	22,599
Decrease in claims and ULAE liabilities	<u>(193,715)</u>
Total Adjustments	<u>(117,553)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 3,359,030</u></u>

SUPPLEMENTAL DISCLOSURE

Noncash Investing and Financing Activities Decrease in Fair Market Value of Investments	<u><u>\$ (320,107)</u></u>
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The accompanying notes are an integral part of these financial statements.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description

Statewide Association of Community Colleges (SWACC) was formed June 30, 1986, under the provisions of Title 1, Division 7, Chapter 5, Article 1, (Sections 6500 et seq.) of the *California Government Code*. SWACC was established to provide the services necessary for the establishment, operation, and maintenance of a self-insurance program for claims against the member public educational agencies.

SWACC was established to provide a program of property and liability coverage for its member organizations. The program's general objectives are to formulate, develop and administer, on behalf of the member public agencies, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Public agencies joining SWACC must remain members a minimum of three years; after that initial commitment, by giving six months notice by December 31, a member may withdraw from SWACC. Public agencies applying for membership in SWACC may do so on approval of a majority of the weighted vote of the board of SWACC. SWACC's members are assessed based upon each member's prior year's lottery Full-Time Equivalent Students (FTES), total insured values and other information relative to providing coverage for a risk. Should the total obligations of SWACC exceed the total assets of SWACC, the members may be assessed a share of the additional contribution as determined by the Board of Directors. SWACC members currently include 26 Community Colleges and two Joint Powers Entities, for a total of 45 Community Colleges.

SWACC provides excess insurance coverage for liability claims up to \$1 million per occurrence and property claims up to \$250,000 per occurrence. For the years ended June 30, 2013 and 2012, coverage of \$4 million in excess of \$1 million was implemented through reinsurance for liability; \$249,750,000 in excess of \$250,000 was implemented through reinsurance for property. Participants may choose member retained limits of \$5,000, \$10,000, \$25,000, \$50,000, \$100,000, \$150,000, \$200,000 and \$250,000 per occurrence. Broad-form coverage is provided for general liability, auto liability, and property risks. The bylaws of SWACC allow for retrospective premiums whereby each claim year is retrospectively rated. Accordingly, if losses develop adversely or favorably, SWACC may assess additional premiums or refunds from the pool members, which would be allocated in proportion to original premiums charged during the claim year involved.

SWACC includes all funds and account groups that are controlled by or dependent on SWACC's governing board for financial reporting purposes. SWACC has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. SWACC determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

B. Basis of Accounting

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, SWACC has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. SWACC has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

C. Accounts Receivable

Accounts receivable generally includes investment earnings from deposits with the county treasury, member contributions and insurance recoveries. Management has analyzed these accounts and believes all amounts are fully collectible.

D. Member Contribution Premiums

Each member's contribution premium is determined based upon their respective lottery average daily attendance, loss history, unusual exposures, total insured values, information relative to providing coverage and other costs as determined by SWACC. If the total obligations of SWACC would exceed the total assets of SWACC, the members may be assessed a pro-rata share of an additional contribution as determined by SWACC.

E. Unpaid Claims Liabilities

SWACC establishes claims liabilities 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. Estimated amounts of salvage and subrogation and excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. 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 coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability for property claims and liability claims have been estimated by Bay Actuarial Consultants.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

F. Reinsurance

SWACC uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of SWACC as direct insurer of the risks insured. SWACC does not report reinsurance risks as liabilities unless it is probable that those risks will not be covered by reinsurance carriers.

G. Budget and Budgetary Accounting

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

H. Statement of Cash Flows

Cash and cash equivalents, for purposes of reporting cash flows, consists primarily of cash in the bank, cash in the claims trust account, cash held with the Local Agency Investment Fund (LAIF), and cash held in three money market accounts are stated at cost.

Management believes SWACC is not exposed to any significant credit risk on cash and cash equivalents.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at June 30, 2013. Actual results could differ from those estimates.

J. Income Taxes

SWACC's income is exempt from Federal and State income taxes under Internal Revenue Code Section 115 and the corresponding section of the California Revenue and Taxation Code.

K. Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The Authority has implemented the provisions of this Statement for the year ended June 30, 2013.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$	54
Cash in trust account		350,000
Investment in State Investment Pool		11,683,794
Investment sweep accounts		<u>5,711,562</u>
Total Deposits and Cash Equivalents	\$	<u>17,745,410</u>
Investments short-term		10,404,341
Investments long-term		<u>24,118,274</u>
Total Investments	\$	<u>34,522,615</u>

B. Policies and Practices

SWACC is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

C. Investment in the State Investment Pool

SWACC is a voluntary participant in LAIF which is regulated by *California Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of SWACC's investment in the pool is reported in the accompanying financial statement at amounts based upon SWACC's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. The average maturity for LAIF deposits is 278 days. For additional information visit LAIF's website at: www.treasurer.ca.gov/pmia-laif.

D. General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

SWACC has placed the following further restrictions in *California Government Code* on the investment advisors:

1. No derivatives will be allowed in the portfolio.
2. A maximum of 25 percent of the portfolio may have up to a final maturity of 10 years. The remaining 75 percent of the portfolio will have a maximum final stated maturity of five years.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

3. Up to 100 percent of available funds are allowed to be placed in U.S. Treasury issues; however, not more than 30 percent of the available funds at the time of investment shall be placed in any one particular Agency of the U.S. Government (FNMA, GNMA, FFCS, FHLMC, and FHLB). Furthermore, investments in any one financial institution in combination with any other debt from that institution shall not exceed 20 percent of SWACC's available surplus funds.

4. Corporates are allowed in SWACC's portfolio up to a maximum of 15 percent and a minimum rating of AA.

Total funds in corporate securities exposure can be increased to 30 percent of portfolio provided no less than 50 percent of the corporate exposure is made in Federal Deposit Insurance Corporation (FDIC) Insured Corporate Debt qualifying under the FDIC Temporary Liquidity Guarantee Program.

E. Interest Rate Risk

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

Information about the sensitivity of the fair values of SWACC's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of SWACC's investment by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasuries	\$ 15,204,866	\$ 5,480,946	\$ 1,909,166	\$ 7,814,754
U.S. Agencies	15,654,800	3,710,607	3,652,774	8,291,419
Commercial Paper	3,662,949	1,212,788	-	2,450,161
Bank sweep accounts/ State Investment Pool	5,711,562	5,711,562	-	-
	11,683,794	11,683,794	-	-
Total	\$ 51,917,971	\$ 27,799,697	\$ 5,561,940	\$ 18,556,334

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, SWACC's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Unrated
U.S. Treasuries	\$ 15,204,866	*	\$ 15,204,866	\$ -	\$ -
U.S. Agencies	15,654,800	*	10,754,105	-	4,900,695
Commercial Paper	3,662,949	Aa	600,275	3,062,674	-
Bank sweep accounts	5,711,562	*	-	-	5,711,562
State Investment Pool	11,683,794	*	-	-	11,683,794
Total	<u>\$ 51,917,971</u>		<u>\$ 26,559,246</u>	<u>\$ 3,062,674</u>	<u>\$ 22,296,051</u>

* Not required to be rated.

G. Concentration of Credit Risk

The investment policy of SWACC contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. At June 30, 2013, investments in any one issuer that represent five percent or more of the total investments included US Treasury Notes 37 percent, Federal Home Loan Mortgage Corporation 12 percent, Federal National Mortgage Association 20 percent, and Federal Farm Credit Bank seven percent.

H. Custodial Credit Risk – Deposits

Deposits (Banks)

This is the risk that in the event of a bank failure, SWACC's deposits may not be returned to it. SWACC does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, SWACC's bank balance of \$261,775 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of SWACC.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Bank Deposit Sweep

SWACC maintains an investment account with their money manager, which consists of bank deposit sweep accounts, government-backed securities, and governmental bonds. This account is insured up to \$500,000 by the Securities Investor Protection Corporation (SIPIC) at June 30, 2013. Bank deposit sweep accounts are deposited with one or more affiliated banks to \$250,000 maximum for each account, for FDIC purposes.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2013, consist of the following:

Reinsurance receivable	\$ 3,144
Interest income	66,581
	<u>\$ 69,725</u>

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consists of the following:

Claims payable	\$ 106,489
Trade accounts	5,656
Members - risk management reserves (See Note 6)	1,590,844
	<u>\$ 1,702,989</u>

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – RECONCILIATION OF CLAIMS LIABILITY

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

	<u>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 18,326,443	\$ 18,136,455
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	7,111,616	7,002,582
Increase (decrease) in provision for insured events of prior fiscal years	<u>(2,207,154)</u>	<u>(1,819,867)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>4,904,462</u>	<u>5,182,715</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	214,941	443,177
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>4,986,623</u>	<u>4,549,550</u>
Total Payments	<u>5,201,564</u>	<u>4,992,727</u>
 Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	 <u>\$ 18,029,341</u>	 <u>\$ 18,326,443</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Claims liability	\$ 18,029,341	\$ 18,326,443
Unallocated loss adjustment expenses	<u>1,362,575</u>	<u>1,259,188</u>
	19,391,916	19,585,631
Current portion	<u>(5,500,000)</u>	<u>(7,250,000)</u>
	<u>\$ 13,891,916</u>	<u>\$ 12,335,631</u>

At June 30, 2013 and 2012, estimated unpaid losses of \$18,491,546 and \$18,811,445, respectively, are reflected at their net present values of \$18,029,341 and \$18,326,443, respectively. At June 30, 2013, unpaid losses for property and liability are discounted at 1.5 percent. At June 30, 2012, unpaid losses for property and liability are discounted at 1.5 percent.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 6 – RISK MANAGEMENT RESERVE

SWACC has designated a reserve to provide its members with risk management and loss control consulting, training, and support services. The purpose of this reserve is to assist members in their efforts to reduce present and future liability exposures through which a lower loss experience may be achieved. The charges against the reserve are either mandated by SWACC for all members or are of equal benefit to all the members and will include services for building evaluations, site inspections, playground safety inspections, risk management training and seminars, and risk management consulting. The following is a summary of current year activity:

Balance, June 30, 2012	\$ 1,664,579
Current year additions	7,500
Current year charges	81,235
Balance, June 30, 2013	<u>\$ 1,590,844</u>

NOTE 7 – NET POSITION

Net position is composed of the following elements as of June 30:

Restricted	
Capital fund	\$ 10,000,000
Risk management reserve	40,409
Rate stabilization fund	1,737,999
Total Restricted	<u>11,778,408</u>
Unrestricted	19,464,557
Total Net Position	<u>\$ 31,242,965</u>

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 8 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS

SWACC's member agencies are members of Schools Excess Liability Fund (SELF) public entity risk pool. SWACC is a member of Schools Association for Excess Risk (SAFER) public entity risk pool. Member agencies pay an annual premium to SELF and SWACC pays premiums to SAFER for property and liability coverage. The relationships between SWACC, SELF and SAFER are such that SELF and SAFER are not component units of SWACC for financial reporting purposes.

SELF and SAFER have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between SELF and SAFER and SWACC are included in these statements. Audited financial statements are generally available from the respective entities.

A. <u>Entity</u>	<u>SELF</u>	<u>SAFER</u>
B. <u>Purpose</u>	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere
C. <u>Participants</u>	Statewide educational entities	Statewide educational entities
D. <u>Governing Board</u>	Consisting of elected representative of the members by region	Consisting of one member from each participating agency or JPA
E. <u>Payments for the Current Year</u>	<u>None</u>	<u>\$ 8,548,183</u>

REQUIRED SUPPLEMENTARY INFORMATION

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2013

The following table illustrates how SWACC's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by SWACC as of the end of each of the past 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 of SWACC including overhead and claims expense not allocable to individual claims. (3) This line shows SWACC's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (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 (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end 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 of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation result 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.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

**CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2013**

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	2004	2005	2006	2007
(1) Required contribution and investment income				
Earned	\$ 12,153,185	\$ 15,023,709	\$ 15,466,033	\$ 16,593,629
Ceded	4,712,167	5,650,521	6,177,343	6,758,902
Net earned	<u>7,441,018</u>	<u>9,373,188</u>	<u>9,288,690</u>	<u>9,834,727</u>
(2) Unallocated Expenses	976,056	1,396,627	1,208,352	1,128,767
(3) Estimated claims and expenses, end of policy year				
Earned	7,742,345	6,953,947	6,434,696	6,543,201
Ceded	*	*	*	*
Net earned	<u>7,742,345</u>	<u>6,953,947</u>	<u>6,434,696</u>	<u>6,543,201</u>
(4) Net paid (cumulative) as of:				
End of policy year	616,203	291,519	60,755	356,541
One year later	115,075	2,293,453	407,814	610,178
Two years later	2,335,977	3,709,958	1,289,732	1,358,025
Three years later	3,651,473	4,059,011	1,770,565	2,263,998
Four years later	3,926,176	4,439,206	2,663,647	2,689,765
Five years later	4,582,784	4,658,554	3,098,974	2,854,834
Six years later	4,528,289	4,681,970	3,142,443	2,854,834
Seven years later	4,539,653	4,797,104	3,250,695	
Eight years later	4,542,186	4,834,272		
Nine years later	4,542,186			
(5) Re-estimated ceded claims and expenses:	-	-	-	-
(6) Re-estimated incurred claims and expenses:				
End of policy year	7,742,345	6,953,947	6,434,696	6,543,201
One year later	5,520,707	7,649,095	4,518,548	4,100,994
Two years later	6,677,080	6,492,443	4,869,312	3,024,001
Three years later	5,800,739	5,749,217	4,964,113	3,630,730
Four years later	5,505,078	4,982,717	5,110,475	3,324,524
Five years later	4,858,259	5,202,171	4,798,994	2,856,570
Six years later	4,747,992	4,910,740	4,648,561	2,854,834
Seven years later	4,565,646	4,926,730	4,603,292	
Eight years later	4,542,259	5,169,030		
Nine years later	4,542,186			
(7) (Increase)/decrease in estimated claims and expenses, from end of policy year	<u>\$ 3,200,159</u>	<u>\$ 1,784,917</u>	<u>\$ 1,831,404</u>	<u>\$ 3,688,367</u>

* Information not available.

June 30,					
2008	2009	2010	2011	2012	2013
\$ 18,702,614	\$ 18,227,110	\$ 19,877,037	\$ 19,845,978	\$ 20,388,649	\$ 19,012,373
7,962,495	7,410,121	8,758,958	9,378,896	9,472,338	8,960,665
<u>10,740,119</u>	<u>10,816,989</u>	<u>11,118,079</u>	<u>10,467,082</u>	<u>10,916,311</u>	<u>10,051,708</u>
1,187,475	1,213,462	1,902,109	1,453,680	1,527,869	1,512,874
6,953,279	6,609,111	7,401,967	8,526,460	7,002,582	7,111,616
*	*	*	*	*	-
<u>6,953,279</u>	<u>6,609,111</u>	<u>7,401,967</u>	<u>8,526,460</u>	<u>7,002,582</u>	<u>7,111,616</u>
693,051	388,784	475,464	695,976	443,177	214,941
1,858,633	844,777	2,964,422	2,539,961	1,394,179	
3,561,202	2,252,479	4,871,224	3,964,403		
5,172,855	2,500,861	6,423,583			
5,343,113	2,687,541				
6,000,282					
-	-	-	-	-	-
6,953,279	6,609,111	7,401,967	8,526,460	7,002,582	7,111,616
7,236,257	5,313,137	7,998,285	7,721,225	7,122,593	
6,537,754	4,473,533	8,765,234	5,571,404		
6,231,896	3,440,423	7,510,949			
5,942,764	3,682,925				
6,071,834					
<u>\$ 881,445</u>	<u>\$ 2,926,186</u>	<u>\$ (108,982)</u>	<u>\$ 2,955,056</u>	<u>\$ (120,011)</u>	<u>\$ -</u>

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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
Statewide Association of Community Colleges
Torrance, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Statewide Association of Community Colleges (SWACC) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Statewide Association of Community Colleges basic financial statements, and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Statewide Association of Community Colleges 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 the Statewide Association of Community Colleges internal control. Accordingly, we do not express an opinion on the effectiveness of the Statewide Association of Community Colleges 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 SWACC'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 Statewide Association of Community Colleges financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

October 24, 2013

SCHEDULE OF FINDINGS

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

JUNE 30, 2013

There were no findings related to the financial statements that are required to be reported in accordance with *Governmental Auditing Standards*.

STATEWIDE ASSOCIATION OF COMMUNITY COLLEGES

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013**

There were no audit findings reported in the prior year's schedule of financial statement findings.