

**REDWOOD EMPIRE
SCHOOLS' INSURANCE GROUP**

FINANCIAL STATEMENTS

June 30, 2016 and 2015

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
Windsor, California

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Redwood Empire Schools' Insurance Group
Windsor, California

Report on the Financial Statements

We have audited the accompanying financial statements of Redwood Empire Schools' Insurance Group as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Redwood Empire Schools' Insurance Group's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the *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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Redwood Empire Schools' Insurance Group, as of June 30, 2016 and 2015, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10, the Schedule of the Group's Proportionate Share of the Net Pension Liability on page 28, the Schedule of the Group's Contributions on page 29, the Reconciliation of Claims Liabilities by Type of Contract on pages 30 through 32, and the Claims Development Information on pages 33 through 36 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Redwood Empire Schools' Insurance Group's financial statements. The Combining Statements of Net Position and Combining Statements of Revenues, Expenses and Change in Net Position are presented on pages 38 through 41 for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017 on our consideration of Redwood Empire Schools' Insurance Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Redwood Empire Schools' Insurance Group's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
January 19, 2017

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

This section of the Redwood Empire Schools' Insurance Group (RESIG) annual financial report presents The Management's Discussion and Analysis (MD&A) of RESIG's financial performance during the fiscal years ended June 30, 2016 and 2015. The intent of this discussion and analysis is to look at the financial performance of RESIG as a whole. To provide a complete understanding of RESIG's financial performance, please read this in conjunction with the Independent Auditor's Report, notes to the basic financial statements, and RESIG's financial statements, which immediately follow this section.

The Management's Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34. Certain comparative information is required and included to provide a more meaningful comparative analysis of the government-wide data.

FINANCIAL HIGHLIGHTS Fiscal Years 2015/2016 and 2014/2015

- ✓ Total operating revenues were \$19.1 million in 2015/16, an increase of 3.6% from operating revenues collected in 2014/15. Total operating revenues were \$18.5 million in 2014/15, an increase of 10.8% from operating revenues collected in 2013/14. The increase in operating revenue in 2015/16 and 2014/15 is primarily due to increased workers' compensation contributions.

- ✓ Total investment income increased 19% or \$84,000 from 2014/15 with an average return of 0.8% in 2015/16 from an average return of 0.6% in 2014/15. Investment income increased 7% or \$19,800 in 2014/15 from 2013/14 with an average return of 0.6% and 0.6% respectively. Rental income from facilities increased \$1,245 from 2014/15 due to an increase in conference room use. In 2014/15 rental income increased by \$3010 from 2013/14.

- ✓ In November 2015, the Joint Powers Board approved the Return of Equity (dividends) from the Workers' Compensation Program for years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 in the amount of \$1,703,907. Funds were credited to member districts in November 2015.

- ✓ The new pension reporting requirements under GASB 68 were implemented with the 2014/2015 financials. The net pension liability at June 30, 2016 is \$2,573,308 a net increase of \$532,580 from \$2,040,728 at June 30, 2015.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

- ✓ Excluding provision for claims and claim adjustment expenses and dividends, net operating expenses decreased by 1% or \$84,000 from 2014/15.
- ✓ In 2012/13 SELF approved a ten year assessment model that provides RESIG with a fixed annual payment amount of \$378,428 that will fully retire the liability in the ten years. At June 30, 2015 the total booked liability is \$2,649,751 with the final payment due in July 2022.

Provisions for claims and claim adjustment expenses in the Workers' Compensation Program have decreased significantly and as well as in the Property & Liability Program for 2015/16. The provision for outstanding claims and unallocated loss adjustment expense is determined based on actuarial evaluations. The table below reflects the changes in actuarial and examiner estimates of claims liabilities using a discounting rate of 1%.

Workers' Compensation	June 30, 2016	June 30, 2015	Total Increase (decrease)
Discounted Reserves	\$13,048,586	\$13,853,229	(804,643)
IBNR	9,833,733	11,983,593	(2,149,860)
ULAE	1,524,438	1,517,379	7,059
Total	\$24,406,757	\$27,354,201	(2,947,444)

Property & Liability	June 30, 2016	June 30, 2015	Total Increase (decrease)
Discounted Reserves	\$1,666,063	\$2,013,646	(347,583)
IBNR	573,524	891,047	(317,523)
ULAE	168,582	202,918	(34,336)
Total	\$2,408,169	\$3,107,611	(699,442)

The net effect of the actuarial estimates and program operations is a decrease to liabilities of \$2,947,444 in the Workers' Compensation Program and a decrease in liabilities in the Property & Liability Program of \$699,442; with net position of \$24,627,647 and \$2,301,181 respectively as of June 30, 2016.

RESIG purchased its office building in January 2003 financing \$3,000,000 for the property and building improvements. The loan agreement is for 20 years at an interest rate of 4.743% with an annual payment of \$230,319. In July 2013, the interest rate was adjusted to 0.8935% with an annual payment of \$189,055; the rate is due to adjust again July 1, 2017. The total of RESIG's fixed assets, (land, building and equipment) is \$3,230,212 at June 30, 2016 with a net book value (after depreciation) of \$1,945,149.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Description of the Basic Financial Statements

RESIG financial statements are prepared in conformity with the generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The *Statement of Net Position*, *Statement of Revenues, Expenses and Change in Net Position*, and the *Statement of Cash Flows* are included along with *Notes to Financial Statements* to clarify unique accounting policies and financial information.

The *Statement of Net Position* provides information on all RESIG program assets and liabilities with the difference reported as Net Position. The *Statement of Revenues, Expenses and Change in Net Position* presents information showing total revenues versus total expenses and the resulting effect on Net Position. Budgetary Information presents the final adopted budget for fiscal year 2015/16 and the actual budget that includes budget updates executed during the year and the actual expenditures at the close of the fiscal year.

Combined statements are provided with the supplementary information and reflect financial information separated by the specific program to which it relates. RESIG's accounting system is organized so that each program can be accounted for and evaluated independently. Separate governmental funds are operated for all of RESIG's programs: Workers' Compensation, Property & Liability, Dental, Health, Facility, Post-retirement Benefits and General Administration. The assets, liabilities, revenues and expenses for all funds are reported on a full accrual basis.

Bay Actuarial Consulting provides independent actuarial review of the Workers' Compensation and Property & Liability Programs on at least an annual basis. Actuarial reviews affirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for those programs.

Crowe Horwath LLP has performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards. Crowe Horwath LLP's opinion is included in the financial section of this report.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
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RESIG maintains separate funds for each of its programs which are Workers' Compensation, Property & Liability, Dental, Health Benefits, General Administration, Post-retirement Benefits and Building. Factors of significance involving some of these funds are as follows:

Workers' Compensation Program

This program has a self-insured retention of \$1 million per claim and statutory limits.

RESIG has been self-insured since 1979 and claims have been self-administered since 1990. RESIG's net position in this program at June 30, 2016, is \$24,444,141 which includes the ongoing assessment obligation to the workers' compensation program of Schools Excess Liability Fund (SELF). SELF served as RESIG's workers' compensation excess coverage provider from 1989-2003.

In an effort to manage costs, RESIG incorporated into the claims administration the Post Employment Pre-placement Physical (POPP) in 2001/02 and the Return to Work Program in 2003/04. In accordance with applicable accounting rules, outstanding claims liabilities are booked at the expected level and funding margins are accounted for as program equity.

Property & Liability Program

RESIG self-funds the first \$100,000 of each property loss and the first \$250,000 of each liability claim. RESIG's net position in this program at June 30, 2016, is \$2,275,576. RESIG participates in Bay Area Schools Insurance Cooperative (BASIC) for excess coverage up to \$20,000,000 for general liability and automobile liability. RESIG also has property excess coverage up to \$300,000,000.

Health and Dental Programs

RESIG has a group purchase program providing health and dental plans to its members. Current providers are Kaiser Permanente, Blue Shield of California, Self Insured Schools of California (SISC), and Delta Dental of California. In an effort to better serve our members, beginning in July 2008, RESIG brought the member services in house for these plans. These services include active employees, COBRA and retiree eligibility, billing and premium collection.

RESIG self-funds a dental plan for 27 member districts providing coverage for approximately 2,280 subscribers plus dependents. As of June 30, 2016 the net position in the Dental Program is \$1,681,759. In January 2015, a fully funded vision pool was established through Vision Service Plan and includes ten districts and 670 subscribers.

**REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

Implementation of GASB 68

The Governmental Accounting Standards Board approved GASB Statement No.68 (GASB 68), Accounting and Financial Reporting for Pensions in June 2012 requiring public employers to comply with new accounting and financial reporting standards. Statement 68 outlines a difference approach to the recognition and calculation of pension obligations. Under the new GASB standards, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record the new pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position. The primary objective of this Statement, issued in June 2012, is to improve accounting and financial reports by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Due to the implementation of GASB 68, a restatement to record the effects of the new reporting requirements decreased the beginning net position at July 1, 2014 by \$2,287,205. RESIG's beginning net position at July 1, 2014 has been restated to \$16,006,868 from 18,294,073. Decisions regarding the schedule of allocated net pension liability are made by the administrators of the pension plan and not by RESIG's management. Updates to RESIG's net pension liability are booked each year during the closing process.

Change in Accounting Method

There were no changes in accounting method for fiscal year 2015/16.

Contacting Redwood Empire Schools' Insurance Group Management

This financial report is designed to provide our citizens, taxpayers, members, and creditors with a general overview of RESIG's finances and to demonstrate the JPA's accountability for the funds it receives. If you have questions about this report or need additional financial information please contact RESIG's Business Office at: Redwood Empire Schools' Insurance Group, 5760 Skylane Blvd. Suite 100, Windsor, CA 95492, Phone: 707.836.0779.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Statement of Revenues, Expenses & Change in Net Position

<u>Operating revenues</u>	June 30,	2016	2015	2014	Percentage Change from June 30, 2014 to June 30, 2016
Member Contributions		\$18,604,325	\$ 18,017,142	\$ 16,363,150	3%
Other		530,271	446,180	362,110	19%
Total operating revenues		<u>19,134,596</u>	<u>18,463,322</u>	<u>16,725,260</u>	4%
 <u>Operating expenses</u>					
Provision for claims and claims adjustment expense		3,545,095	6,674,543	4,768,135	-47%
Member Dividends		1,703,907	1,281,730	950,865	33%
Insurance		1,910,921	1,896,705	1,927,883	1%
Contract Fees Admin		226,544	205,271	193,859	10%
Assessments		85,506	72,188	90,369	18%
Salaries and benefits		2,490,586	2,644,183	2,628,891	-6%
Legal, consult, audit		229,746	151,732	217,821	51%
Safety credits		279,070	287,770	278,684	-3%
Meeting Expense		9,446	11,819	17,161	-20%
Rents and leases		19,841	4,599	4,543	331%
Operations cost		432,685	490,956	438,883	-12%
Travel, conference		67,033	64,858	44,764	3%
Debt Service		12,960	14,545	16,091	-11%
Depreciation		106,419	110,209	102,372	-3%
Total operating expenses		<u>11,119,759</u>	<u>13,911,108</u>	<u>11,680,321</u>	-20%
Operating income		<u>8,014,837</u>	<u>4,552,214</u>	<u>5,044,939</u>	
 Non-operating revenues					
Investment income		442,814	322,101	302,227	38%
Rental income		21,420	20,175	17,165	6%
Total non-operating revenues		<u>464,234</u>	<u>342,276</u>	<u>319,392</u>	
Change in net position		8,479,071	4,894,490	5,364,331	
Net position, beginning of year		<u>20,901,358</u>	<u>16,006,868</u>	<u>12,929,742</u>	31%
Net position - end of year June 30,		<u><u>\$29,380,429</u></u>	<u><u>\$ 20,901,358</u></u>	<u><u>\$ 18,294,073</u></u>	41%

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Budgetary Information

Each year RESIG's Executive Committee approves a budget and adopts rates and funding levels for all programs. The preliminary budget is presented in April, with a final budget presented no later than June 30. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. Other budget revisions made during the fiscal year are presented to the Executive Committee for approval before execution.

Below is a summary of the budget information for fiscal year 2015/2016 with a comparison of budget to actual.

REVENUES	FINAL	ACTUAL		Variance	Percentage Change
Workers' Comp	10,173,413	11,191,344	(1)	1,017,931	10.0%
Property & Liability	3,737,400	3,737,393		(7.00)	0.0%
Dental	3,261,385	3,423,137		161,752	5.0%
Health	525,000	529,961		4,961	0.9%
Skylane Facility	20,000	21,420		1,420	7.1%
General Admin	253,146	252,761		(385)	-0.2%
Total	<u>\$ 17,970,344</u>	<u>\$ 19,156,016</u>	Net	<u>\$ 1,185,672</u>	<u>6.6%</u>

EXPENDITURES	FINAL	ACTUAL		Variance	Percentage Change
Workers' Comp	11,210,423	4,461,985	(2)	(6,748,438)	-60.2%
Property & Liability	3,250,507	2,188,782	(3)	(1,061,725)	-32.7%
Dental	2,905,000	2,775,895		(129,105)	-4.4%
Health	437,840	404,933		(32,907)	-7.5%
Skylane Facility	484,154	211,010	(4)	(273,144)	-56.4%
General Admin	1,318,559	1,077,154		(241,405)	-18.3%
Total	<u>\$ 19,606,483</u>	<u>\$ 11,119,759</u>	Net	<u>\$ (8,486,724)</u>	<u>-43.3%</u>

- (1) Workers' Comp premiums higher than projected due to district wide increased payroll projections.
- (2) Provision for claims for 2014/15 budgeted at projected costs for year but actual paid claims are lower and claims adjustment expenses reduced per actuarial report.
- (3) Provision for claims for 2014/15 budgeted at projected costs for year but actual paid claims are lower and claims adjustment expenses reduced per actuarial report.
- (4) Budgeted expenses lower than anticipated and adjustments to depreciated expenses.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Statements of Net Position

June 30,	2016	2015	2014	Percentage Change from June 30, 2015 to June 30, 2016
ASSETS				
Current assets	\$ 60,860,693	\$ 56,821,712	\$ 53,008,902	7%
Capital assets (Net of Depreciation)	1,945,149	1,992,061	1,978,769	-2%
Total assets	<u>62,805,842</u>	<u>58,813,773</u>	<u>54,987,671</u>	<u>7%</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	739,141	307,790	-	140%
LIABILITIES				
Current liabilities	5,709,185	6,311,678	5,987,381	-10%
Long term liabilities	25,600,830	29,314,908	30,706,217	-13%
Net pension liability	2,573,308	2,040,728	-	26%
Total liabilities	<u>33,883,323</u>	<u>37,667,314</u>	<u>36,693,598</u>	<u>-10%</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension	281,231	552,891	-	-49%
Net investment in capital assets	667,882	538,647	350,845	
Unrestricted	28,712,547	20,362,711	17,943,228	
Total net position	<u>\$ 29,380,429</u>	<u>\$ 20,901,358</u>	<u>\$ 18,294,073</u>	<u>41%</u>

TOTAL ASSETS BY PROGRAM

		June 30,	2016	2015	2014
Fund 63	Skylane Facility	\$	2,473,121	\$ 2,559,548	\$ 2,726,969
Fund 64	General Administration		123,491	87,513	90,264
Fund 67	Workers' Compensation		52,735,718	49,772,648	46,678,885
Fund 68	Health		567,783	492,789	389,738
Fund 69	Property & Liability		4,854,712	4,394,922	3,994,901
Fund 70	Dental		1,938,650	1,410,936	1,028,939
Fund 20	Post-Retirement Benefits		112,367	95,417	77,975
Total assets		\$	<u>62,805,842</u>	\$ 58,813,773	<u>\$ 54,987,671</u>

FINANCIAL STATEMENTS

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 59,765,584	\$ 55,887,967
Receivables	<u>1,095,109</u>	<u>933,745</u>
Total current assets	<u>60,860,693</u>	<u>56,821,712</u>
Capital assets:		
Non-depreciable capital assets (Note 3)	250,000	250,000
Depreciable capital assets, net of accumulated depreciation (Note 3)	<u>1,695,149</u>	<u>1,742,061</u>
Total assets	<u>62,805,842</u>	<u>58,813,773</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources – pension (Note 7)	<u>739,141</u>	<u>307,790</u>
LIABILITIES		
Current liabilities:		
Accounts payable	347,132	443,738
Accrued vacation	70,939	89,348
Current portion of notes payable (Note 4)	177,642	176,069
Current portion of deficit assessment (Note 5)	378,472	378,523
Current portion of unpaid claims and claim adjustment expenses (Note 6)	<u>4,735,000</u>	<u>5,224,000</u>
Total current liabilities	<u>5,709,185</u>	<u>6,311,678</u>
Notes payable less current portion (Note 4)	1,099,625	1,277,345
Deficit assessment less current portion (Note 5)	2,271,279	2,649,751
Unpaid claims and claim adjustment expenses less current portion (Note 6)	22,229,926	25,387,812
Net pension liability (Note 7)	<u>2,573,308</u>	<u>2,040,728</u>
Total liabilities	<u>33,883,323</u>	<u>37,667,314</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources – pension (Note 7)	<u>281,231</u>	<u>552,891</u>
Contingencies (Note 10)		
NET POSITION		
Net position:		
Net investment in capital assets	667,882	538,647
Unrestricted	<u>28,712,547</u>	<u>20,362,711</u>
Total net position	<u>\$ 29,380,429</u>	<u>\$ 20,901,358</u>

See accompanying notes to financial statements.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Member contributions	\$ 18,604,325	\$ 18,017,142
Other	<u>530,271</u>	<u>446,180</u>
Total operating revenues	<u>19,134,596</u>	<u>18,463,322</u>
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 6)	3,545,095	6,674,543
Insurance premiums	1,910,921	1,896,705
Assessments (Note 5)	85,506	72,188
Contract fee administration	226,544	205,271
Member dividends	1,703,907	1,281,730
General and administrative expenses (Notes 7 and 8)	<u>3,647,786</u>	<u>3,780,671</u>
Total operating expenses	<u>11,119,759</u>	<u>13,911,108</u>
Operating income	<u>8,014,837</u>	<u>4,552,214</u>
Non-operating revenues:		
Investment income	442,814	322,101
Rental income	<u>21,420</u>	<u>20,175</u>
Total non-operating revenues	<u>464,234</u>	<u>342,276</u>
Change in net position	8,479,071	4,894,490
Net position, beginning of year	<u>20,901,358</u>	<u>16,006,868</u>
Net position, end of year	<u>\$ 29,380,429</u>	<u>\$ 20,901,358</u>

See accompanying notes to financial statements.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from members and others	\$ 18,973,232	\$ 18,313,659
Cash payments for claims	(7,191,981)	(7,201,200)
Cash payments for insurance and excess insurance	(2,374,950)	(2,346,476)
Cash payments to members for safety	(1,703,907)	(1,281,730)
Cash payments to employees for services	(3,106,184)	(2,643,273)
Cash payments to suppliers for goods and services	<u>(947,173)</u>	<u>(1,222,098)</u>
Net cash provided by operating activities	<u>3,649,037</u>	<u>3,618,882</u>
Cash flows from investing activities:		
Rental income	21,420	20,175
Interest received	<u>442,814</u>	<u>322,101</u>
Net cash provided by investing activities	<u>464,234</u>	<u>342,276</u>
Cash flows from capital and related financing activities:		
Purchase of equipment	(59,507)	(123,501)
Principal payment on notes payable	<u>(176,147)</u>	<u>(174,510)</u>
Net cash used in capital and related financial activities	<u>(235,654)</u>	<u>(298,011)</u>
Net increase in cash and cash equivalents	3,877,617	3,663,147
Cash and cash equivalents, beginning of year	<u>55,887,967</u>	<u>52,224,820</u>
Cash and cash equivalents, end of year	<u>\$ 59,765,584</u>	<u>\$ 55,887,967</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 8,014,837	\$ 4,552,214
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	106,419	110,209
Increase in:		
Receivables	(161,364)	(149,663)
Deferred outflows of resources – pension	(431,351)	(17,017)
Increase (decrease) in:		
Accounts payable	(96,606)	9,452
Accrued vacation	(18,409)	2,286
Deficit assessment	(378,523)	(377,583)
Unpaid claims and claim adjustment expenses	(3,646,886)	(526,657)
Net pension liability	532,580	(537,250)
Deferred inflows of resources – pension	<u>(271,660)</u>	<u>552,891</u>
Net cash provided by operating activities	<u>\$ 3,649,037</u>	<u>\$ 3,618,882</u>

See accompanying notes to financial statements.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Redwood Empire Schools' Insurance Group ("RESIG", the "Group") was established by a Joint Powers Agreement on July 1, 1979, in accordance with Title I, Division 7, Chapter 5, Article I Sections 6500, et.seq., of the California Government Code. The purpose is for the operation of a common risk management and insurance program for member school districts related to workers' compensation, property/liability, dental and health benefits for member governmental agencies. RESIG also purchases excess insurance and provides risk management services.

RESIG is governed by a board consisting of one representative from each member entity. The board maintains non-voting members as well. Membership and the programs that they participate in at June 30, 2016 were as follows presenting voting and non-voting membership, respectively:

<u>Workers'</u> <u>Compensation</u>	<u>Property/</u> <u>Liability</u>	<u>Dental</u>	<u>Health</u>
<u>47/2</u>	<u>48/4</u>	<u>27/1</u>	<u>33/0</u>

Admission and Withdrawal of Members: Entities applying for membership must be approved by a majority vote of the Board members. Entities may pay a quotation fee and the current premium contribution as determined by the Joint Powers Board.

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

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

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

Basis of Accounting: The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

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 and member assessments. Operating expenses include the provision for claims and claim adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting: The accounts of RESIG are organized on the basis of funds. The programs of RESIG have been combined for the presentation of the financial statements, with one reported fund for the Group. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net position, revenues and expenses. The general and administrative accounts of RESIG are allocated to each fund on a pro-rata basis. The seven funds include:

1. Workers' Compensation Fund

The Workers' Compensation Fund was established on July 1, 1979 to account for the payment of workers' compensation claims and administrative costs. Funding is based on contributions established by the Joint Powers Board. The program is self-insured for the first \$1,000,000 with an excess coverage layer up to statutory limits.

2. Property/Liability Fund

The self-insured Property/Liability Fund was established on July 1, 1986. Funding is based on contributions established by the Joint Powers Board. The program is self-insured for the first \$250,000 in liability losses and \$100,000 in property losses. Member deductibles range between \$1,500 and \$30,000. Excess liability coverage is purchased up to \$20,000,000 per occurrence. Excess property coverage is purchased for replacement costs up to \$300,000,000 per occurrence, subject to policy terms.

3. Dental Fund

The Dental Fund was established as of July 1, 1989. This fund handles the dental program for member agencies. Funding is accomplished through contributions established by the Joint Powers Board. This program is fully self-insured for maximum claims of \$1,500 per insured individual on a calendar year basis.

4. Health Benefit Fund

The Health Benefits Fund was established July 1, 1992 for the purpose of operating and maintaining a fully-insured group purchase health plan. RESIG does not have any exposure in this program beyond the monthly premiums. The program offers HMO plans and an HSA plan through Kaiser and PPO plans through Blue Shield provided through Schools' Insurance Services of California (SISC). Effective July 1, 2008, RESIG established an in-house benefits department that provides administration services to its members relative to health, dental, retiree and COBRA benefits. RESIG receives revenue from its broker, Alliant Insurance Services, due to the additional administration services provided by RESIG on behalf of Kaiser and SISC.

5. General Administration Fund

The General Administration Fund is used to account for the capital assets and administrative expenses of RESIG. Expenses are allocated on a pro-rata basis to each program.

6. Post-retirement Benefits Fund

The Post-retirement Benefits Fund is used to account for funds designated for the payment of retiree medical benefits.

7. Skylane Facility Fund

The Skylane Facility Fund is used to account for the revenues and expenses related to the building owned by RESIG.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets: Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Depreciation and amortization is computed on the straight-line method. The estimated useful lives used for buildings is thirty years. The estimated useful life for furniture and equipment range from three to five years. The software is depreciated over five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Contributed assets are reported at acquisition value for the contributed asset.

Deferred Outflows/Inflows or Resources: In addition to assets, the statement of net position includes a separate section for deferred outflows or resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. RESIG has recognized a deferred outflow of resources related to recognition of the pension liability reported in the statement of net position. Amortization for the year ended June 30, 2016 totaled \$137,373.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. RESIG has recognized a deferred inflow of resources related to the pension liability reported which is in the statement of net position. Amortization for the year ended June 30, 2016 totaled \$118,322.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous 2.5% at 55 Risk Pool under the California Public Employees' Retirement System (CalPERS) Public Employers Retirement Fund C and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Pool. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Accrued Vacation: RESIG's vacation policy provides for the accumulation of earned vacation leave. A liability for accrued vacation has been computed and recorded based on unused vacation hours at the current rate of pay.

Sick Leave: RESIG's sick leave policy provides for an unlimited accumulation of earned sick leave. Since RESIG has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision for Unpaid Claims and Claim Adjustment Expenses: RESIG's policy is to establish claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. RESIG increases the liability for allocated and unallocated claims adjustment expenses. Because actual claims costs depend on such complex factors as inflation, changes in doctrine of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed 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 period in which they are made. The portion of claims considered currently payable has been actuarially determined.

Net Position: A portion of net position has been designated by the Board in conjunction with the Capital Target policy. The policy designates a confidence margin of 85% to ensure RESIG is adequately funded. The Capital Target is the excess of the 85% confidence level over the expected level of ultimate claim losses as determined by the Actuary.

For the Workers' Compensation program, the Capital Targets were \$2,975,000 and \$3,617,000 for years ended June 30, 2016 and 2015, respectively. For the Property/Liability program, the Capital Targets are \$358,000 and \$552,000, respectively, for the year ended June 30, 2016 and 2015, respectively. The Group met the Capital Targets for the Workers' Compensation and Property/Liability programs for the years ended June 30, 2016 and 2015.

Excess Insurance: RESIG enters into reinsurance agreements whereby it cedes various amounts of risk to other insurance companies. RESIG does not report excess insured risk as a liability unless it is probable that a risk will not be covered by excess insurers. Settlements have not exceeded insurance coverage in each of the past three years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Revenue Recognition: Contributions are recognized as revenue when earned based upon the coverage period of the related insurance. Contributions received in advance are recorded as deferred revenue and are recognized over the effective coverage period. To the extent that allocated losses exceed contributions previously paid, interest and other income, RESIG can assess its members' additional contributions. Supplemental assessments are recognized as income in the period assessed. Operating revenues and expenses include all activities necessary to achieve the objectives of RESIG. Non-operating revenues and expenses include investment activities, rental income and other non-essential activity. Operating and non-operating revenues are recognized as revenue when earned.

Dividends: RESIG's Board annually reviews the available net assets and the appropriate actuarial information to determine if a contribution refund should be declared. Each member's pro rata share of the contributions refund shall be calculated in the same proportion as their contribution paid during the fiscal year for which the contribution refund is declared.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Cash in bank	\$ 813,155	\$ 410,659
Cash in County Treasury	<u>58,952,429</u>	<u>55,477,308</u>
Total cash and cash equivalents	<u>\$ 59,765,584</u>	<u>\$ 55,887,967</u>

Custodial Credit Risk: RESIG limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016 and 2015, the carrying amount of RESIG's accounts was \$813,155 and \$410,659 and the bank balance was \$958,263 and \$478,792, respectively. The carrying values and the bank balances differ due to deposits in transit and outstanding checks. As of June 30, 2016, \$708,263 was not insured by the FDIC.

Pooled Funds: In accordance with Education Code Section 41001, the Group maintains substantially all of its cash in the interest bearing Sonoma County Treasurer's Pooled Investment Fund. The Group is considered to be an involuntary participant in an external investment pool. The fair value of the Group's investment in the pool is reported in the financial statements at amounts based upon the Group's prorate share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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. At June 30, 2016, RESIG had no significant interest rate risk related to cash and investments held.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Credit Risk: *California Government Code* Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. RESIG has no investment policy that would further limit its investment choices. The county investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk: *California Government Code* Section 53635 places the following concentration limits on the state investment pool and the county investment pool:

- No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code Section 53601 places the following concentration limits on RESIG's investments:

- No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in the bankers acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in repurchase agreements of reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – CAPITAL ASSETS

A schedule of changes in capital asset for the years ended June 30, 2016 and 2015, are shown below.

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>
Non-depreciable:				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Depreciable:				
Buildings	2,848,991	5,150	-	2,854,141
Equipment	<u>71,714</u>	<u>54,357</u>	<u>-</u>	<u>126,071</u>
Totals, at cost	<u>3,170,705</u>	<u>59,507</u>	<u>-</u>	<u>3,230,212</u>
Less accumulated depreciation:				
Buildings	(1,136,651)	(95,109)	-	(1,231,760)
Equipment	<u>(41,993)</u>	<u>(11,310)</u>	<u>-</u>	<u>(53,303)</u>
Total accumulated depreciation	<u>(1,178,644)</u>	<u>(106,419)</u>	<u>-</u>	<u>(1,285,063)</u>
Capital assets, net	<u>\$ 1,992,061</u>	<u>\$ (46,912)</u>	<u>\$ -</u>	<u>\$ 1,945,149</u>

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2015</u>
Non-depreciable:				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Depreciable:				
Buildings	2,725,490	123,501	-	2,848,991
Equipment	<u>90,114</u>	<u>-</u>	<u>(18,400)</u>	<u>71,714</u>
Totals, at cost	<u>3,065,604</u>	<u>123,501</u>	<u>(18,400)</u>	<u>3,170,705</u>
Less accumulated depreciation:				
Buildings	(1,044,772)	(91,879)	-	(1,136,651)
Equipment	<u>(42,063)</u>	<u>(18,330)</u>	<u>18,400</u>	<u>(41,993)</u>
Total accumulated depreciation	<u>(1,086,835)</u>	<u>(110,209)</u>	<u>18,400</u>	<u>(1,178,644)</u>
Capital assets, net	<u>\$ 1,978,769</u>	<u>\$ 13,292</u>	<u>\$ -</u>	<u>\$ 1,992,061</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 – NOTES PAYABLE

RESIG has two notes payable to Tatonka Capital Corporation for the purchase and improvements to the building located in Windsor, California. The notes are in the original amounts of \$2,550,000 and \$500,000, respectively, due to mature in July 30, 2022. The notes both bear interest at 0.8935% and are payable in 20 annual installments of \$157,419 and \$31,636, respectively. The interest is due to adjust as of July 1, 2017. The following represents the minimum principal and interest payments:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 177,642	\$ 11,413	\$ 189,055
2018	179,230	9,825	189,055
2019	180,831	8,224	189,055
2020	182,446	6,609	189,055
2021	184,077	4,978	189,055
2022-2023	<u>373,041</u>	<u>5,008</u>	<u>378,049</u>
	<u>\$ 1,277,267</u>	<u>\$ 46,057</u>	<u>\$ 1,323,324</u>

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2016 and 2015 is as follows:

	Balance July 1 <u>2015</u>	Additions	Deductions	Balance June 30 <u>2016</u>	Amounts Due Within One Year
Notes payable	<u>\$ 1,453,414</u>	<u>\$ -</u>	<u>\$ 176,147</u>	<u>\$ 1,277,267</u>	<u>\$ 177,642</u>

	Balance July 1 <u>2014</u>	Additions	Deductions	Balance June 30 <u>2015</u>	Amounts Due Within One Year
Notes payable	<u>\$ 1,627,924</u>	<u>\$ -</u>	<u>\$ 174,510</u>	<u>\$ 1,453,414</u>	<u>\$ 176,069</u>

NOTE 5 – DEFICIT ASSESSMENT

As described in Note 9, RESIG was a member of Schools Excess Liability Fund (SELF) as RESIG's excess pool for Workers' Compensation from the 1989-90 fiscal year through the 2002-03 fiscal year. Due to adverse claims experience during that period, SELF has determined that a deficit exists for the period, and that it is necessary to assess its members in accordance with its governing documents to cover the shortfall. It is currently the intent of SELF to allow its members to fund the shortfall over a period of 7 years. The balance of the liability at June 30, 2016 and 2015 is \$2,649,751 and \$3,028,274, respectively. Santa Rosa Junior College withdrew from RESIG in a previous year; however, they continue to be liable for their portion of the deficit assessment and are billed on an annual basis.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 6 – UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

As discussed in Note 1, RESIG establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, beginning of fiscal year	\$ <u>30,611,812</u>	\$ <u>31,138,469</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of the current year	7,577,752	9,158,822
Change in provision for covered events of prior years	<u>(4,032,657)</u>	<u>(2,484,279)</u>
Total incurred claims and claim adjustment expenses	<u>3,545,095</u>	<u>6,674,543</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	3,078,561	3,373,939
Claims and claims adjustment expenses attributable to covered events of prior years	<u>4,113,420</u>	<u>3,827,261</u>
Total payments	<u>7,191,981</u>	<u>7,201,200</u>
Total unpaid claims and claim adjustment expenses, end of fiscal year	<u>\$ 26,964,926</u>	<u>\$ 30,611,812</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Claims reserves	\$ 14,714,649	\$ 15,866,875
Claims incurred but not reported (IBNR)	10,557,257	13,024,640
Unallocated loss adjustment expenses (ULAE)	<u>1,693,020</u>	<u>1,720,297</u>
	<u>\$ 26,964,926</u>	<u>\$ 30,611,812</u>

The current and long-term portions were \$4,735,000 and \$22,229,926, respectively, as of June 30, 2016 and were \$5,224,000 and \$25,387,812, respectively, as of June 30, 2015. At June 30, 2016 and 2015, the liability was reported at the present value using an expected future investment yield assumption of 1.0%. The undiscounted liability as of June 30, 2016 and 2015 was \$29,199,630 and \$34,346,080, respectively.

(Continued)

NOTE 7 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND

General Information about the Public Employer’s Retirement Fund

Plan Description: RESIG contributes to the Miscellaneous 2.5% at 55 Risk Pool under the California Public Employees' Retirement System (CalPERS) California Employer's Retirement Fund C (PERF C), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf>.

Benefits Provided: The benefits for the defined benefit plans are based on plan members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible plan members or beneficiaries. Plan members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from plan members and employers, and earnings from investments. Plan member and employer contributions are a percentage of applicable plan member compensation. Plan member contribution rates are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the Pool, are credited with a market value adjustment in determining contribution rates.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2016 were as follows:

Plan Members – The plan member contribution rate for Classic Members was 10.438 percent of applicable plan member earnings and the contribution rate for PEPRA Members was 6.5% of applicable plan member earnings for fiscal year 2015-16.

Employers – The employer contribution rate was 18.643 percent of applicable plan member earnings for Classic members and 6.730 percent for PEPRA members' applicable plan member earnings.

The Group's contribution to CalPERS for the fiscal years ending June 30, 2016, 2015 and 2014, were \$315,544, \$306,414, and \$290,773, respectively, and equal 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, RESIG reported a liability of \$2,573,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The JPA's proportion of the net pension liability was based on RESIG's share of contributions to the pension plan relative to the contributions of all participating agencies. At June 30, 2015, RESIG's proportion was 0.105 percent, which was an increase of 0.023 percent from its proportion measured as of June 30, 2014.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

For the year ended June 30, 2016, RESIG recognized pension expense of \$170,431. At June 30, 2016, RESIG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 19,800	\$ -
Changes of assumptions	-	187,323
Net differences between projected and actual earnings on investments	-	93,908
Changes in proportion and differences between JPA contributions and proportionate share of contributions	403,797	-
Contributions made subsequent to measurement date	<u>315,544</u>	<u>-</u>
Total	<u>\$ 739,141</u>	<u>\$ 281,231</u>

\$315,544 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended <u>June 30,</u>		
2017	\$	19,050
2018	\$	19,050
2019	\$	30,530
2020	\$	73,736

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments, changes in assumptions and changes in proportion are netted and amortized over a closed 5-year period.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

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

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 1996, through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both plan members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Sensitivity of RESIG’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents RESIG’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what RESIG’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
The Group’s proportionate share of the net pension liability	\$ <u>4,843,093</u>	\$ <u>2,573,308</u>	\$ <u>1,270,641</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 8 – GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the years ended June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Salaries and benefits (Note 7)	\$ 2,490,586	\$ 2,644,183
Safety credits	279,070	287,770
Operations costs	432,685	490,956
Debt service interest	12,960	14,545
Legal, consultant and audit	229,746	151,732
Travel/conference/memberships	67,033	64,858
Meetings	9,446	11,819
Rent/lease	19,841	4,599
Depreciation expense (Note 3)	<u>106,419</u>	<u>110,209</u>
Total	<u>\$ 3,647,786</u>	<u>\$ 3,780,671</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 – JOINT POWERS AGREEMENTS

Redwood Empire Schools' Insurance Group participated in a joint venture agreement with Schools Excess Liability Fund (SELF). The relationship between RESIG and the JPA is such that the JPA is not a component unit of RESIG for financial reporting purposes.

SELF arranges for and provides excess liability coverage from \$1,000,000 to \$15,000,000 for its members. The JPA is governed by a board consisting of a representative from each of their respective member districts. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member pays a contribution commensurate with the level of coverage requested.

Condensed financial information for SELF for the fiscal years ended June 30, 2016 and 2015 are as follows (in thousands):

	<u>2015</u>
Total assets	\$ 154,727
Total deferred outflows	99
Total liabilities	122,471
Total deferred inflows	<u>166</u>
Total net position	\$ <u>32,189</u>
Revenues	\$ 11,968
Expenses	<u>23,065</u>
Change in net position	\$ <u>(11,097)</u>

NOTE 10 – CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
SCHEDULE OF THE GROUP'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2016

Public Employer's Retirement Fund C
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Group's proportion of the net pension liability	0.082%	0.105%
Group's proportionate share of the net pension liability	\$ 2,040,728	\$ 2,573,308
Group's covered-employee payroll	\$ 1,497,000	\$ 1,584,000
Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll	136.32%	162.46%
Plan fiduciary net position as a percentage of the total Pension liability	81.15%	78.30%

The amounts presented for each fiscal year were determined as of year-end that occurred one year prior.

All years prior to 2015 are not available.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
SCHEDULE OF THE GROUP'S CONTRIBUTIONS
For the Year Ended June 30, 2016

Public Employer's Retirement Fund C
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 307,790	\$ 315,544
Contributions in relation to the contractually required contribution	<u>(307,790)</u>	<u>(315,544)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Group's covered-employee payroll	\$ 1,584,000	\$ 1,624,000
Contributions as a percentage of covered-employee payroll	19.43%	19.43%

All years prior to 2015 are not available.

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ <u>27,354,201</u>	\$ <u>27,651,273</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of the current year	3,983,822	5,388,769
Change in provision for covered events of prior years	<u>(3,365,290)</u>	<u>(2,141,534)</u>
Total incurred claims and claim adjustment expenses	<u>618,532</u>	<u>3,247,235</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	659,396	795,742
Claims and claims adjustment expenses attributable to covered events of prior years	<u>2,906,580</u>	<u>2,748,565</u>
Total payments	<u>3,565,976</u>	<u>3,544,307</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 24,406,757</u>	<u>\$ 27,354,201</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Claims reserves	\$ 13,048,586	\$ 13,853,229
Claims incurred but not reported (IBNR)	9,833,733	11,983,593
Unallocated loss adjustment expenses (ULAE)	<u>1,524,438</u>	<u>1,517,379</u>
	<u>\$ 24,406,757</u>	<u>\$ 27,354,201</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
PROPERTY/LIABILITY PROGRAM
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ <u>3,107,611</u>	\$ <u>3,337,196</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of the current year	1,101,192	1,166,849
Change in provision for covered events of prior years	<u>(754,336)</u>	<u>(444,342)</u>
Total incurred claims and claim adjustment expenses	<u>346,856</u>	<u>722,507</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	76,427	124,993
Claims and claims adjustment expenses attributable to covered events of prior years	<u>969,871</u>	<u>827,099</u>
Total payments	<u>1,046,298</u>	<u>952,092</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 2,408,169</u>	<u>\$ 3,107,611</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Claims reserves	\$ 1,666,063	\$ 2,013,646
Claims incurred but not reported (IBNR)	573,524	891,047
Unallocated loss adjustment expenses (ULAE)	<u>168,582</u>	<u>202,918</u>
	<u>\$ 2,408,169</u>	<u>\$ 3,107,611</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
DENTAL PROGRAM
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ <u>150,000</u>	\$ <u>150,000</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of the current year	2,492,738	2,603,204
Change in provision for covered events of prior years	<u>86,969</u>	<u>101,597</u>
Total incurred claims and claim adjustment expenses	<u>2,579,707</u>	<u>2,704,801</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of the current year	2,342,738	2,453,204
Claims and claims adjustment expenses attributable to covered events of prior years	<u>236,969</u>	<u>251,597</u>
Total payments	<u>2,579,707</u>	<u>2,704,801</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 150,000</u>	<u>\$ 150,000</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Claims incurred but not reported (IBNR)	<u>\$ 150,000</u>	<u>\$ 150,000</u>

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
For the Years Ended June 30, 2016 and 2015

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

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

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

Note: The Governmental Accounting Standards Board issued statement No. 30 effective for the 1997 fiscal year. That statement amends GASB 10 and the required additional line items in the claims development information presented in the subsequent pages. The additional information for transferred premiums and transferred claims was unavailable for some prior years and therefore, is not presented. All information prior to June 30, 2007 was compiled from information presented in prior audited financial statements. Claim losses were undiscounted through June 30, 2006.

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
WORKERS' COMPENSATION PROGRAM
June 30, 2016

	For Policy Years Ended June 30,									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Premiums and investment revenue:										
Earned	\$ 9,489,016	\$ 9,886,327	\$ 8,621,712	\$ 7,681,742	\$ 8,286,435	\$ 8,627,776	\$ 9,206,637	\$ 9,623,122	\$ 11,150,322	\$ 11,555,623
Ceded	<u>(338,693)</u>	<u>(407,968)</u>	<u>(373,558)</u>	<u>(354,007)</u>	<u>(318,813)</u>	<u>(321,312)</u>	<u>(319,221)</u>	<u>(324,848)</u>	<u>(331,975)</u>	<u>(310,463)</u>
Net earned	<u>\$ 9,150,323</u>	<u>\$ 9,478,359</u>	<u>\$ 8,248,154</u>	<u>\$ 7,327,735</u>	<u>\$ 7,967,622</u>	<u>\$ 8,306,464</u>	<u>\$ 8,887,416</u>	<u>\$ 9,298,274</u>	<u>\$ 10,818,347</u>	<u>\$ 11,245,160</u>
2. Unallocated expenses	\$ 2,153,010	\$ 3,201,185	\$ 2,244,180	\$ 2,348,757	\$ 2,431,285	\$ 1,959,586	\$ 2,133,325	\$ 3,176,902	\$ 3,677,369	\$ 4,450,822
3. Estimated losses and expense end of fiscal year:										
Incurred	\$ 4,197,359	\$ 3,969,408	\$ 5,329,803	\$ 5,812,743	\$ 4,878,377	\$ 5,386,603	\$ 5,955,117	\$ 5,396,270	\$ 5,133,987	\$ 3,776,180
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net incurred	<u>\$ 4,197,359</u>	<u>\$ 3,969,408</u>	<u>\$ 5,329,803</u>	<u>\$ 5,812,743</u>	<u>\$ 4,878,377</u>	<u>\$ 5,386,603</u>	<u>\$ 5,955,117</u>	<u>\$ 5,396,270</u>	<u>\$ 5,133,987</u>	<u>\$ 3,776,180</u>
4. Net paid (cumulative) as of:										
End of fiscal year	\$ 629,338	\$ 817,175	\$ 722,855	\$ 866,744	\$ 914,267	\$ 819,309	\$ 1,039,964	\$ 706,911	\$ 795,742	\$ 659,396
One year later	\$ 1,565,796	\$ 1,791,184	\$ 1,121,651	\$ 1,679,392	\$ 1,845,003	\$ 1,638,131	\$ 1,829,038	\$ 1,561,830	\$ 1,694,200	
Two years later	\$ 2,078,351	\$ 2,312,167	\$ 1,402,640	\$ 2,109,033	\$ 2,397,278	\$ 2,058,043	\$ 2,333,252	\$ 2,143,595		
Three years later	\$ 2,264,513	\$ 2,538,112	\$ 1,516,028	\$ 2,356,190	\$ 2,746,971	\$ 2,394,813	\$ 2,508,552			
Four years later	\$ 2,384,622	\$ 2,668,507	\$ 1,626,728	\$ 2,483,282	\$ 2,914,056	\$ 2,455,796				
Five years later	\$ 2,443,738	\$ 2,855,277	\$ 1,740,868	\$ 2,596,226	\$ 3,062,301					
Six years later	\$ 2,494,824	\$ 2,864,553	\$ 1,796,037	\$ 2,691,704						
Seven years later	\$ 2,541,320	\$ 2,899,394	\$ 1,799,212							
Eight years later	\$ 2,566,363	\$ 2,969,789								
Nine years later	\$ 2,621,283									
5. Reestimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Reestimated net incurred loss and expenses:										
End of fiscal year	\$ 4,197,359	\$ 3,969,408	\$ 5,329,803	\$ 5,812,743	\$ 4,878,377	\$ 5,386,603	\$ 5,955,117	\$ 5,396,270	\$ 5,133,987	\$ 3,776,180
One year later	\$ 3,901,492	\$ 5,732,364	\$ 4,952,706	\$ 5,036,600	\$ 5,808,050	\$ 5,334,432	\$ 5,557,878	\$ 4,903,754	\$ 4,755,371	
Two years later	\$ 4,605,577	\$ 5,789,557	\$ 3,807,449	\$ 5,164,152	\$ 5,399,452	\$ 4,322,927	\$ 5,065,724	\$ 4,413,313		
Three years later	\$ 4,296,387	\$ 5,318,393	\$ 2,963,761	\$ 4,413,738	\$ 4,808,224	\$ 3,800,957	\$ 4,328,735			
Four years later	\$ 3,871,417	\$ 4,430,054	\$ 2,714,217	\$ 4,229,760	\$ 4,547,283	\$ 3,401,845				
Five years later	\$ 3,517,697	\$ 4,572,467	\$ 2,564,762	\$ 3,972,868	\$ 4,449,305					
Six years later	\$ 3,354,929	\$ 4,437,531	\$ 2,485,033	\$ 3,509,170						
Seven years later	\$ 3,356,198	\$ 4,514,909	\$ 2,427,118							
Eight years later	\$ 3,361,822	\$ 4,342,388								
Nine years later	\$ 3,233,486									
7. Increase (decrease) in estimated net incurred losses and expenses from end of fiscal year	<u>\$ (963,873)</u>	<u>\$ 372,980</u>	<u>\$ (2,902,685)</u>	<u>\$ (2,303,573)</u>	<u>\$ (429,072)</u>	<u>\$ (1,984,758)</u>	<u>\$ (1,626,382)</u>	<u>\$ (982,957)</u>	<u>\$ (378,616)</u>	<u>\$ -</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
PROPERTY/LIABILITY PROGRAM
June 30, 2016

	For Policy Years Ended June 30,									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Premiums and investment revenue:										
Earned	\$ 2,753,538	\$ 2,660,827	\$ 2,887,916	\$ 3,585,244	\$ 3,648,734	\$ 3,724,990	\$ 3,824,784	\$ 3,562,655	\$ 3,662,307	\$ 3,777,748
Ceded	(1,258,816)	(1,299,035)	(1,361,957)	(1,904,983)	(1,901,709)	(1,773,890)	(1,836,590)	(1,603,035)	(1,564,730)	(1,600,458)
Net earned	<u>\$ 1,494,722</u>	<u>\$ 1,361,792</u>	<u>\$ 1,525,959</u>	<u>\$ 1,680,261</u>	<u>\$ 1,747,025</u>	<u>\$ 1,951,100</u>	<u>\$ 1,988,194</u>	<u>\$ 1,959,620</u>	<u>\$ 2,097,577</u>	<u>\$ 2,177,290</u>
2. Unallocated expenses	\$ 212,262	\$ 634,514	\$ 718,938	\$ 662,226	\$ 784,170	\$ 692,307	\$ 845,671	\$ 812,564	\$ 747,735	\$ 655,198
3. Estimated losses and expense end of fiscal year:										
Incurred	\$ 713,792	\$ 582,469	\$ 700,366	\$ 1,128,445	\$ 993,359	\$ 984,461	\$ 1,175,245	\$ 1,192,039	\$ 1,104,441	\$ 1,031,654
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>\$ 713,792</u>	<u>\$ 582,469</u>	<u>\$ 700,366</u>	<u>\$ 1,128,445</u>	<u>\$ 993,359</u>	<u>\$ 984,461</u>	<u>\$ 1,175,245</u>	<u>\$ 1,192,039</u>	<u>\$ 1,104,441</u>	<u>\$ 1,031,654</u>
4. Net paid (cumulative) as of:										
End of fiscal year	\$ 191,022	\$ 227,606	\$ 101,113	\$ 93,221	\$ 76,905	\$ 109,139	\$ 43,001	\$ 128,163	\$ 124,993	\$ 76,427
One year later	\$ 506,739	\$ 596,887	\$ 170,754	\$ 466,149	\$ 383,455	\$ 219,932	\$ 243,977	\$ 321,354	\$ 306,685	
Two years later	\$ 760,841	\$ 597,874	\$ 337,649	\$ 802,968	\$ 871,014	\$ 416,147	\$ 799,223	\$ 708,531		
Three years later	\$ 997,024	\$ 665,365	\$ 703,104	\$ 834,872	\$ 1,240,165	\$ 499,676	\$ 1,152,999			
Four years later	\$ 956,135	\$ 708,062	\$ 712,840	\$ 834,664	\$ 1,255,618	\$ 523,076				
Five years later	\$ 957,070	\$ 856,461	\$ 702,685	\$ 836,750	\$ 1,289,167					
Six years later	\$ 957,070	\$ 880,894	\$ 712,840	\$ 836,750						
Seven years later	\$ 957,070	\$ 880,894	\$ 712,840							
Eight years later	\$ 957,070	\$ 880,894								
Nine years later	\$ 957,070									
5. Reestimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Reestimated net incurred loss and expenses:										
End of fiscal year	\$ 713,792	\$ 582,469	\$ 700,366	\$ 1,128,445	\$ 911,930	\$ 984,461	\$ 1,175,245	\$ 1,192,039	\$ 1,104,441	\$ 1,031,654
One year later	\$ 969,694	\$ 1,065,761	\$ 637,890	\$ 1,470,818	\$ 883,779	\$ 606,701	\$ 1,566,471	\$ 906,290	\$ 784,853	
Two years later	\$ 1,044,088	\$ 804,298	\$ 815,417	\$ 1,396,321	\$ 1,927,897	\$ 639,123	\$ 1,842,594	\$ 857,189		
Three years later	\$ 1,065,514	\$ 927,379	\$ 798,123	\$ 1,184,654	\$ 1,534,903	\$ 570,974	\$ 1,577,526			
Four years later	\$ 956,720	\$ 882,355	\$ 727,980	\$ 1,088,450	\$ 1,259,118	\$ 546,676				
Five years later	\$ 956,642	\$ 933,543	\$ 713,280	\$ 1,058,392	\$ 1,290,192					
Six years later	\$ 956,639	\$ 887,656	\$ 713,280	\$ 1,044,634						
Seven years later	\$ 966,115	\$ 880,894	\$ 713,337							
Eight years later	\$ 957,070	\$ 880,894								
Nine years later	\$ 957,070									
7. (Decrease) increase in estimated net incurred losses and expenses from end of fiscal year	<u>\$ 243,278</u>	<u>\$ 298,425</u>	<u>\$ 12,971</u>	<u>\$ (83,811)</u>	<u>\$ 378,262</u>	<u>\$ (437,785)</u>	<u>\$ 402,281</u>	<u>\$ (334,850)</u>	<u>\$ (319,588)</u>	<u>\$ -</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
CLAIMS DEVELOPMENT INFORMATION
DENTAL PROGRAM
June 30, 2016

	For Policy Years Ended June 30,									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Premiums and investment revenue:										
Earned	\$ 1,283,507	\$ 1,296,622	\$ 2,136,069	\$ 2,469,638	\$ 2,581,614	\$ 2,854,767	\$ 3,143,945	\$ 3,179,898	\$ 3,262,855	\$ 3,435,635
Ceded	-	-	-	-	-	-	-	-	-	-
Net earned	<u>\$ 1,283,507</u>	<u>\$ 1,296,622</u>	<u>\$ 2,136,069</u>	<u>\$ 2,469,638</u>	<u>\$ 2,581,614</u>	<u>\$ 2,854,767</u>	<u>\$ 3,143,945</u>	<u>\$ 3,179,898</u>	<u>\$ 3,262,855</u>	<u>\$ 3,435,635</u>
2. Unallocated expenses	\$ -	\$ 71,336	\$ 172,216	\$ 227,746	\$ 120,661	\$ 231,794	\$ 221,562	\$ 210,023	\$ 238,929	\$ 241,188
3. Estimated losses and expense end of fiscal year:										
Incurred	\$ 1,191,108	\$ 1,188,516	\$ 2,015,117	\$ 2,725,937	\$ 2,612,304	\$ 2,554,625	\$ 2,435,249	\$ 2,317,863	\$ 2,603,204	\$ 2,492,738
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>\$ 1,191,108</u>	<u>\$ 1,188,516</u>	<u>\$ 2,015,117</u>	<u>\$ 2,725,937</u>	<u>\$ 2,612,304</u>	<u>\$ 2,554,625</u>	<u>\$ 2,435,249</u>	<u>\$ 2,317,863</u>	<u>\$ 2,603,204</u>	<u>\$ 2,492,738</u>
4. Net paid (cumulative) as of:										
End of fiscal year	\$ 1,116,108	\$ 1,113,516	\$ 1,849,117	\$ 2,440,937	\$ 2,462,304	\$ 2,404,625	\$ 2,285,249	\$ 2,167,863	\$ 2,453,204	\$ 2,342,738
One year later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244	\$ 2,419,460	\$ 2,690,173	
Two years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244	\$ 2,419,460		
Three years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244			
Four years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916				
Five years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418					
Six years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058						
Seven years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238							
Eight years later	\$ 1,194,251	\$ 1,203,637								
Nine years later	\$ 1,194,251									
5. Reestimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Reestimated net incurred loss and expenses:										
End of fiscal year	\$ 1,191,108	\$ 1,188,516	\$ 2,015,117	\$ 2,725,937	\$ 2,612,304	\$ 2,554,625	\$ 2,435,249	\$ 2,317,863	\$ 2,603,204	\$ 2,492,738
One year later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244	\$ 2,419,460	\$ 2,690,173	
Two years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244	\$ 2,419,460		
Three years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916	\$ 2,497,244			
Four years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418	\$ 2,618,916				
Five years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058	\$ 2,698,418					
Six years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238	\$ 2,586,058						
Seven years later	\$ 1,194,251	\$ 1,203,637	\$ 1,939,238							
Eight years later	\$ 1,194,251	\$ 1,203,637								
Nine years later	\$ 1,194,251									
7. (Decrease) increase in estimated net incurred losses and expenses from end of fiscal year	<u>\$ 3,143</u>	<u>\$ 15,121</u>	<u>\$ (75,879)</u>	<u>\$ (139,879)</u>	<u>\$ 86,114</u>	<u>\$ 64,291</u>	<u>\$ 61,995</u>	<u>\$ 101,597</u>	<u>\$ 86,969</u>	<u>\$ -</u>

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

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

The Schedule of the Group's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the Group's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

B - Schedule of the Group's Contributions

The Schedule of the Group's Contributions is presented to illustrate the Group's required contributions relating to the pension. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

C - Changes of Benefit Terms

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

D - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

SUPPLEMENTARY INFORMATION

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENTS OF NET POSITION
 June 30, 2016

	Workers' Compen- sation	Property/ Liability	Dental	Health Benefit	General Adminis- tration	Post- retirement Benefits	Skylane Facility Fund	2016 Total
ASSETS								
Current assets:								
Cash	\$ 51,630,441	\$ 4,804,359	\$ 1,936,658	\$ 494,174	\$ 252,850	\$ 112,367	\$ 534,735	\$ 59,765,584
Receivables	1,014,094	773	1,992	73,609	4,641	-	-	1,095,109
Due from (to) other funds	<u>84,420</u>	<u>49,580</u>	<u>-</u>	<u>-</u>	<u>(134,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>52,728,955</u>	<u>4,854,712</u>	<u>1,938,650</u>	<u>567,783</u>	<u>123,491</u>	<u>112,367</u>	<u>534,735</u>	<u>60,860,693</u>
Capital assets:								
Capital assets, net	<u>6,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,938,386</u>	<u>1,945,149</u>
Total assets	<u>52,735,718</u>	<u>4,854,712</u>	<u>1,938,650</u>	<u>567,783</u>	<u>123,491</u>	<u>112,367</u>	<u>2,473,121</u>	<u>62,805,842</u>
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflows of resources - pension	<u>317,831</u>	<u>44,347</u>	<u>-</u>	<u>81,306</u>	<u>295,657</u>	<u>-</u>	<u>-</u>	<u>739,141</u>
LIABILITIES								
Current liabilities:								
Accounts payable	114,772	11,756	106,891	106,810	(1,875)	-	8,778	347,132
Accrued vacation	27,170	6,681	-	-	37,088	-	-	70,939
Current portion of notes payable	-	-	-	-	-	-	177,642	177,642
Current portion of deficit assessment	378,472	-	-	-	-	-	-	378,472
Current portion of unpaid claims and claim adjustment expenses	<u>3,536,000</u>	<u>1,049,000</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,735,000</u>
Total current liabilities	<u>4,056,414</u>	<u>1,067,437</u>	<u>256,891</u>	<u>106,810</u>	<u>35,213</u>	<u>-</u>	<u>186,420</u>	<u>5,709,185</u>
Notes payable, less current portion	-	-	-	-	-	-	1,099,625	1,099,625
Deficit assessment, less current portion	2,271,279	-	-	-	-	-	-	2,271,279
Unpaid claims and claim adjustment expenses, less current portion	20,870,757	1,359,169	-	-	-	-	-	22,229,926
Net pension liability	<u>1,106,522</u>	<u>154,399</u>	<u>-</u>	<u>283,064</u>	<u>1,029,323</u>	<u>-</u>	<u>-</u>	<u>2,573,308</u>
Total liabilities	<u>28,304,972</u>	<u>2,581,005</u>	<u>256,891</u>	<u>389,874</u>	<u>1,064,536</u>	<u>-</u>	<u>1,286,045</u>	<u>33,883,323</u>
DEFERRED INFLOWS OF RESOURCES								
Deferred inflows of resources - pension	<u>120,930</u>	<u>16,873</u>	<u>-</u>	<u>30,935</u>	<u>112,493</u>	<u>-</u>	<u>-</u>	<u>281,231</u>
NET POSITION								
Net investment in capital assets	6,763	-	-	-	-	-	661,119	667,882
Unrestricted	<u>24,620,884</u>	<u>2,301,181</u>	<u>1,681,759</u>	<u>228,280</u>	<u>(757,881)</u>	<u>112,367</u>	<u>525,957</u>	<u>28,712,547</u>
Total net position	<u>\$ 24,627,647</u>	<u>\$ 2,301,181</u>	<u>\$ 1,681,759</u>	<u>\$ 228,280</u>	<u>\$ (757,881)</u>	<u>\$ 112,367</u>	<u>\$ 1,187,076</u>	<u>\$ 29,380,429</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENTS OF NET POSITION
 June 30, 2015

	Workers' Compen- sation	Property/ Liability	Dental	Health Benefit	General Adminis- tration	Post- retirement Benefits	Skylane Facility Fund	2015 Total
ASSETS								
Current assets:								
Cash	\$ 48,875,949	\$ 4,389,729	\$ 1,410,936	\$ 451,576	\$ 86,312	\$ 95,417	\$ 578,048	\$ 55,887,967
Receivables	<u>885,878</u>	<u>5,193</u>	<u>-</u>	<u>41,213</u>	<u>1,201</u>	<u>-</u>	<u>260</u>	<u>933,745</u>
Total current assets	<u>49,761,827</u>	<u>4,394,922</u>	<u>1,410,936</u>	<u>492,789</u>	<u>87,513</u>	<u>95,417</u>	<u>578,308</u>	<u>56,821,712</u>
Capital assets:								
Capital assets, net	<u>10,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,981,240</u>	<u>1,992,061</u>
Total assets	<u>49,772,648</u>	<u>4,394,922</u>	<u>1,410,936</u>	<u>492,789</u>	<u>87,513</u>	<u>95,417</u>	<u>2,559,548</u>	<u>58,813,773</u>
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflows of resources - pension	<u>132,350</u>	<u>18,467</u>	<u>-</u>	<u>33,857</u>	<u>123,116</u>	<u>-</u>	<u>-</u>	<u>307,790</u>
LIABILITIES								
Current liabilities:								
Accounts payable	110,993	6,010	193,917	117,157	13,276	-	2,385	443,738
Accrued vacation	41,959	9,475	-	-	37,914	-	-	89,348
Current portion of notes payable	-	-	-	-	-	-	176,069	176,069
Current portion of deficit assessment	378,523	-	-	-	-	-	-	378,523
Current portion of unpaid claims and claim adjustment expenses	<u>4,060,000</u>	<u>1,014,000</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,224,000</u>
Total current liabilities	<u>4,591,475</u>	<u>1,029,485</u>	<u>343,917</u>	<u>117,157</u>	<u>51,190</u>	<u>-</u>	<u>178,454</u>	<u>6,311,678</u>
Notes payable, less current portion	-	-	-	-	-	-	1,277,345	1,277,345
Deficit assessment, less current portion	2,649,751	-	-	-	-	-	-	2,649,751
Unpaid claims and claim adjustment expenses, less current portion	23,294,201	2,093,611	-	-	-	-	-	25,387,812
Net pension liability	<u>877,513</u>	<u>122,444</u>	<u>-</u>	<u>224,480</u>	<u>816,291</u>	<u>-</u>	<u>-</u>	<u>2,040,728</u>
Total liabilities	<u>31,412,940</u>	<u>3,245,540</u>	<u>343,917</u>	<u>341,637</u>	<u>867,481</u>	<u>-</u>	<u>1,455,799</u>	<u>37,667,314</u>
DEFERRED INFLOWS OF RESOURCES								
Deferred inflows of resources - pension	<u>237,744</u>	<u>33,173</u>	<u>-</u>	<u>60,818</u>	<u>221,156</u>	<u>-</u>	<u>-</u>	<u>552,891</u>
NET POSITION								
Net investment in capital assets	10,821	-	-	-	-	-	527,826	538,647
Unrestricted	<u>18,243,493</u>	<u>1,134,676</u>	<u>1,067,019</u>	<u>124,191</u>	<u>(878,008)</u>	<u>95,417</u>	<u>575,923</u>	<u>20,362,711</u>
Total net position	<u>\$ 18,254,314</u>	<u>\$ 1,134,676</u>	<u>\$ 1,067,019</u>	<u>\$ 124,191</u>	<u>\$ (878,008)</u>	<u>\$ 95,417</u>	<u>\$ 1,103,749</u>	<u>\$ 20,901,358</u>

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2016

	Workers' Compen- sation	Property/ Liability	Dental	Health Benefit	General Adminis- tration	Post- retirement Benefits	Skylane Facility Fund	2016 Total
Operating revenues:								
Member contributions	\$ 11,191,034	\$ 3,737,393	\$ 3,423,137	\$ -	\$ 252,761	\$ -	\$ -	\$ 18,604,325
Other	<u>310</u>	<u>-</u>	<u>-</u>	<u>529,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>530,271</u>
Total operating revenues	<u>11,191,344</u>	<u>3,737,393</u>	<u>3,423,137</u>	<u>529,961</u>	<u>252,761</u>	<u>-</u>	<u>-</u>	<u>19,134,596</u>
Operating expenses:								
Provision for claims and claim adjustment expenses	618,532	346,856	2,579,707	-	-	-	-	3,545,095
Insurance premiums	310,463	1,600,458	-	-	-	-	-	1,910,921
Assessments	85,506	-	-	-	-	-	-	85,506
Contract fees administration	9,438	-	196,188	20,918	-	-	-	226,544
Member dividends	1,703,907	-	-	-	-	-	-	1,703,907
General and administrative expenses	<u>1,734,139</u>	<u>241,468</u>	<u>-</u>	<u>384,015</u>	<u>1,077,154</u>	<u>-</u>	<u>211,010</u>	<u>3,647,786</u>
Total operating expenses	<u>4,461,985</u>	<u>2,188,782</u>	<u>2,775,895</u>	<u>404,933</u>	<u>1,077,154</u>	<u>-</u>	<u>211,010</u>	<u>11,119,759</u>
Income (loss) before operating transfers	6,729,359	1,548,611	647,242	125,028	(824,393)	-	(211,010)	8,014,837
Operating transfers	<u>(727,267)</u>	<u>(422,461)</u>	<u>(45,000)</u>	<u>(23,780)</u>	<u>933,968</u>	<u>16,286</u>	<u>268,254</u>	<u>-</u>
Operating income (loss)	<u>6,002,092</u>	<u>1,126,150</u>	<u>602,242</u>	<u>101,248</u>	<u>109,575</u>	<u>16,286</u>	<u>57,244</u>	<u>8,014,837</u>
Non-operating revenues:								
Investment income	371,241	40,355	12,498	2,841	10,552	664	4,663	442,814
Rental income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,420</u>	<u>21,420</u>
Total non-operating revenues	<u>371,241</u>	<u>40,355</u>	<u>12,498</u>	<u>2,841</u>	<u>10,552</u>	<u>664</u>	<u>26,083</u>	<u>464,234</u>
Change in net position	6,373,333	1,166,505	614,740	104,089	120,127	16,950	83,327	8,479,071
Net position, beginning of year	<u>18,254,314</u>	<u>1,134,676</u>	<u>1,067,019</u>	<u>124,191</u>	<u>(878,008)</u>	<u>95,417</u>	<u>1,103,749</u>	<u>20,901,358</u>
Net position, end of year	<u>\$ 24,627,647</u>	<u>\$ 2,301,181</u>	<u>\$ 1,681,759</u>	<u>\$ 228,280</u>	<u>\$ (757,881)</u>	<u>\$ 112,367</u>	<u>\$ 1,187,076</u>	<u>\$ 29,380,429</u>

(Continued)

REDWOOD EMPIRE SCHOOLS' INSURANCE GROUP
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2015

	Workers' Compen- sation	Property/ Liability	Dental	Health Benefit	General Adminis- tration	Post- retirement Benefits	Skylane Facility Fund	2015 Total
Operating revenues:								
Member contributions	\$ 10,874,634	\$ 3,634,085	\$ 3,256,210	\$ -	\$ 252,213	\$ -	\$ -	\$ 18,017,142
Other	<u>55</u>	<u>-</u>	<u>-</u>	<u>446,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>446,180</u>
Total operating revenues	<u>10,874,689</u>	<u>3,634,085</u>	<u>3,256,210</u>	<u>446,125</u>	<u>252,213</u>	<u>-</u>	<u>-</u>	<u>18,463,322</u>
Operating expenses:								
Provision for claims and claim adjustment expenses	3,247,235	722,507	2,704,801	-	-	-	-	6,674,543
Insurance premiums	331,975	1,564,730	-	-	-	-	-	1,896,705
Assessments	72,188	-	-	-	-	-	-	72,188
Contract fees administration	4,283	-	193,929	7,059	-	-	-	205,271
Member dividends	1,281,730	-	-	-	-	-	-	1,281,730
General and administrative expenses	<u>1,658,911</u>	<u>308,125</u>	<u>-</u>	<u>314,382</u>	<u>1,216,421</u>	<u>-</u>	<u>282,832</u>	<u>3,780,671</u>
Total operating expenses	<u>6,596,322</u>	<u>2,595,362</u>	<u>2,898,730</u>	<u>321,441</u>	<u>1,216,421</u>	<u>-</u>	<u>282,832</u>	<u>13,911,108</u>
Income (loss) before operating transfers	4,278,367	1,038,723	357,480	124,684	(964,208)	-	(282,832)	4,552,214
Operating transfers	<u>(742,853)</u>	<u>(431,481)</u>	<u>(45,000)</u>	<u>(22,964)</u>	<u>957,019</u>	<u>17,025</u>	<u>268,254</u>	<u>-</u>
Operating income (loss)	<u>3,535,514</u>	<u>607,242</u>	<u>312,480</u>	<u>101,720</u>	<u>(7,189)</u>	<u>17,025</u>	<u>(14,578)</u>	<u>4,552,214</u>
Non-operating revenues:								
Investment income	275,633	28,222	6,645	170	3,316	417	7,698	322,101
Rental income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,175</u>	<u>20,175</u>
Total non-operating revenues	<u>275,633</u>	<u>28,222</u>	<u>6,645</u>	<u>170</u>	<u>3,316</u>	<u>417</u>	<u>27,873</u>	<u>342,276</u>
Change in net position	3,811,147	635,464	319,125	101,890	(3,873)	17,442	13,295	4,894,490
Net position, beginning of year	<u>14,443,167</u>	<u>499,212</u>	<u>747,894</u>	<u>22,301</u>	<u>(874,135)</u>	<u>77,975</u>	<u>1,090,454</u>	<u>16,006,868</u>
Net position, end of year	<u>\$ 18,254,314</u>	<u>\$ 1,134,676</u>	<u>\$ 1,067,019</u>	<u>\$ 124,191</u>	<u>\$ (878,008)</u>	<u>\$ 95,417</u>	<u>\$ 1,103,749</u>	<u>\$ 20,901,358</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors and Members
Redwood Empire Schools' Insurance Group
Windsor, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the *State Controller's Minimum Audit Requirements for California Special Districts* and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Redwood Empire Schools' Insurance Group as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise Redwood Empire Schools' Insurance Group's financial statements and have issued our report thereon dated January 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Redwood Empire Schools' Insurance Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Redwood Empire Schools' Insurance Group's internal control. Accordingly, we do not express an opinion on the effectiveness of Redwood Empire Schools' Insurance Group's internal controls.

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
January 19, 2017