



E. TERMS FROM THE STATE CONTROLLER'S REQUIRED FINANCIAL FILINGS

Annually, all Joint Powers Authorities are required to file an Annual Report of their financial transactions with the State Controller. This filing is required to be completed on forms provided by the State Controller. Currently the State Controller has designated form LGFA 80 "Annual Report of Financial Transactions of Special Districts" as the document to comply with this requirement.

The State Controller's form LGFA 80 and its instructions require that the financial transactions of an insurance JPA be classified as a "Non-enterprise" activity. This interpretation is contrary to the accounting standards set forth by the Government Accounting Standards Board (GASB).

The following additional instructions are to assist you in adapting your financial statement to the State Controller's report.

Assets

Cash and cash equivalents:

Report all balance of cash on hand, cash on deposit or available on demand with financial institutions that can be withdrawn without prior notice or penalty. Include Cash in County Treasury or other cash management pools that have characteristics similar to demand deposit accounts. If you issue the State Treasurer's Local Agency Investment Fund (LAIF) as a depository for short term funds, then include the LAIF balances as "Investments". The classification of Cash vs. Investments for LGFA 80 report should be consistent with your audited financial statements.

Interest Receivable:

Report any accounts receivable from investment assets on this line item.

Accounts Receivable:

Report all accounts receivable other than from investments on this line item. This includes Premiums Due from Members, Retrospective Contribution Adjustments, and Dividends Due from excess insurance policies.

Inventory of Material and Supplies:

Report the carrying value of any inventory held for sale to members or others, and materials and supplies to be consumed in a future accounting period.

Investments:

Report the carrying value of all invested assets. This includes **long term** investments and other short term investments not included in Cash. This includes investments in US Treasury instruments, US Agency Funds, mid-term Notes, and any other investment



authorized by your investment policy. Also include the balance in LAIF if its primary use is as an investment vehicle. Short term investments that do not meet the requirements of a cash equivalent should be reported on this line item.

Other Assets:

Use this line item as a catch all for all other insurance JPA asset accounts. This includes pre-fund deposits, prepaid insurance and other prepaid expenses, deferred compensation assets, and any other assets.

Fixed Assets:

Most insurance JPAs operating as an enterprise activity will report the value of land, buildings and equipment in the Enterprise Fund. For purposes of this report, include the value of these assets in the General Fixed Asset account group. Please refer to LGFA 80 page 56, Fixed Assets & Depreciation Schedule. Report the beginning values for land, buildings, and equipment, plus additions, less retirements, and any other adjustments to arrive at an ending balance. The ending balance on the Fixed Assets & Depreciation Schedule should carry forward to the Balance Sheet.

Accumulated Depreciation:

On the Fixed Assets & Depreciation Schedule, report the accumulated depreciation beginning balance; add the current year depreciation expense, deduct the accumulated depreciation for assets retired and any other adjustments to arrive at the ending accumulated depreciation balance. This balance should also carry forward to the General Fixed Assets account group column on the Balance Sheet.

Liabilities

Accounts Payable:

Include all payable accounts on this line item. This includes accrued payrolls, trade payables, amount due to members, and dividends payable.

Loans and Noted Payables:

Include the carrying value of any long or short term loans or notes payable. Use this account in lieu of the Long Term Account group of accounts.

Other Current Liabilities:

Use this account for all claim liabilities. Include on this line item all liabilities for reported claims reserves, IBNR reserves, and the liability for unallocated loss adjustment expenses (ULAE). Reporting claim liabilities has been the single greatest area of confusion in previous years' reports. The insurance industry refers to projected losses incurred on a claim as a "reserve", but in accounting terminology, it is a liability and should not be confused with reserves used only in the equity section of the balance sheet. Many insurance JPAs have been reporting "Reserves for Claims" in the equity section of the State Controller's Report. We realize that the claim liabilities are not



“Current Liabilities” however, we believe that adapting this line item for claims liabilities is a better classified than as a reservation of equity.

Deferred Revenue:

Use this account to report income received in advance of the actual levy or assessment date. This income will be recognized in a future accounting period.

Equity

The equity section of the balance sheet for an Enterprise Fund is materially different from that of a Special Revenue Fund. Generally Accepted Accounting Principles for enterprise activities refer to fund equity as either contribution capital or retained earnings. Since these accounts are not permitted on the State Controller’s Report, we suggest the following adaptations.

Reserves:

The equity account “Reserved” should be used to identify the portion of equity that is:

- 1) Segregated for some future purpose or future commitment such as reserve for dept retirement, or;
- 2) Not available for expenditures in the following period, for example reserve for inventories.

A reserved balance arises from a statutory requirement or actions already taken by the JPA.

Unreserved, Designated:

Unreserved fund equity may be used to identify management’s planned actions, not actual commitments. Examples of designated equity include balances designated for loss prevention activities.

Unreserved, Undesignated:

The remaining portion of fund equity is reported as unreserved, undesignated.

Contributed Capital:

Some JPA Enterprise funds have contributed capital from members or others included in their fund equity. Contributed Capital is not an account appropriate for special revenue funds and, therefore is blanked out on the State Controller’s from LGFA 80 document. Include contributed capital balances with the unreserved, designated fund equity balances.

Investment in General Fixed Assets:

Again, this account is not customary for Enterprise Funds. Since we are required to report Fixed Assets in the General Fixed Assets Account Group, we must also adjust the equity section to include an account for Investments in General Fixed Assets. Adapt your balance in either Contributed Capital or Retained Earnings so that the respective columns for Special Revenue Fund and the General Fixed Assets.



Revenues

Revenues from Use of Money & Property:

Include revenues from invested assets on this line item. This includes interest income and capital gains or losses from investments.

Chargers for Current Services:

Include all premium, assessments for insured events, and all other member assessments on this line item.

Other Revenue:

Use this line item for all other revenue sources.

Expenses

Salaries and Wages:

Use this account for staff salaries.

Employee Benefits:

Report health and welfare benefit cost on this line item. Also include retirement benefits and other JPA paid employee benefits.

Service and Supplies:

Include unallocated claim expenses on this line item. This is a catch all line item for general operations and contracted service expenses. General operations expenses include bank fees, Board of Directors activity expenses, interest, maintenance, and repairs, office supplies, postage, printing, publications, reference material, rental of facilities, staff development, staff travel, telephone, and utility expenses. Contracted services includes claim audit expense, actuarial studies expenses, claim administration fees, accreditation fees, audit fees, unallocated legal fees and consulting fees.

Contributions to Outside Agencies:

Report dividend expenses paid or payable to members on this line.

Other Expenses:

Use this line item to report the cost of excess insurance and the provision for insured events. This line item requires the preparer to specify its use. Use the blank space available in the account description column to define excess insurance and provision for insured events.