

**CONTRA COSTA COUNTY  
SCHOOLS INSURANCE GROUP**

**Finance  
Policies  
&  
Regulations**

***Section 300***



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**ACCOUNTS & RECORDS****AP301**

The Agency shall establish accounts and operating procedures for all funds received and dispersed.

**ACCOUNTS & RECORDS****AR301.1*****PROCEDURES***

The Agency shall establish and maintain such funds and accounts as may be required by good accounting practice or by any provision of law or any resolution of the Executive Committee. These funds shall include but not be limited to the Operating Fund and the Reserve Fund as identified in the JPA Agreement.

**FISCAL YEAR****AP302**

The Agency shall operate on a fiscal year from July 1 of each year through June 30 of the following year.

**OPERATING BUDGET****AP303**

The budget shall be approved by the Executive Committee annually and shall include a minimum 3% reserve for contingencies.

**OPERATING BUDGET****AR303.1*****BUDGET PROCEDURES***

The budget shall be prepared by the Chief Financial Officer and reviewed by the Executive Director and Finance Subcommittee, prior to submission to the Executive Committee for adoption annually.

**FINANCIAL STATEMENTS****AP304**

Financial statements shall be prepared and presented on the accrual basis of accounting in accordance with Governmental Accounting Standards.

## **FINANCIAL STATEMENTS**

**AR304.1**

### ***FINANCIAL STATEMENT PROCEDURES***

The statements shall include a Balance Sheet, a Statement of Operations and Retained Earnings. Statements are prepared by the Chief Financial Officer, reviewed by the Executive Director and distributed to the Executive Committee at their scheduled meetings.

The Governing Board shall receive financial statements annually and shall file same with the State Controller's and County Auditor's offices as required for special districts.

**TREASURER****AP305**

The Treasurer of Contra Costa County shall be the Treasurer of the Agency and the designated depository of the Agency. The Treasurer shall perform those functions prescribed by law and referenced in the JPA Agreement.

**AUDITOR/CONTROLLER****AP306**

The Auditor-Controller of Contra Costa County shall perform for the Agency the auditor-controller functions described in Government Code sections 6505 and 6505.5 and referenced in the JPA Agreement.

Funds held in the County Treasury shall not be assets of the County and the relationship with the Agency shall not be one of creditor-debtor. Agency funds shall not be part of County bankruptcy subject to prioritization and disposition.

Contra Costa County may charge monthly fees for services provided to the Agency.

## **ANNUAL PREMIUM RATE**

**AP307**

The annual premium rate shall be established by following procedures identified in the JPA Agreement.

The annual premium rate shall fund at a minimum 80% confidence level, with the intent that the additional funds collected by funding at an 80% confidence level, compared to funding at a 70% confidence level, shall be used to fund the Agency's Target Equity Fund. Because the amount required to fulfill obligations cannot be known precisely in advance, assessments, reserve requirements, and other financial parameters of the Agency's operation must necessarily be initially established and subsequently maintained by means of estimates. The amount calculated and billed to a member in the initial policy year is this estimated amount. Any interim transactions and their effects on the Agency notwithstanding, it is mutually agreed by the Agency and each of its members that all members participating in the Agency for any period of time will jointly and severally be liable for payment of any assessment, premium, and other amount necessary to meet any benefit, expense or other lawful obligation of the Agency arising from that period of time related to the workers' compensation program. Accordingly, a member's obligation for its pro-rata share of the policy year liabilities never expires. This joint and several liability will apply without limitation as to amount, and without any restriction as to when any portion of the obligation is identified. Specifically, any member who terminates their participation in the Agency, voluntarily or involuntarily, will remain jointly and severally liable for payment of any Agency obligations attributable to their period of membership, regardless of when part or all of these obligations become known. Termination of membership in the Agency will only serve to cancel the member's participation in future policy years but the obligation for policy years where the member participated does not expire.

## **TIMELY PAYMENT OF PREMIUM**

**AP308**

In order to help assure premiums are paid when due, billing to member districts from the Group shall become delinquent on the 15th day of the month following the invoice date. If a payment is not received by the date the payment becomes delinquent, a penalty and interest will be assessed to the member district with regard to the delinquent billing as follows:

- An interest charge of two percent (2%) per month (24% annually), or an interest charge set by the Executive Committee shall be assessed on delinquent balances, beginning the first day of the month following the invoice becoming delinquent. The interest charge shall be applied monthly until paid.
- The Executive Committee may take such action as is allowable and deemed appropriate to collect the delinquencies.

**INVESTMENTS****AP309**

The investment practices of the Agency shall be based on state law and prudent money management. All funds shall be invested in accordance with the Agency's Investment Policy, Article 2 of Chapter 4 of the California Government Code, and Education Code Sections 41001 and 41015. If the Agency issues bonds, the investment of bond proceeds shall be restricted by the provisions of relevant bond documents.

## **INVESTMENTS**

**AR309.1**

### ***INVESTMENT PROCEDURES***

The primary investment objectives of the Agency shall be safety, liquidity and return on investment. The Executive Director shall monitor and review all investments for consistency with these objectives.

The Executive Director shall annually render to the Executive Committee and Governing Board a statement of investment policy, which the Committee shall review at a public meeting. Any changes to the policy shall also be considered by the Committee at a public meeting.

The Executive Director shall render a quarterly investment report to the Executive Committee in accordance with applicable codes. The report shall include information for each individual investment in the Agency's portfolio.

The assets of the Agency shall be secured through third-party custody and safekeeping procedures. The custodian shall be retained by the County Treasurer or the Agency.

The Agency shall have the authority to delegate portfolio decision making and execution authority to an investment advisor.

Attached is the current Investment Policy as adopted by the Executive Committee.

**TARGET EQUITY FUND****AP310**

The Agency shall establish a minimum Target Equity Fund of \$7.5 million, or 10% of outstanding liabilities, whichever is greater, Net of Fixed Assets, from the workers' compensation program to allow the Agency the ability to fund any negative claims' developments, market developments or to help offset large future rate increases. The Agency's Annual Premium rate (as outlined in AP307) shall continue to fund at a minimum 80% confidence level, with the intent that the additional funds collected by funding at an 80% confidence level, compared to funding at a 70% confidence level, shall be used to fund the Agency's Target Equity Fund. In addition, any positive development for a policy year (i.e., losses come in at expected, or at a confidence level below 70%) the difference between that level and 80% shall go towards the Target Equity Fund.

The Board shall declare no dividends until the Target Equity Fund balance has surpassed the minimum amount, and when it does declare dividends, shall not declare an amount that would take the Target Equity Fund balance below the minimum amount. The Executive Committee shall review the progress towards the Target Equity Fund Goal annually, and shall make any needed adjustments.

## **DIVIDEND DISTRIBUTION**

**AP311**

The Agency shall have the authority to issue dividends based on surplus developed for specific claim years. The determination of surplus and recognition of a dividend shall only be recommended by the Executive Committee and approved by the Board of Directors if the Target Equity Fund is above the minimum amount, and the amount of the dividend will not take the Target Equity Fund below the minimum amount. The surplus can be taken as cash distribution, or can be applied as a credit to any deficit assessment plan or as additional funding towards the Target Equity Fund.

The surplus shall take into consideration all premiums paid, ultimate loss, interest income, administrative expenses, targeted retained earnings and potential future capital obligations calculated on a policy year basis in accordance with the Joint Powers Authority Agreement and corresponding Bylaws.

The method utilized to calculate each member's percentage of the dividend shall include the aggregate premium and share of loss and expenses per member district since the Agency's inception, July 1, 1977, including any terminated members, and as outlined in the Agency's Joint Powers Authority Agreement and corresponding Bylaws, and shall be calculated using a method of policy year accounting where the equity by member is allocated for each policy year based on each member's percent of contributions to the total for that policy year.

## **DEFICIT RECOVERY**

**AP312**

The Agency shall make every effort to maintain positive equity. Upon the conclusion of any fiscal year financial audit in which a deficit has been incurred, the Finance Subcommittee shall determine and recommend a Deficit Recovery Plan to the Executive Committee for approval, within 120 days of the conclusion of the audit. In the event the Deficit Recovery plan includes an assessment for member districts, the Executive Committee shall recommend the Deficit Recovery Plan assessment to the Board of Directors for approval, within 120 days of the approval by the Executive Committee.

The method utilized to calculate each member's percentage of the deficit shall include the aggregate premium and share of loss and expenses per member district since the Agency's inception, July 1, 1977, including any terminated members, and as outlined in the Agency's Joint Powers Authority Agreement (Section 8 & Section 16) and corresponding Bylaws (Section X, Item F), and shall be calculated using a method of policy year accounting where the equity by member is allocated for each policy year based on each member's percent of contributions to the total for that policy year.

## **AUDIT REPORTS**

**AP313**

### ***FINANCIAL***

The Agency shall independently contract for the annual financial audit in cooperation with the Contra Costa County Auditor/Controller.

The audit shall be conducted in accordance with generally accepted auditing standards and the State Controller's Minimum Audit Requirements for Special Districts.

### ***CLAIMS***

The Agency shall independently contract biennially for the claims audit to insure that all files have been set up, reviewed, reserved, settled and/or litigated at appropriate levels.

The audit shall include the use of a qualified claims auditor, independent of the Agency and any insurers.

**AUDIT REPORTS****AR313.1*****FINANCIAL AUDIT PROCEDURES***

The audit shall include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates by management; and evaluation of financial statement presentation.

The audited financial statements and management letter shall be approved by the Executive Committee. Management letter comments shall be formally responded to by the Agency.

Special internal control structure audits may be determined by the Executive Director and/or the Executive Committee and completed as required.

**ACTUARIAL REPORT****AP314**

The Agency shall contract every two years, or more often as needed, for an independent actuarial study to determine the adequacy of reserves and the appropriate funding levels for anticipated future losses.

**ACTUARIAL REPORT****AR314.1*****ACTUARIAL REPORT PROCEDURES***

The study shall include recommendations for discounting claims liabilities and establishing an appropriate confidence level for use in setting annual premium rates.

The study shall include recommendations for dividend distributions, if required.

The study shall be presented to and accepted by the Executive Committee and shall be reviewed by the financial auditor.

## **MEMBERSHIP CRITERIA AND UNDERWRITING**

**AP315**

Contra Costa County Schools Insurance Group has established Workers' Compensation Membership Criteria Requirements, Application Procedures and Underwriting Standards for the purpose of evaluating prospective members interested in the Workers' Compensation Program.

Underwriting information is also used for existing member programs for rate making/premium calculation, measuring member performance and calculating dividends or assessments based upon equity levels. Underwriting standards and guidelines are outlined in various governing documents, including the JPA Agreement, Bylaws, and Administrative Policies and Regulations. This policy provides a summary and highlights much of the criteria utilized to complete the underwriting process.

**Approved: August 24, 2017**

**Approved: August 21, 2014**

***UNDERWRITING CRITERIA FOR RISK EXPOSURE & COST ANALYSIS PROCEDURES***

Establishing underwriting criteria ensures that all CCCSIG programs are analyzed for risk exposures, funding requirements, dividend and assessment calculations, risk retention levels, compatibility between members and serviceability by staff.

The information required for membership consideration and underwriting analysis is to determine whether or not it is in the best interest of the CCCSIG Workers' Compensation to grant program membership:

- Claims Administration details
- Workers' Compensation Payroll Exposures (5-years)
- Excess Insurance and Retention details
- Workers' Compensation Loss Runs (7-years)
- Actuarial Study
- Independent, State and Excess Carrier Claim Audit
- Audited Financials for the past 3 years
- Districts Best Practices/Culture (e.g. Pre-Employment Screens, Employee Health and Safety Services and Formalized Return to Work Programs).
- CCCSIG Workers' Compensation Membership – General Information and Application Requirements (attached).

The purpose of the underwriting process is to provide the most accurate evaluation of a potential new member, existing members, and overall program analysis to assess, the financial position, payroll size, loss history and safety culture to determine if they are a good risk and fit with the current membership. Potential new members are required to commit to establishing and maintaining a Health and Safety-focused culture and implement the cost savings and risk management programs offered by CCCSIG, have a 5-year Ex-Mod (calculated by CCCSIG actuary) that is 125% or better; target net assets are considered during underwriting, lowering required Ex-Mod to (110 %) if the Agency is below the target net asset amount.

CCCSIG's premium contribution formula for rate setting and funding requirements is covered payroll x Group base rate x members 5 year Ex-Mod. CCCSIG's Group base rate, actuarially determined at 80% confidence level, includes the administrative budget, Excess Workers' Compensation Insurance costs. CCCSIG programs are based on risk sharing among its members, focused on prevention and cost containment.

The JPA Agreement authorizes the distribution of dividends or collection of assessments based upon the financial position of the program by fiscal year, with the target equity policy governing the minimum equity balance required. Any program assessments and rebates are declared by the Board of Directors at the recommendation of the Executive Committee, if a policy year or group of policy years are determined to be under or overfunded.

## **MEMBERSHIP CRITERIA & UNDERWRITING**

**AR315.1 (cont.)**

The CCCSIG Membership Review Subcommittee, upon completion of review and analysis of the required underwriting information for the perspective school district, will make a recommendation to the CCCSIG Executive Committee for acceptance or denial, including all eligibility terms and conditions as defined in the JPA governing documents and administrative policies and regulations.

The Membership Criteria Requirements and Underwriting Policy will be reviewed by the Executive Committee every three years, to ensure the process is adequately measuring risk, allocating costs and identifying potential other factors than those stated in the Underwriting Criteria for Risk Exposure and Cost Analysis section of the underwriting process, ensuring the continued financial viability and security of CCCSIG.

**Approved: August 24, 2017**

**Approved: August 21, 2014**

**MEMBERS REPORTING OF ACTUAL PAYROLL****AP316**

The members of CCCSIG's Workers' Compensation Program must report their actual payroll each quarter by submitting their District's gross wages (total of all 1,000's and 2,000's accounts) to CCCSIG. This will ensure member districts are being charged based on the same qualifying payrolls, which will result in an equitable distribution of premiums.

**Approved: March 17, 2016****Approved: January 22, 2015**