POLICY NO. CF-01

CONTINGENCY FUND & NET POSITION POLICY

Effective October 11, 2016

The following guideline of Risk Management Practices has been developed and adopted by the Board of Directors of the Fresno County Self Insurance Group ("FCSIG") and is effective as of the date indicated above pursuant to Article VIII of the Bylaws of FCSIG. Each Member District has agreed to the implementation of all guidelines of Risk Management Practices developed by the Board of Directors. The following policy shall be referred to for all purposes as Policy No. CF-01.

It shall be the policy of Fresno county Self-Insurance Group (FCSIG) (the Authority) to assure that the funds held and contributions collected are reasonably adequate to pay the liability of the Authority. All funds held are fungible, in that any funds may be used to pay any liabilities of the Program.

These funds will be managed in the following manner:

1. **Program Year Accounting**: The funds from each program year shall be accounted for separately in accordance with GASB.

2. **Actuarial Reports**: Two actuarial studies are required a year to assure the appropriate funding of the program.

   a) Prospective Confidence Funding: Annually, with the completion of the Actuarial study in the Spring which is used to set the contribution rates for the upcoming program year. The program's Actuary will provide estimates of the amounts of additional funding that, when added to the contribution rates will develop a seventy (70%), an eighty percent (80%), and a ninety (90%) probability level in funding for the next program year's liabilities. The Board may elect funding rates that include a margin to achieve any of these probability levels, as they deem appropriate to manage the financial integrity of the Authority; however, it is the policy of the Authority to fund at least 70% probability level.

   At the Spring meeting the Board will approve a prospective discount factor for both retrospective and prospective liabilities.

   b) Retrospective Confidence Funding: Annually, with the completion of the Actuarial study in the Fall which is used to establish reserves of the program for outstanding liabilities. The program's Actuary will provide estimates of the amounts of additional reserves that will provide seventy percent (70%), eighty percent (80%), and ninety percent (90%) or a higher probability levels for the amounts of outstanding liabilities as of the end of the preceding Program year. The Board of Directors will consider the Actuarial estimates and elect a "Contingency Funding Level" for the program. While the Board of Directors may elect any Contingency Margin Level to assure the Authority's financial stability, the Policy of the Authority is to set the Contingency Fund at the ninety percent (90%) probability level.

   c) Statutory Claim Reserve: Annually, with the completion of the Actuarial Study in the Fall, the Authority Actuary will calculate, based on Accepted Actuarial Principles, and recommend a Statutory Claim reserve dollar amount **in excess** of the Retrospective Confidence Funding requirement in Item 2.b) above to provide an additional contingency margin for protection against this uncertain long term exposure.

3) **Review of Net Position:** Each year the Board of Directors shall review the net position of the program and authorize any contribution adjustments necessary for the benefit of the program. Where appropriate, the Authority will strive to offset any member assessments with distributions from other program years which have a positive net position.

4) **Vesting of Distribution:** Members' interest in any distribution that may be declared by the Board as eligible for return back to the Member will vest at 10% per year over a 10 year consecutive period of membership. Any distribution declared by the Board for which a Member is not vested due to an interruption in membership, will be retained by the Authority.

5) **Utilization of Distribution:** Upon the declaration of a distribution the Member's authorized representative shall:

   a) Advise the Treasurer's Agent to utilize their distribution in one of the following ways:
      i. Direct Return
      ii. Credit Next Year's Contribution
      iii. Establish an individual Risk Management Fund

   b) Whenever a Member decides to exercise option i or ii above, within the designated fiscal year; the total amount of that Member's distribution must be used. Member will not be permitted partial withdrawals.

   c) Distributions will not accrue interest.

6) **Continued Financial Adjustments:** Though unlikely, late reported claims or reopened claims might emerge for older program years and produce costs to the program in years where no net position exists. Such costs will continue to be attributable to the program year in which they were incurred and be the liability of the members who participated in that program year. The Authority will strive to make any collection of negative net position funds to pay those liabilities at the same time that any positive net position funds are being returned from other program years so that assessments will be avoided, where possible.