

MEMORANDUM

TO: Audit and Finance Committee Members

THROUGH: Sandra Close Turnquest, DED, Corporate Resources
Paul E. Dumars, Sr., Chief Financial Officer

FROM: Aaron M. Basinger, Director, Finance and Administration

DATE: August 13, 2008

SUBJECT: Self-Insurance Reserve Policy

Objective

The objective of this memo is to propose that the Audit and Finance Committee recommend to the Governing Board that a formal policy be adopted allowing a reserve within the District's "Self-Insurance Fund" (Fund 601) -- in excess of established actuarial requirements -- to meet the funding needs of extraordinary and/or unanticipated general liability, workers compensation or automobile liability claims.

The recommended reserve amount may fluctuate from year to year, dependent upon funding levels and claims made exceeding actuarially determined amounts, but would be set at a maximum level not to exceed \$10.0 million. Management feels that such a reserve is prudent based upon the District's extensive geographic area, large number of assets, public access to District lands and facilities, and the many day-to-day risks faced by the District, its staff, and contractors in carrying out its mission.

Issue

For the past three years, the District's external auditor (Sharpton, Brunson & Company, P.A.) has issued a management letter comment that funding levels in the District's Self-insurance Fund -- a Fund established by the District to pay three specific types of liability claims (workers compensation, automobile, and general liability) -- should only reflect funding levels required to meet actuarially determined liabilities, and include no additional reserves. Or, if additional reserves are to be included in the fund, a Governing Board policy should be adopted that approves the maintenance of such a reserve.

Management concurs with this comment and feels that is fiscally prudent to allow a reserve to be maintained within the District's Self-Insurance Fund -- in excess of calculated actuarial requirements -- in order to meet unanticipated claims. In fact, a large general liability claims bill (in the amount of nearly \$4.0 million) requiring payment by the District was recently passed during the 2008 Legislative Session and signed by the Governor.

For the aforementioned reasons, management recommends that the Governing Board approve a formal policy allowing a reserve to be maintained within the District's Self-Insurance Fund.

Options

1. Continue the existing practice of funding a reserve within the District's Self-Insurance Fund in the absence of a formal Governing Board policy. Continuing with this option will result in an on-going management letter comment from our external auditors.

2. Eliminate all reserves within the District's Self-Insurance Fund that are in excess of calculated actuarial requirements. Management believes this option is not fiscally prudent and leaves the District vulnerable in the event of large unanticipated claims – such as during the current fiscal year when the Legislature passed a large (\$4.0 million) general liability claims bill, requiring payment by the District.
3. Adopt a formal policy allowing an adequate and reasonable level of funding reserves within the District's self-insurance fund.

Recommendation

Management proposes that the Audit and Finance Committee recommend that the Governing Board adopt a policy directing the Executive Director, or his or her designee, to allow a reserve balance for self-insurance liabilities that is no more than \$10 million in excess of actuarially determined claims liabilities.