

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2010 and 2009

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
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December 31, 2010 and 2009**

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
California Schools  
Voluntary Employees Benefits Association

We have audited the accompanying statements of net assets available for benefits of the California Schools Voluntary Employees Benefits Association (the Plan), as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in its net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

*Rosner Brown Touchstone & Keller, LLP*

June 15, 2011

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

December 31, 2010 and 2009

	2010	2009
<b>Assets:</b>		
Cash and cash equivalents (Note 3)	\$ 18,570,410	12,867,952
Investments, at fair value (Note 5)	14,994,238	13,473,856
Accounts receivable, net of allowance (Note 4)	108,635	399,270
Note receivable (Note 6)	1,823,152	2,605,587
Other assets	298,690	223,835
 Total assets	 35,795,125	 29,570,500
<b>Liabilities:</b>		
Insurance premiums and claims payable	13,770,211	13,033,947
Deferred contributions	11,726,616	7,234,735
Accounts payable	147,680	129,717
Unpaid self-insurance claims incurred but not reported	1,106,000	1,075,000
Other liabilities	228,600	228,600
 Total liabilities	 26,979,107	 21,701,999
 Net assets available for benefits	 \$ 8,816,018	 7,868,501

See Accompanying Notes to Financial Statements

**CALIFORNIA SCHOOLS**  
**VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION**  
**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Additions to net assets attributed to:		
Contributions from participant Districts for:		
Kaiser	\$ 150,806,429	147,312,034
PacifiCare/United Healthcare	148,303,294	139,372,039
Medco	31,912,141	30,870,995
Delta Dental	6,709,131	6,462,032
PacifiCare Behavioral Health of California	4,776,152	4,477,201
Administrative fees	3,413,877	3,178,128
Vision Service Plan	2,381,177	2,366,641
American Specialty Health Plan	1,805,724	1,897,345
Employee Assistance Program	904,562	841,084
Minnesota Life	486,769	474,103
	<u>351,499,256</u>	<u>337,251,602</u>
Total contributions		
Rebates	3,823,630	3,163,189
Investment income	1,679,011	2,357,588
Performance guarantee	62,500	-
Allowance for billing and eligibility adjustments	(1,338,617)	(3,221,681)
	<u>355,725,780</u>	<u>339,550,698</u>
Total additions	\$	

See Accompanying Notes to Financial Statements

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, CONTINUED**  
For the Years Ended December 31, 2010 and 2009

	2010	2009
Deductions from net assets attributed to:		
Benefit payments:		
Kaiser premiums	\$ 150,806,429	147,312,034
PacifiCare/United Healthcare premiums	148,303,294	138,372,039
Medco claims	33,227,828	32,951,930
Delta Dental claims	6,103,549	6,301,349
PacifiCare Behavioral Health of California premiums	4,776,152	4,477,201
Vision Service Plan claims	2,283,138	2,367,755
American Specialty Health Plan premiums	1,805,724	1,897,345
Employee Assistance Program	904,562	841,084
Minnesota Life premiums	486,769	474,103
	<u>348,697,445</u>	<u>334,994,840</u>
 Administrative expenses:		
Management fees	2,271,196	2,148,113
Program support	1,472,519	1,158,691
Other deductions	1,329,407	784,581
Communications	608,776	858,116
Consulting fees	398,920	396,621
	<u>6,080,818</u>	<u>5,346,122</u>
 Total deductions	<u>354,778,263</u>	<u>340,340,962</u>
 Net increase (decrease) in net assets	947,517	(790,264)
 Net assets available for benefits, beginning of year	<u>7,868,501</u>	<u>8,658,765</u>
 Net assets available for benefits, end of year	<u>\$ 8,816,018</u>	<u>7,868,501</u>

See Accompanying Notes to Financial Statements

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS**

December 31, 2010 and 2009

**1. Description of Plan**

The following description of the California Schools Voluntary Employees Benefits Association, formerly known as the Southern California Schools Voluntary Employees Benefits Association (the Plan), provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

*General*

The Plan provides insurance coverage to employees, retirees, and dependents of the member California School Districts (the Districts). Eligibility of participants varies by District and is determined by each District.

The Plan contracts with a third party that provides administrative services to the Plan and, in this capacity, performs administrative duties as defined in their agreement. Administrative fees are paid by the Plan at a rate predetermined in their services agreement based on active participants on a monthly basis. Total management fees paid by the Plan to the third party in 2010 and 2009 were \$2,271,196 and \$2,148,113, respectively.

The Plan commenced formal operations October 1, 1993, and is primarily a fully insured welfare benefit plan under Section 501(c)(9) of the Internal Revenue Code. The Plan has adopted a December 31 year end.

The medical plans offered are fully insured. The Plan provides only for current insurance coverage, and does not cover future benefits. The Plan's actuary negotiates with insurance companies for favorable insurance rates.

The Plan currently provides uninsured prescription drug programs, uninsured plans for dental care, and uninsured vision plans. Contributions are determined by the Plan's actuary based upon industry trends, historical experience and other factors.

The Districts' contributions to the Plan include monies from participant Districts and their eligible employees, if required, and are used for insurance premiums, claims and administrative fees. The portion of each District's employee contribution is determined by each District based upon its agreement with labor associations. These contributions are held in trust by the Plan's administrator, who pays the premiums to the insurance companies. The administrator directly pays the claims under the dental, prescription drug and vision plans.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED**

December 31, 2010 and 2009

**1. Description of Plan, Continued**

Insurance Coverage

The Plan consists of the following types of insurance coverage:

Kaiser

Kaiser offers a choice of five fully insured medical plans for active participants and one Medicare retiree plan.

PacifiCare/United Healthcare

PacifiCare/United Healthcare offers Health Maintenance Organization plans, Point-Of-Service plans, Preferred Provider Organization plans, plans for participants outside the PacifiCare/United Healthcare service area and Medicare retiree plans. All plans are fully insured.

Medco Health Solutions

This is a self-insured prescription drug plan. The Plan collects contributions from member Districts based on actuarial assumptions and pays the actual drug claims as they are reported.

Delta Dental

Delta Dental offers self-insured dental care programs. The Plan collects contributions from member Districts based on actuarial assumptions and pays the actual dental claims as they are reported.

PacifiCare Behavioral Health of California

PacifiCare Behavioral Health of California provides mental health care for participants under the PacifiCare Health Care Plans.

Vision Service Plan

Vision Service Plan offers self-insured vision plans. The Plan collects contributions from member Districts based on actuarial assumptions and pays the actual vision claims as they are reported.

American Specialty Health Plan

This is a chiropractic program that is offered in conjunction with each of the medical plans. Each participating district or bargaining unit may choose to offer an acupuncture plan through American Specialty Health Plan.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2010 and 2009

**1. Description of Plan, Continued**

*Insurance Coverage, Continued*

*Minnesota Life*

This company offers life insurance plans.

**2. Summary of Accounting Policies**

*General*

The Plan maintains its accounts on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under the accrual basis of accounting, contributions are recorded when due from the Districts and benefit payments from the Plan are recorded in the period they are being used to insure. The significant accounting policies followed are discussed below.

*Deferred Contributions*

Deferred contributions consist of premiums received from Districts for which the related insurance premiums are not yet due. The deferred contributions are recognized as revenue when the related insurance premiums are due.

*Unpaid Self-Insurance Claims Incurred But Not Reported*

Unpaid self-insurance claims incurred but not reported relate to claims incurred but not yet reported in the current period under the self-insured prescription drug plans, dental plans, and vision plans.

Because actual claim costs depend on complex factors such as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically by the Plan's actuary to produce current estimates that reflect claim settlements, claim frequency and other economic and social factors.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2010 and 2009**

**2. Summary of Accounting Policies, Continued**

*Investment Valuation and Income Recognition*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded when earned. Net appreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

*Estimates and Assumptions*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

*Reclassification*

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

*Subsequent Events*

Management has evaluated subsequent events through June 15, 2011, the date on which the financial statements were available to be issued. There have been no material subsequent events which would require recognition in the financial statements or disclosure in the notes to the financial statements.

**3. Cash and Cash Equivalents**

Cash is held by the Plan administrator in trust accounts established at a business bank. Money is transferred to a separate disbursement account when used to pay premiums or administrative expenses. At December 31, 2010 and 2009, approximately \$18,289,000 and \$12,868,000 of cash not required for short-term distribution was invested in money market accounts with interest rates of 0.47% and 0.76%, respectively.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2010 and 2009**

**4. Accounts Receivable**

Accounts receivable are principally monthly premiums billed to the participating school districts that are yet to be received. Premium contributions are recognized as additions to net assets when billed.

Accounts receivable as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Accounts receivable	\$ 173,635	799,270
Less allowance for doubtful accounts	(65,000)	(400,000)
	\$ 108,635	399,270

**5. Investments, at Fair Value**

U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of the following assets is based on Level 1 measurements. Level 1 fair value measurements are quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED**

December 31, 2010 and 2009

**5. Investments, at Fair Value, Continued**

Investments, at fair value, consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Mutual funds:		
Bond funds – short-term bond	\$ 2,807,428	1,877,337
Bond funds – immediate-term bond	2,114,207	1,960,513
Bond funds – ultra short bond	504,107	498,337
Bond funds – high yield bond	135,317	118,453
Bond funds – government	58,449	-
Bond funds – inflation protected bond	57,436	-
Bond funds – world bond	35,065	-
Equity funds – small blend	1,804,580	1,867,960
Equity funds – foreign large blend	979,700	972,049
Equity funds – natural resources and energy	388,732	355,747
Equity funds – foreign small/mid value	262,550	237,918
Equity funds – diversified emerging markets	238,269	107,947
Equity funds – foreign large value	193,007	180,942
Equity funds – communications and technology	192,393	157,060
Equity funds – health	<u>47,644</u>	<u>66,282</u>
Total mutual funds	9,818,884	8,400,545
Equities:		
Equities – services	886,038	758,866
Equities – technology	735,109	688,702
Equities – financial	699,721	471,853
Equities – basic materials	532,152	504,846
Equities – healthcare	473,516	495,440
Equities – consumer goods	408,151	406,966
Equities – industrial goods	326,876	280,807
Equities - other	<u>117,727</u>	<u>103,309</u>
Total equities	4,179,290	3,710,789

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED**

December 31, 2010 and 2009

**5. Investments, at Fair Value, Continued**

	<u>2010</u>	<u>2009</u>
Fixed income:		
Government bonds	292,230	445,297
U.S. treasuries	228,874	466,051
Corporate bonds	103,823	104,872
Certificates of deposit	<u>50,989</u>	<u>102,975</u>
Total fixed income	675,916	1,119,195
Money market funds	<u>320,148</u>	<u>243,327</u>
	 \$ <u>14,994,238</u>	 <u>13,473,856</u>

Fair value is based on market quotations at December 31, 2010 and 2009.

Net appreciation (depreciation) of the fair value of investments consists of the following for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Mutual funds	\$ 756,221	1,206,381
Equities	452,387	677,034
Fixed income	<u>(14,749)</u>	<u>(10,462)</u>
	 \$ <u>1,193,859</u>	 <u>1,872,953</u>

**6. Note Receivable**

During the year ended December 31, 2009, the Plan converted outstanding accounts receivable from a member District of \$2,605,587 to a note receivable. The balance under the note as of December 31, 2010 and 2009, was \$1,823,152 and \$2,605,587, respectively. The note bears interest at 1.96% per annum and matures on June 30, 2014. The note requires semi-annual principal and interest payments of \$274,808 due on January 1 and June 30 each year.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED**

December 31, 2010 and 2009

**7. Tax Status**

The Plan has received a favorable determination letter regarding tax-exempt status under the provisions of the Internal Revenue Code. The Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

**8. Plan Continuity**

Although it has not expressed any intent to do so, the Board of Directors has the right under the Plan agreement to terminate the Plan. In the event of Plan termination, any monies remaining in the Plan after the payment of all expenses shall be used for the continuance of one or more benefits provided by the Plan, until such monies are exhausted.

**9. Lease Commitments**

The Plan has an agreement to lease office space which expires in April 2012 and provides that the Plan pay utilities, real estate taxes, and a pro rata share of common area maintenance expenses as determined by the pro rata share of total square footage of the building. For the years ended December 31, 2010 and 2009, rent expense under the lease was \$57,347 and \$55,502, respectively, and is included in advocacy, disease management and ombudsman expense.

Future minimum lease payments under the lease are as follows:

2011	\$	57,501
2012		<u>14,526</u>
	\$	<u><u>72,027</u></u>

In May of 2008, the Plan entered into an agreement to sublease a portion of its office space to a third party that, as described in Note 1, provides administrative services to the Plan. The sublease expires June 30, 2012. For the years ended December 31, 2010 and 2009, rental income under the sublease was \$24,000 and \$24,000, respectively.

**CALIFORNIA SCHOOLS  
VOLUNTARY EMPLOYEES BENEFITS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2010 and 2009**

**9. Lease Commitments, Continued**

Future minimum lease proceeds under the sublease are as follows:

2011	\$	24,000
2012		<u>12,000</u>
	\$	<u><u>36,000</u></u>

**10. Concentration of Credit Risk**

At December 31, 2010 and 2009, cash included approximately \$18,570,000 and \$12,868,000, respectively, of deposits in commercial banks, a portion of which may be in excess of the federally insurance limit. The Plan has not experienced any such losses and believes it is not exposed to any significant credit risk on these cash deposits.