



Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants

VALUE THE DIFFERENCE

October 1, 2014

Orange County Auditor/Controller's Office  
Jan Grimes  
12 Civic Center Plaza, Room 200  
P.O. Box 567  
Santa Ana, California 92702

Dear Ms. Grimes:

Enclosed is one bound copy of the annual financial report for the Northern Orange County Liability & Property Self-Insurance Authority for the year ended June 30, 2014.

Very truly yours,

A handwritten signature in black ink that reads 'Lynelle I. Jarschke'.

Lynelle I. Jarschke  
of VAVRINEK, TRINE, DAY & CO., LLP

LJJ/sab

Enclosure

AUDITOR-CONTROLLER

OCT 03 2014

**NORTHERN ORANGE COUNTY  
LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2014**

AUDITOR-CONTROLLER

OCT 03 2014



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**COSTA MESA, CALIFORNIA**

**JUNE 30, 2014**

**BOARD OF DIRECTORS**

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Kevin Smith	Magnolia School District	President
Patricia Meyer	Los Alamitos Unified School District	Vice President
Lynn Simmons	Coastline Regional Occupational Program	Secretary/Treasurer
Joshie Cox	ABC Unified School District	Member
Darren Dang	Anaheim City School District	Member
Kelvin Tsunezumi	Buena Park School District	Member
Mark Schiel	Centralia School District	Member
Tim McLellan	Cypress School District	Member
Kathleen Thomason	Greater Anaheim Special Education Local Plan Area	Member
Carol Argomaniz	La Habra City School District	Member
Howard Burkett	North Orange County Regional Occupational Program	Member
Eric Fano	Savanna School District	Member
Pati Romo	South Coast Regional Occupational Program	Member
Tina Douglas	Westminster School District	Member



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

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JUNE 30, 2014**

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Northern Orange County Liability & Property  
Self-Insurance Authority  
Costa Mesa, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Orange County Liability & Property Self-Insurance Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northern Orange County Liability & Property Self-Insurance Authority as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and claims development information on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting and compliance.

*Vavrinich, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
September 24, 2014



# Northern Orange County Liability & Property Self-Insurance Authority

**PRESIDENT**  
Kevin Smith  
Magnolia SD  
2705 West Orange Ave.  
Anaheim, CA 92804  
(714) 761-5533

**VICE PRESIDENT**  
Patricia Meyer  
Los Alamitos USD  
10293 Bloomfield Street  
Los Alamitos, CA 90720  
(562) 799-4700

**TREASURER**  
Lynn Simmons  
Coastline R.O.P.  
1001 Presidio Square  
Costa Mesa, CA 92626  
(714) 979-1955

**MEMBER DISTRICTS:**

- ABC USD
- Anaheim City SD
- Buena Park SD
- Capistrano-Laguna ROP
- Centralia SD
- Coastline ROP
- Cypress SD
- GASELPA
- La Habra City SD
- Los Alamitos SD
- Magnolia SD
- North Orange County ROP
- Savanna SD
- Westminster SD

This discussion and analysis provides an overview of the financial condition of Northern Orange County Liability & Property Self-Insurance Authority (NOCLPSIA) for the fiscal years ended June 30, 2013 and June 30, 2014. It examines and reviews NOCLPSIA's financial operations and analyzes the significant financial changes from the prior year. Readers should review the financial management information report and the independent financial audit in conjunction with this report to enhance their understanding of NOCLPSIA's financial performance.

### Introduction and Background

NOCLPSIA is a public risk sharing pool established pursuant to a Joint Power Agreement effective August 1, 1979, for the purpose of self-funding property and liability claims. Participation in NOCLPSIA gives members the advantage of pooled member contributions, sharing of claim liability risk and purchase of insurance at a lower cost. NOCLPSIA's membership consists of 14 individual member districts from the Northern Orange County area. A Full Board of Directors comprised of one representative from each member governs NOCLPSIA. Each member has one vote. The Board elects from its members a President, Vice President, and Secretary/Treasurer.

NOCLPSIA is able to retain a degree of control over their rate structure adding to the stability and longevity of their program. NOCLPSIA operates on a fiscal/program year from July 1st through June 30th with each program year operating separately from every other program year. By tracking financial activity by program year, only the members participating in a given year receive potential rebates or assessments. At the same time, other items such as administrative expenses and investment income can be accurately allocated to the proper program years' pooled equity or deficit.

Since its inception, NOCLPSIA has also been proactive in controlling its costs by developing a comprehensive risk management program and safety credit reimbursement plan. The purpose of the reimbursement plan is to provide a fund for each member to designate their portion of rebates and additional contributions. This fund is then utilized at the discretion of the members for reimbursement and implementation of various safety and loss control programs within their districts.

Accredited by the California Association of Joint Powers Authorities (CAJPA), NOCLPSIA continues to maintain a high level of performance, member satisfaction, and fiscal stewardship among organizations of its kind.



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**Mission Statement**

"The mission of Northern Orange County Liability and Property Self-Insurance Authority is to provide its members with comprehensive property and liability coverage utilizing both risk retention and risk transfer. Through its collective resources the authority will provide stable rates and specialized risk management services."

**Program Structure**

NOCLPSIA self-insures its property and liability claims up to \$25,000 per occurrence. NOCLPSIA participate in Southern California ReLiEF (So Cal ReLiEF) for excess coverage at a Member Retained Limit (MRL) of \$25,000 for property and liability. So Cal ReLiEF purchases reinsurance for property claims up to \$249,750,000 in excess of \$250,000 including the MRL and liability reinsurance of \$4 million excess of \$1 million including member's MRL. NOCLPSIA members have the option of purchasing liability coverage above the \$4 million excess of \$1 million from So Cal ReLiEF or Schools Excess Liability Fund (SELF).

**Financial Management and Control**

NOCLPSIA is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

NOCLPSIA has contracted with Keenan & Associates for administrative management responsibilities. These services include ensuring that NOCLPSIA meets its commitment to the members for operational efficiency, organizational integrity and for implementing policies established by the Board of Directors as set forth in organizational documents and bylaws. Service Enhancement Technologies (SETECH), a Division of Keenan & Associates, provides financial management and financial reporting to the Board. Budgetary control is provided by verification of budgeted amounts prior to expenses and the continued analysis of all account totals compared to budgeted amounts. Detailed financial statements and Treasurer's Reports include budget-to-actual comparisons and are provided to the NOCLPSIA Board on a quarterly basis. A comprehensive financial management information report is provided semi-annually and is the basis for the independent financial audit.

NOCLPSIA has also contracted with Bay Actuarial Consultants to provide an independent actuarial review of the overall program. This study confirms the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for all program years. Finally, Vavrinek, Trine, Day & Co., Certified Public Accountants, has performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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NOCLPSIA's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position provides information on NOCLPSIA's program assets and liabilities, with the difference reported as Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing total operating income versus operating expenses for fiscal years 2012-2013 and 2013-2014 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2013-2014 in cash and cash equivalents.

NOCLPSIA calculates the financial position of each program year on the basis that each year stands on its own. Specifically, the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenses of each claim year are accounted for in the year they are incurred. At the close of each year, an evaluation of the Net Asset position of individual program years is conducted, and any funds remaining after taking into account outstanding liabilities and other obligations, are considered eligible for return to members in accordance with NOCLPSIA's Capital Target Policy adopted April 12, 2006.

Over NOCLPSIA's 30 years of operation, it has declared and returned to date net member experience rebates of \$5,925,470 and has received \$2,562,523 in net returns from So Cal ReLiEF.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**FINANCIAL ANALYSIS**

**Condensed Statement of Net Position**

Below is a summary of the Statement of Net Position showing total assets versus total liabilities with a percentage of change from the 2012-2013 to the 2013-2014 program year.

	<b>Fiscal Year Ended June 30,</b>		<b>Difference</b>	<b>Percentage</b>
	<b>2013</b>	<b>2014</b>		
<b>Assets</b>				
Deposits and Investments	\$ 4,599,649	\$ 4,274,541	\$ (325,108)	(7.07) %
Prepaid	-	4,500	4,500	-
Accounts/Interest Receivable	1,924	1,857	(67)	(3.48)
Member Deductible Receivable	68,982	85,570	16,588	24.05
<b>Total Assets</b>	<b>4,670,555</b>	<b>4,366,468</b>	<b>(304,087)</b>	<b>(6.51)</b>
<b>Liabilities</b>				
Other Liabilities and Unearned Revenue	3,488,332	3,127,983	(360,349)	(10.33)
Claims Liabilities and ULAE	502,156	830,400	328,244	65.37
<b>Total Liabilities</b>	<b>3,990,488</b>	<b>3,958,383</b>	<b>(32,105)</b>	<b>(0.80)</b>
<b>Net Position</b>				
Undesignated	130,067	(141,272)	(271,339)	(208.61)
Designated - Capital Target	550,000	549,357	(643)	(0.12)
<b>Total Net Position</b>	<b>\$ 680,067</b>	<b>\$ 408,085</b>	<b>\$ (271,982)</b>	<b>(39.99) %</b>



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**Assets**

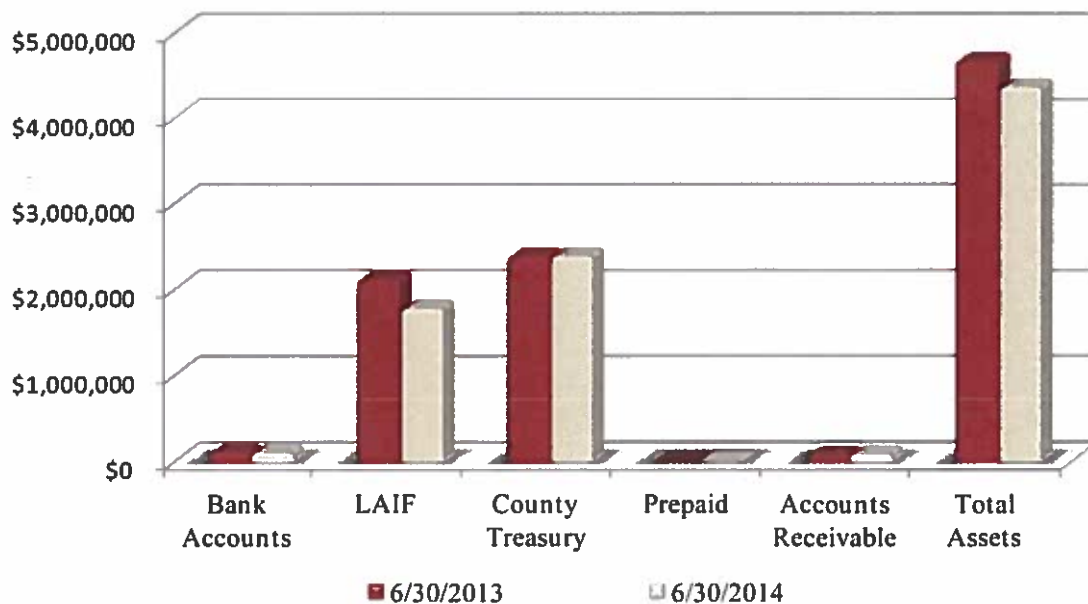
The assets of NOCLPSIA decreased \$304,087 or 6.51 percent from \$4,670,555 in 2013 to \$4,366,468 in 2014, due to:

- Deposit of the 2013-2014 member contributions for future claims of \$297,706
- Member Safety Credit Contributions in 2013-2014 of \$24,222

Offset by:

- Utilization in Unearned Revenue and Due to Members funds in 2013-2014 of \$339,524
- Claims paid in 2013-2014 of \$247,993

This decrease in assets can be seen below:



The funds not necessary for the payment of claims are invested in the Orange County Treasury and Local Agency Investment Fund (LAIF) in Sacramento, California, which is administered by the State Treasurer's Office. Those assets needed for current operations are maintained in a local checking account.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**Liabilities**

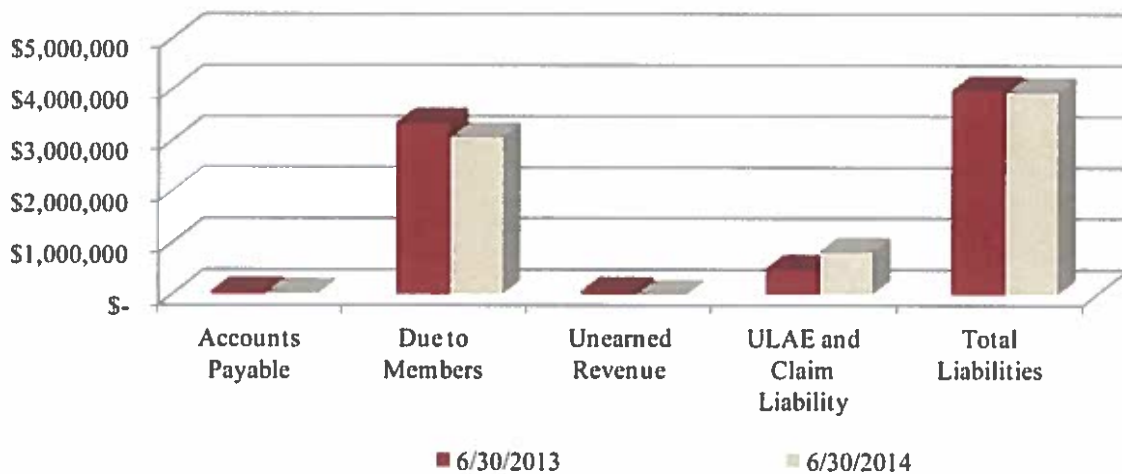
The overall liabilities of NOCLPSIA decreased in 2013-2014 by \$32,105 or .80 percent, which is mainly attributed to:

- Utilization in Unearned Revenue and Due to Members funds in 2013-2014 of \$339,524
- Claims paid in 2013-2014 of \$247,993

Offset by:

- A net increase in the actuarially-determined estimated ultimate incurred of \$136,452 for program years 2012-2013 and prior due to changes in expected loss experience
- The recognition of the 2013-2014 Estimate Ultimate Incurred of \$425,441

This decrease in liabilities can be seen below:



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**Net Position:**

The Net Position of NOCLPSIA decreased in 2013-2014 by \$271,982 or 39.99 percent. This is largely attributed to:

- A increase in the actuarially-determined estimate ultimate incurred of \$136,452 for program year 2012-2013 and prior and \$195,696 for 2013-2014 due to increased claims activity
- An increase in the Unallocated Loss Adjustment Expense of \$69,544 which is consistent with the increase seen in the claim ultimates

Offset by

- Administrative Expenditures for 2013-2014 below budget by \$43,508 due to minimum/maximum contracts
- Contingency funding in 2013-2014 of \$36,921.

NOCLPSIA's net position of \$408,085 is below the capital target; however, it reflects an actuarially-determined greater than 80 percent probability level funding of its outstanding liabilities. An 90 percent probability level funding means that there is only a 10 percent probability that the outstanding liability is higher or lower than the actuary's best estimate. Most actuarial funding recommendations are at the 70 percent probability level, therefore, NOCLPSIA's financial position provides an increased probability of overall reserve adequacy. Probability level funding recommendations based upon the Bay Actuarial Consultants actuarial study dated March 2014 are:

70% probability level \$28,204

80% probability level \$49,351

90% probability level \$84,612

In order to prevent premature release of the Fund Net Position, NOCLPSIA has adopted a capital target policy that is reviewed annually. The capital target is set at an 80 percent probability level with a contingency margin of \$500,000 utilizing a five-year distribution method not including the current year. Once the fund balance is calculated, the sum of those funds is reduced by the capital target/contingency margin and the balance is identified for return to members upon approval by the Board of Directors.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**Statements of Income, Expenses, and Changes in Net Position**

Expenses exceeded income by \$271,982 in 2013-2014, resulting in a net decrease to the Net Position of 39.99 percent as shown in the Condensed Statement of Income/Expenses shown below.

	<b>Fiscal Year Ended June 30,</b>		<b>Difference</b>	<b>Percentage</b>
	<b>2013</b>	<b>2014</b>		
<b>Operating Income:</b>				
Contributions	\$ 3,285,062	\$ 3,519,448	\$ 234,386	7.13 %
Excess Insurance	(2,686,807)	(2,919,870)	(233,063)	8.67
<b>Total Operating Revenues</b>	<b>598,255</b>	<b>599,578</b>	<b>1,323</b>	<b>0.22</b>
<b>Expenses:</b>				
Claims Activity	168,351	576,237	407,886	242.28
Claims Administration	50,000	70,174	20,174	40.35
Risk Management Fee	92,600	92,600	-	-
Deductibles	40,349	58,583	18,234	45.19
Operating Costs	48,277	56,293	8,016	16.60
Safety Credit Program	31,416	24,222	(7,194)	(22.90)
Return of Contribution	436,500	-	(436,500)	(100.00)
<b>Total Operating Expenses</b>	<b>867,493</b>	<b>878,109</b>	<b>10,616</b>	<b>1.22</b>
<b>Non Operating Revenues:</b>				
Investment Income	8,389	6,549	(1,840)	(21.93)
Return of Contributions So Cal ReLiEF	286,500	-	(286,500)	(100.00)
<b>Total Non Operating Revenues</b>	<b>294,889</b>	<b>6,549</b>	<b>(288,340)</b>	<b>(97.78)</b>
<b>Change in Net Position</b>	<b>25,651</b>	<b>(271,982)</b>	<b>(297,633)</b>	<b>(1,160.32)</b>
<b>Beginning Net Position</b>	<b>654,416</b>	<b>680,067</b>	<b>25,651</b>	<b>3.92</b>
<b>Ending Net Position</b>	<b>\$ 680,067</b>	<b>\$ 408,085</b>	<b>\$ (271,982)</b>	<b>(39.99) %</b>

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

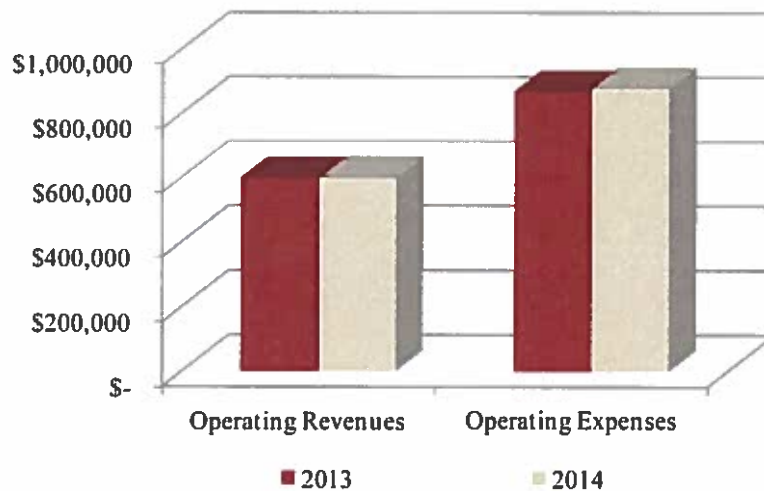
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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Operating Revenue consists of contributions received from the members offset by excess insurance. Member contributions increased from \$3,285,062 in 2012-2013 to \$3,519,448 in 2013-2014, an increase of 7.13 percent due to an increase in Total Insurable Values (TIV) of 6.82 percent and a slight decrease of 0.21 percent in Average Daily Attendance (ADA).

Total operating expenses decreased in 2013-2014 to \$297,116, mainly due to the NOCLP Return of Net Contribution of \$150,000 in the 2012-2013 program year offset by the increase in claims activity as previously discussed.

Below is a graph that reflects a comparison of operating income and expense for June 30, 2013 and June 30, 2014:



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**Budgetary Highlights**

Each year the NOCLPSIA Board of Directors approves a budget and establishes rates and funding levels for the program year. The preliminary budget is reviewed by the Board in May, with the final budget to be approved by the Board in June. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. NOCLPSIA is not required to make mid-year budget adjustments.

Below is a summary of the budget information with a comparison to actual expenses. Variances in total operating income are due to additional endorsements to the So Cal ReLiEF Memorandum of Coverage, including rental value coverage added during the program year. Variances in other insurance deposits and premiums are also due to additional coverage.

	2013-2014		Difference	Percentage
	Adopted	Actual		
<b>Operating Income:</b>				
Member Contributions	\$ 3,519,448	\$ 3,519,448	\$ -	- %
Excess Insurance	(2,907,402)	(2,919,870)	(12,468)	0.43
Total Operating Income	612,046	599,578	(12,468)	(2.04)
<b>Operating Expenses:</b>				
Claims Activity	234,745	576,237	341,492	145.47
Claims Administration	120,000	70,174	(49,826)	(41.52)
Risk Management Fees	92,600	92,600	-	-
Deductibles	58,583	58,583	-	-
Operating Costs	49,975	56,293	6,318	12.64
Safety Credit Program	24,222	24,222	-	-
Total Operating Expenditures	580,125	878,109	297,984	51.37
<b>Non-Operating Income and Expenditures</b>				
Investment Income	3,817	6,549	2,732	71.57
Net Non-Operating Income and Expenditures	3,817	6,549	2,732	71.57
Change in Net Position	35,738	(271,982)	(307,720)	(861.04)
Beginning Net Position	680,067	680,067	-	-
Ending Net Position	\$ 715,805	\$ 408,085	\$ (307,720)	(42.99) %

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**Description of Facts or Conditions that are Expected to Have a Significant Effect on Financial Position or Results of Operations**

As predicted previously, the soft markets of the past few years have now become harder, due to increased loss costs as a result of both catastrophic losses and higher awards on non-catastrophic losses. For the first half of 2013, the industry has seen average monthly increases of 5 percent to 10 percent for property and casualty accounts.

Public entity business is also experiencing more underwriting scrutiny than usual due especially to the continuing increase in frequency and severity of sexual abuse, molestation, employment practice and crisis losses such as shootings.

For the near future we expect to see rates rising in all sectors, as the industry has reverted to a more disciplined approach to maintain reasonable loss ratios; their investment portfolios returns have seriously diminished and there are little or no excess reserves available for release to bolster results. Even with this overall outlook those risks which are big enough and can demonstrate commitment to prudent risk management will continue to be viewed by underwriters on their own merits and good experience will be rewarded.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**STATEMENT OF NET POSITION  
JUNE 30, 2014**

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**ASSETS**

Current Assets

Deposits and investments	\$ 4,274,541
Prepaid expense	4,500
Receivables	<u>87,427</u>

Total Assets 4,366,468

**LIABILITIES**

Current Liabilities

Accounts payable	47,691
Due to members	3,080,292
Current portion of unpaid claims and claim adjustment expenses	<u>210,000</u>

Total Current Liabilities 3,337,983

Unpaid claims and claim adjustment expenses, non-current portion 620,400

Total Liabilities 3,958,383

**NET POSITION**

\$ 408,085

The accompanying notes are an integral part of these financial statements.



**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
 SELF-INSURANCE AUTHORITY  
 (A Joint Powers Entity)**

**STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION  
 JUNE 30, 2014**

<b>OPERATING INCOME</b>	
Contributions	\$ 3,519,448
Excess insurance	<u>(2,919,870)</u>
Total Operating Income	<u>599,578</u>
 <b>OPERATING EXPENSES</b>	
Claims paid	247,993
Provision for loss reserves	258,700
Provision for claims adjustment expenses	69,544
Claims administration	<u>70,174</u>
	646,411
Risk management fees	92,600
Deductibles	58,583
Consulting fees	29,575
Other operating costs	26,718
Safety credit program	<u>24,222</u>
Total Operating Expenses	<u>878,109</u>
Operating Loss	<u>(278,531)</u>
 <b>NON-OPERATING REVENUES</b>	
Interest, net of interest allocated directly to members of \$7,101	<u>6,549</u>
 <b>CHANGE IN NET POSITION</b>	 (271,982)
 <b>NET POSITION, BEGINNING OF YEAR</b>	 <u>680,067</u>
 <b>NET POSITION, END OF YEAR</b>	 <u>\$ 408,085</u>

The accompanying notes are an integral part of these financial statements.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
 SELF-INSURANCE AUTHORITY  
 (A Joint Powers Entity)**

**STATEMENT OF CASH FLOWS  
 JUNE 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from members and others	\$ 3,455,316
Cash paid for claims and settlements	(362,335)
Cash paid for excess insurance	(2,919,870)
Cash paid to suppliers for goods and services	(229,443)
Cash paid for the benefit of members, net	(275,392)
Net Cash Used in Operating Activities	<u>(331,724)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	<u>6,616</u>
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**NET CHANGE IN CASH AND CASH EQUIVALENTS**

(325,108)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

4,599,649

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 4,274,541

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
 USED IN OPERATING ACTIVITIES**

Operating loss	<u>\$ (278,531)</u>
Adjustments to reconcile excess of operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(16,588)
Increase in prepaid expense	(4,500)
Decrease in accounts payable	(20,825)
Decrease in unearned revenue	(64,132)
Decrease in amounts due members	(275,392)
Increase in claims liability	258,700
Increase in unallocated loss adjustment expenses	69,544
Total Adjustments	<u>(53,193)</u>
Net Cash Used in Operating Activities	<u><u>\$ (331,724)</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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*NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

**A. Financial Reporting Entity**

The Northern Orange County Liability & Property Self-Insurance Authority (the Authority) was formed on August 1, 1979, under a joint powers agreement between participating local educational agencies located primarily within Orange County, pursuant to Title 1, Division 7, Chapter 5, Article 1 (Section 6500 et seq.) of the California Government Code. The purpose of the Authority is to provide a more viable and economical insurance program to its members than individual members might otherwise be able to obtain operating on their own. During the fiscal year ended June 30, 2014, there were 14 participants in the Authority's self-insured program. Members may withdraw from the Authority after having completed a minimum of 36 consecutive months as a member of the Authority. A member may withdraw from its status as a member at the end of any fiscal year by notifying the Board of Directors in writing no later than December 31 of the fiscal year at the end of which the withdrawal is to be effective, pursuant to the terms and conditions of the governing bylaws.

The annual deposit premium for each member is calculated based upon factors normally used to calculate annual insurance premiums. Prior years' premiums will be recalculated and adjusted until all claims are closed or until determined that sufficient facts are known so that no additional calculations should be made.

In the event of the dissolution of the Authority, the participating members would receive a pro-rata share of any fund equity or be liable for a pro-rata share of any debts and liabilities based upon the premiums and claims of such members.

The Authority includes all funds and account groups that are controlled by or dependent on the Authority's governing board for financial reporting purposes. The Authority has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. The Authority determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**B. Basis of Accounting**

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles (GAAP). Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

**C. Budget and Budgetary Accounting**

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

**D. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**E. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Authority considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Deposits with the County Treasury and the State Investment Pool are considered to be cash equivalents during the fiscal year ended June 30, 2014.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**F. Accounts Receivable**

Accounts receivable generally includes investment earnings from deposits and member deductibles. Management has analyzed these accounts and believes all amounts are fully collectible.

**G. Unpaid Claims Liabilities**

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

**H. Premium Contributions**

Participating members pay annual premium contributions for a coverage period beginning July 1. Premiums are recognized as revenue over the period of the contract. Premium receivables are recorded for the applicable balance of unpaid annual premium.

**I. Retrospective Premium Deposit Ratings Adjustment**

A provision for retrospective premium deposit ratings adjustments is estimated based on the Authority's historical and current claims experience.

**J. Reinsurance**

The Authority uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of loss from reinsurers, although it does not discharge the primary liability of the Authority as direct insurer of the risks reinsured. The Authority does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

**K. Income Taxes**

The Authority's income is exempt from Federal and State income taxes under the Internal Revenue Code Section 115, and the corresponding section of the California Revenue and Taxation Code.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**CLAIMS DEVELOPMENT INFORMATION  
JUNE 30, 2014**

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The following table illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the past years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Authority including overhead and claims expense not allocable to individual claims. (3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (These annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
JUNE 30, 2014**

	2005	2006	2007
(1) Required contribution and investment revenue:			
Earned	\$ 3,181,149	\$ 3,280,642	\$ 3,600,529
Ceded	(2,420,889)	(2,543,684)	(2,830,931)
Net earned	<u>760,260</u>	<u>736,958</u>	<u>769,598</u>
(2) Unallocated expenses	<u>360,353</u>	<u>326,511</u>	<u>252,936</u>
(3) Estimated claims and expenses, end of policy year:			
Incurred	332,408	294,403	285,840
Ceded	*	*	*
Net incurred	<u>332,408</u>	<u>294,403</u>	<u>285,840</u>
(4) Net paid (cumulative) as of:			
June 30, 2004			
June 30, 2005	71,362		
June 30, 2006	151,927	6,128	
June 30, 2007	172,034	109,048	10,807
June 30, 2008	246,944	141,035	41,988
June 30, 2009	248,535	140,035	123,448
June 30, 2010	248,535	140,035	129,024
June 30, 2011	248,535	140,035	129,024
June 30, 2012	248,535	140,035	129,024
June 30, 2013	248,535	140,035	129,024
June 30, 2014	248,535	140,035	129,024
(5) Re-estimated ceded claims and expenses			
(6) Re-estimated net incurred claims and expenses:			
June 30, 2004			
June 30, 2005	332,408		
June 30, 2006	256,763	294,403	
June 30, 2007	238,905	138,168	285,840
June 30, 2008	247,630	118,536	149,028
June 30, 2009	251,130	144,729	177,011
June 30, 2010	248,630	140,035	130,511
June 30, 2011	248,535	140,035	129,024
June 30, 2012	248,535	143,476	129,024
June 30, 2013	248,535	140,035	129,024
June 30, 2014	248,535	140,035	129,024
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	<u>\$ 83,873</u>	<u>\$ 154,368</u>	<u>\$ 156,816</u>

\* Information not available.

June 30,						
2008	2009	2010	2011	2012	2013	2014
\$ 3,674,183	\$ 3,410,080	\$ 3,337,354	\$ 3,240,308	\$ 3,187,692	\$ 3,293,451	\$ 3,525,997
(2,957,262)	(2,692,648)	(2,657,325)	(2,578,053)	(2,542,295)	(2,686,807)	(2,919,870)
716,921	717,432	680,029	662,255	645,397	606,644	606,127
323,018	415,104	248,516	255,402	224,429	238,817	312,833
364,382	402,172	261,143	261,156	301,471	215,277	425,441
*	*	*	*	*	*	*
364,382	402,172	261,143	261,156	301,471	215,277	425,441
117,107						
212,914	71,725					
287,629	206,760	26,804				
318,999	226,534	114,331	82,860			
318,999	225,533	172,349	109,761	40,549		
318,999	225,534	184,364	202,471	175,718	32,821	
318,999	225,534	184,364	202,471	257,095	105,285	94,989
364,382						
387,495	402,172					
352,276	331,626	261,143				
318,999	247,097	293,862	261,156			
318,999	225,533	192,309	180,082	301,471		
318,999	225,534	184,364	207,646	251,436	215,277	
318,099	225,534	184,364	202,471	311,635	296,705	425,441
<u>\$ 46,283</u>	<u>\$ 176,638</u>	<u>\$ 76,779</u>	<u>\$ 58,685</u>	<u>\$ (10,164)</u>	<u>\$ (81,428)</u>	<u>\$ -</u>

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*INDEPENDENT AUDITOR'S REPORTS*

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board  
Northern Orange County Liability & Property  
Self-Insurance Authority  
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Northern Orange County Liability & Property Self-Insurance Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Northern Orange County Liability & Property Self-Insurance Authority's basic financial statements, and have issued our report thereon dated September 24, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northern Orange County Liability & Property Self-Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northern Orange County Liability & Property Self-Insurance Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northern Orange County Liability & Property Self-Insurance Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California  
September 24, 2014



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*SCHEDULE OF FINDINGS*

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**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2014**

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There were no findings related to the financial statements that are required to be reported in accordance with *Governmental Auditing Standards*.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
SELF-INSURANCE AUTHORITY  
(A Joint Powers Entity)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2014**

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There were no audit findings reported in the prior year's schedule of financial statement findings.