

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

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2015 AND 2014**

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

**COSTA MESA, CALIFORNIA**

**JUNE 30, 2015**

**BOARD OF DIRECTORS**

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Joshie Cox	ABC Unified School District	President
Patricia Meyer	Los Alamitos Unified School District	Vice President
Lynn Simmons	Coastline Regional Occupational Program	Secretary/Treasurer
Kelvin Tsunozumi	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
Alejandro Flores	Magnolia 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
Tony Wold	Westminster School District	Member

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
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JUNE 30, 2015 AND 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 years ended June 30, 2015 and 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 audits. We conducted our audits 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, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years 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 12 and claims development information on pages 24 and 25 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 October 7, 2015, 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.

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

Rancho Cucamonga, California  
October 7, 2015



# Northern Orange County Liability & Property Self-Insurance Authority

**PRESIDENT**  
Joshie Cox  
ABC Unified School District  
16700 Norwalk Blvd  
Cerritos, CA 90703  
(562) 926-5566

**VICE PRESIDENT**  
Patricia Meyer  
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 Unified SD

Buena Park SD

Centralia SD

Coastline SD

Cypress SD

GASELPA

La Habra City SD

Los Alamitos SD

Magnolia SD

North Orange County ROP

Savanna SD

South Coast ROP

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, 2014 and June 30, 2015. 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 13 individual member districts from the Northern Orange County area. Effective July 1, 2014, Anaheim City School District withdrew from NOCLPSIA. 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, 2015 AND 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 participates in Southern California Regional Liability Excess Fund (SCR), a risk pooling solution, for excess coverage at a Member Retained Limit (MRL) of \$25,000 per occurrence for property and liability. NOCLPSIA self-insures its property claims up to \$25,000 per occurrence and liability claims up to \$25,000 per occurrence. SCR pools for the first \$250,000 of a property loss including the MRL and purchases reinsurance for property claims up to \$250,000,000 in excess of \$250,000. SCR pools for the first \$1,000,000 of a liability loss including the MRL and purchases reinsurance for liability claims up to \$24 million excess of \$1 million including member's MRL. Some members of the program purchased an additional \$25 million in excess liability coverage for excess liability limits to \$50 million. NOCLPSIA members have the option of purchasing liability coverage up to \$50 million 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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., LLP Certified Public Accountants has performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

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 2013-2014 and 2014-2015 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2014-2015 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014**

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**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 2013-2014 to the 2014-2015 program year.

	<b>Fiscal Year Ended June 30,</b>		<b>Difference</b>	<b>Percentage</b>
	<b>2014</b>	<b>2015</b>		
<b>Assets</b>				
Deposits and Investments	\$ 4,274,541	\$ 4,016,605	\$ (257,936)	(6.03) %
Prepaid	4,500	-	(4,500)	-
Accounts/Interest Receivable	1,857	1,884	27	1.45
Member Deductible Receivable	85,570	75,778	(9,792)	(11.44)
Total Assets	<u>4,366,468</u>	<u>4,094,267</u>	<u>(272,201)</u>	<u>(6.23)</u>
<b>Liabilities</b>				
Other Liabilities and Unearned Revenue	3,127,983	2,833,007	(294,976)	(9.43)
Claims Liabilities and ULAE	<u>830,400</u>	<u>648,438</u>	<u>(181,962)</u>	<u>(21.91)</u>
Total Liabilities	<u>3,958,383</u>	<u>3,481,445</u>	<u>(476,938)</u>	<u>(12.05)</u>
<b>Net Position</b>				
Undesignated	(141,272)	65,182	206,454	(146.14)
Designated - Capital Target	<u>549,357</u>	<u>547,640</u>	<u>(1,717)</u>	<u>(0.31)</u>
Total Net Position	<u>\$ 408,085</u>	<u>\$ 612,822</u>	<u>\$ 204,737</u>	<u>50.17 %</u>

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014**

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**Assets:**

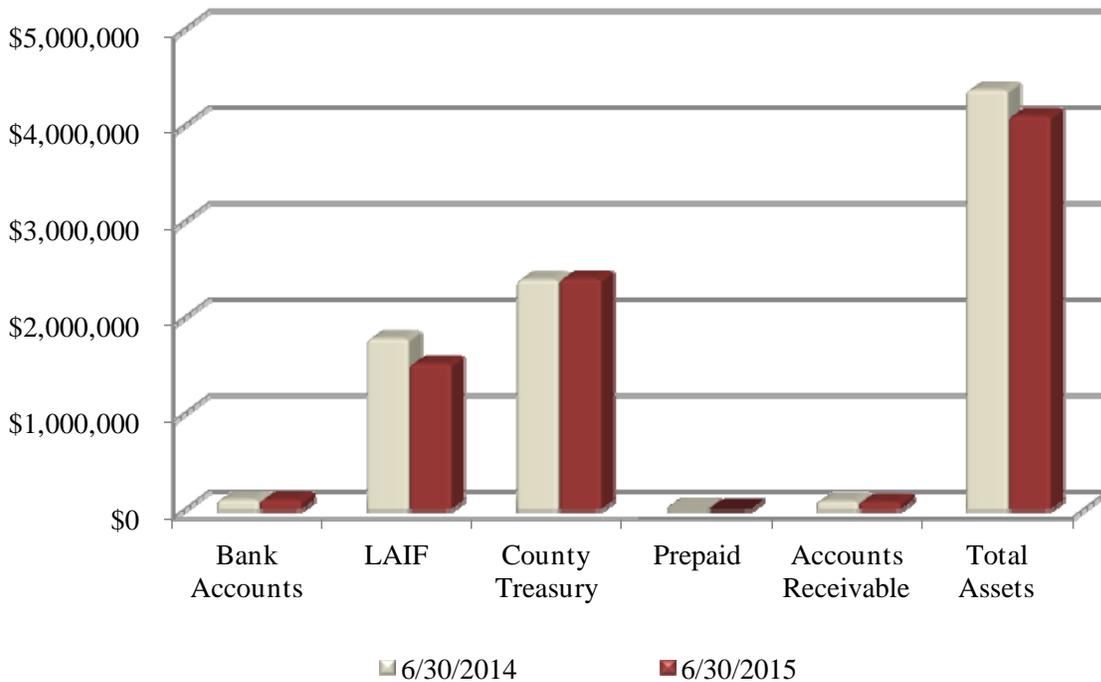
The assets of NOCLPSIA decreased \$272,201 or 6.23% from \$4,366,468 on June 30, 2014, to \$4,094,267 on June 30, 2015, due to:

- Deposit of the 2014-2015 member contributions for future claims of \$300,511
- Member Safety Credit Program Contributions in 2014-2015 of \$24,896

Offset by,

- Utilization in Unearned Revenue and Due to Members funds in 2014-2015 of \$282,399
- Claims paid in 2014-2015 of \$284,092

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2015 AND 2014**

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**Liabilities:**

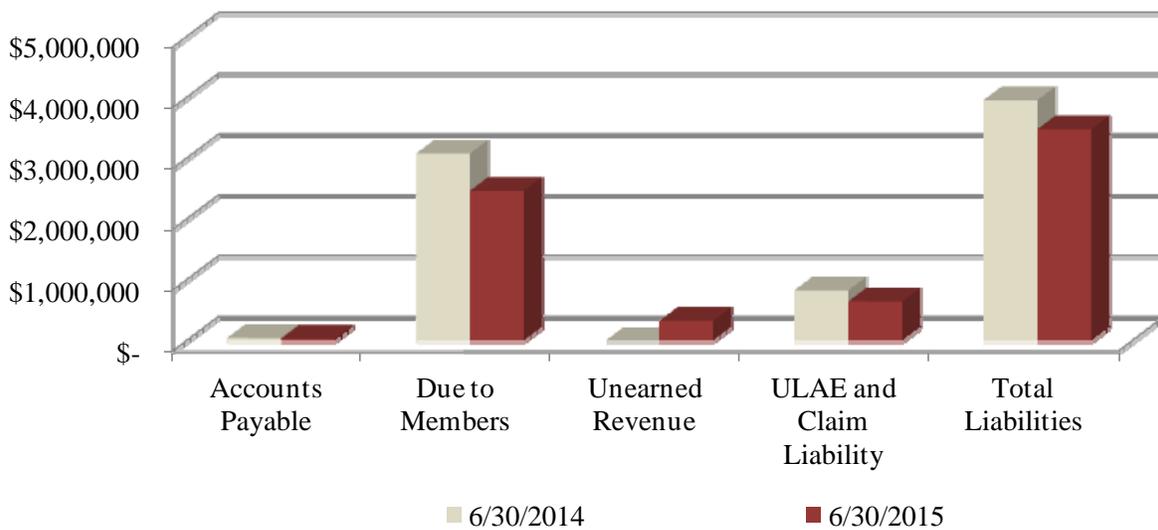
The overall liabilities of NOCLPSIA decreased in 2014-2015 by \$476,938 or 12.05%, which is mainly attributed to:

- Utilization in Unearned Revenue and Due to Members funds in 2014-2015 of \$282,399
- Claims paid in 2014-2015 of \$284,092
- A net increase in the actuarially-determined estimated ultimate incurred of \$51,469 for the program years 2013-2014 and prior due to greater than expected loss development. The Financial Statements as of June 30, 2014, recognized \$143,913 of this increase due to negative Incurred but Not Reported (IBNR), resulting in a net impact to the current financial statements of \$92,444
- A decrease in the Unallocated Loss Adjustment Expense of \$45,457

Offset by,

- The recognition of the 2014-2015 Estimate Ultimate Incurred of \$234,163

This decrease in liabilities can be seen below:



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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Net Position:**

The Net Position of NOCLPSIA increased in 2014-2015 by \$204,737 or 50.17%. This is largely attributed to:

- Administrative Expenditures below budget of \$71,767
- A contingency funding at 70% probability for 2014-2015 of \$32,056
- A net increase in the actuarially-determined estimated ultimate incurred of \$51,469 for the program years 2013-2014 and prior this increase is due to greater than expected loss development. The Financial Statements as of June 30, 2014, recognized \$143,913 of this increase due to negative Incurred but Not Reported (IBNR), resulting in a net impact to the current financial statements of \$92,444

Offset by,

- An increase in the actuarially-determined estimated ultimate incurred of \$28,050 for program year 2014-2015

NOCLPSIA's undesignated Net Position of \$612,822 reflects an actuarially determined greater than 90% probability level funding of its outstanding liabilities. A 90% probability level funding means that there is only a 10% probability that the outstanding liability is higher or lower than the actuary's best estimate. While many actuarial funding recommendations are at the 70% probability level, the 90% probability level funding provides NOCLPSIA an increased probability of overall reserve adequacy. The following probability level funding recommendations are based upon the Bay Actuarial Consultants actuarial study dated April 2015:

70% probability level	\$ 25,652
80% probability level	\$ 47,640
90% probability level	\$ 80,621

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014**

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

Income exceeds expenses by \$204,737, in 2014-2015, resulting in an increase to the Net Position of 50.17 percent as shown in the Condensed Statement of Income/Expenses shown below.

	<b><u>Fiscal Year Ended June 30,</u></b>			
	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>Difference</u></b>	<b><u>Percentage</u></b>
Operating Income:				
Contributions	<u>\$ 3,519,448</u>	<u>\$ 3,023,248</u>	<u>\$ (496,200)</u>	<u>(14.10) %</u>
Expenses:				
Claims Activity	576,237	102,130	(474,107)	(82.28)
Claims Administration	70,174	56,272	(13,902)	(19.81)
Risk Management Fee	92,600	80,192	(12,408)	(13.40)
Deductibles	58,583	54,309	(4,274)	(7.30)
Operating Costs	56,293	48,242	(8,051)	(14.30)
Excess Insurance	2,919,870	2,458,826	(461,044)	(15.79)
Safety Credit Program	24,222	24,896	674	2.78
Total Operating Expenses	<u>3,797,979</u>	<u>2,824,867</u>	<u>(973,112)</u>	<u>(25.62)</u>
Non Operating Revenues:				
Investment Income	<u>6,549</u>	<u>6,356</u>	<u>(193)</u>	<u>(2.95)</u>
Change in Net Position	(271,982)	204,737	476,719	(175.28)
Beginning Net Position	<u>680,067</u>	<u>408,085</u>	<u>(271,982)</u>	<u>(39.99)</u>
Ending Net Position	<u>\$ 408,085</u>	<u>\$ 612,822</u>	<u>\$ 204,737</u>	<u>50.17 %</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014**

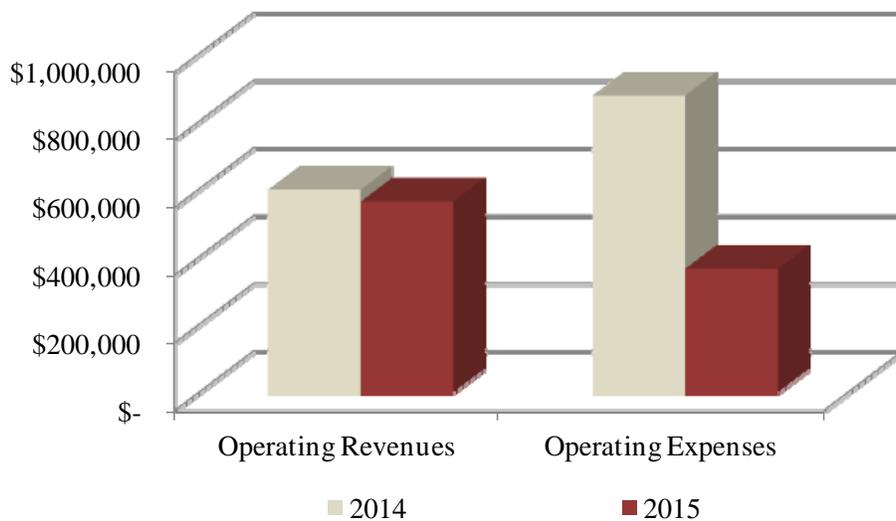
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Operating Revenue consists of contributions received from the members. Member contributions decreased from \$3,519,448 in 2013-2014 to \$3,023,248 in 2014-2015, a decrease of 14.1 percent. The reason for this decrease is the withdrawal of Anaheim City School District from the JPA. In 2013-2014 their contributions equaled 15.43% of the total.

Total operating expenses decreased in 2014-2015 to \$973,112. The reasons for this decrease are mainly due to:

- A drop in claims activity due to the Net Decrease in Estimate Ultimate Incurred as previously discussed
- A decrease in Excess Insurance expense of \$461,044 due to Anaheim's withdrawal

Below is a graph that reflects a comparison of operating income and expense for June 30, 2014, and June 30, 2015:



**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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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.

	<b>2014-2015</b>		<b>Difference</b>	<b>Percentage</b>
	<b>Adopted</b>	<b>Actual</b>		
Operating Income:				
Member Contributions	\$ 2,995,644	\$ 3,023,248	\$ 27,604	0.92 %
Operating Expenses:				
Claims Activity	211,113	102,130	(108,983)	(51.62)
Claims Administration	120,000	56,272	(63,728)	(53.11)
Risk Management Fees	80,192	80,192	-	-
Deductibles	54,309	54,309	-	-
Operating Costs	56,281	48,242	(8,039)	(14.28)
Excess Insurance	2,421,797	2,458,826	37,029	1.53
Safety Credit Program	24,896	24,896	-	-
Total Operating Expenditures	<u>2,968,588</u>	<u>2,824,867</u>	<u>(143,721)</u>	<u>(4.84)</u>
Non-Operating Income and Expenditures				
Investment Income	2,832	6,356	3,524	124.44
Change in Net Position	29,888	204,737	174,849	585.01
Beginning Net Position	408,085	408,085	-	-
Ending Net Position	<u>\$ 437,973</u>	<u>\$ 612,822</u>	<u>\$ 174,849</u>	<u>39.92 %</u>

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

In light of continuing excess capacity in all areas of the traditional insurance and reinsurance markets, persistent low interest rate returns and far lower catastrophic losses than normal, average rates for risks with average loss experience remain relatively unchanged.

While this has also lead to favorable rates for large public pools with good experience in property, their liability rates have experienced significant upward price pressures form carriers due especially to the continuing increase in frequency and severity of abuse, sexual molestation, harassment, and employment practice claims.

For the near future we expect to see rates continue to be relatively unchanged until one or more of increased catastrophes, upward trend in interest rates, deteriorating loss experience take place.

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
 SELF-INSURANCE AUTHORITY  
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**STATEMENTS OF NET POSITION  
 JUNE 30, 2015 AND 2014**

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<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Current Assets		
Deposits and investments	\$ 4,016,605	\$ 4,274,541
Prepaid expense	-	4,500
Receivables	77,662	87,427
	<hr/>	<hr/>
Total Assets	4,094,267	4,366,468
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	35,114	47,691
Unearned revenue	328,889	-
Due to members	2,469,004	3,080,292
Current portion of unpaid claims and claim adjustment expenses	190,000	210,000
Total Current Liabilities	3,023,007	3,337,983
Unpaid claims and claim adjustment expenses, non-current portion	458,438	620,400
	<hr/>	<hr/>
Total Liabilities	3,481,445	3,958,383
	<hr/>	<hr/>
<b>NET POSITION - UNRESTRICTED</b>	<u>\$ 612,822</u>	<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)**

**STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING INCOME</b>		
Contributions	\$ 3,023,248	\$ 3,519,448
Repayment of Deductibles	(54,309)	(58,583)
Safety Credit Program	(24,896)	(24,222)
Total Operating Income	<u>2,944,043</u>	<u>3,436,643</u>
<b>OPERATING EXPENSES</b>		
Excess insurance	2,458,826	2,919,870
Claims paid	284,092	247,993
Provision for loss reserves	(136,505)	258,700
Provision for claims adjustment expenses	(45,457)	69,544
Claims administration	56,272	70,174
Risk management fees	80,192	92,600
Consulting fees	25,751	29,575
Other operating costs	22,491	26,718
Total Operating Expenses	<u>2,745,662</u>	<u>3,715,174</u>
Operating Income	<u>198,381</u>	<u>(278,531)</u>
<b>NON-OPERATING REVENUES</b>		
Interest, net of interest allocated directly to members of \$8,438 in 2015 and \$7,071 in 2014	<u>6,356</u>	<u>6,549</u>
<b>CHANGE IN NET POSITION</b>	204,737	(271,982)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>408,085</u>	<u>680,067</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 612,822</u>	<u>\$ 408,085</u>

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

**NORTHERN ORANGE COUNTY LIABILITY & PROPERTY  
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**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members and others	\$ 3,282,724	\$ 3,455,316
Cash paid for claims and settlements	(283,541)	(362,335)
Cash paid for excess insurance	(2,458,826)	(2,919,870)
Cash paid to suppliers for goods and services	(193,334)	(229,443)
Cash paid for the benefit of members, net	(611,288)	(275,392)
Net Cash Used in Operating Activities	<u>(264,265)</u>	<u>(331,724)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>6,329</u>	<u>6,616</u>
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(257,936)	(325,108)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,274,541</u>	<u>4,599,649</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,016,605</u>	<u>\$ 4,274,541</u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating income (loss)	<u>\$ 198,381</u>	<u>\$ (278,531)</u>
Adjustments to reconcile excess of operating income (loss) to net cash used in operating activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	9,792	(16,588)
(Increase) Decrease in prepaid expense	4,500	(4,500)
Decrease in accounts payable	(12,577)	(20,825)
(Increase) Decrease in unearned revenue	328,889	(64,132)
Decrease in amounts due members	(611,288)	(275,392)
Increase (Decrease) in claims liability	(136,505)	258,700
Decrease in unallocated loss adjustment expenses	(45,457)	69,544
Total Adjustments	<u>(462,646)</u>	<u>(53,193)</u>
Net Cash Used in Operating Activities	<u>\$ (264,265)</u>	<u>\$ (331,724)</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, 2015 AND 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, 2015, there were 13 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.

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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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**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, 2015 and 2014.

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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**H. Premium Contributions**

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.

**I. 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.

**J. 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.

**NOTE 2 - CASH AND INVESTMENTS**

**A. Summary of Cash and Investments**

Cash and investments as of June 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Cash on hand and in banks	\$ 361	\$ 3,271
Cash in trust account	100,000	100,000
Investments in County Treasury	2,400,830	2,392,739
Investments in State Investment Pool	1,515,414	1,778,531
Total Deposits and Investments	<u>\$ 4,016,605</u>	<u>\$ 4,274,541</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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**B. Policies and Practices**

The Authority is authorized under *California Government Code* to make direct investments in local Authority bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**C. Investment in County Treasury**

The Authority is considered to be a voluntary participant in an external investment pool. The fair value of the Authority's investment in the pool is reported in the accounting financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**D. Investment in the State Investment Pool**

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by *California Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

**E. Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the Authority's bank balances were not exposed to custodial credit risk.

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

**NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 AND 2014**

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**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Member deductibles	\$ 75,778	\$ 85,570
Interest income	1,884	1,857
	<u>\$ 77,662</u>	<u>\$ 87,427</u>

**NOTE 4 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Claims payable	\$ 12,505	\$ 11,954
Outside services	22,609	35,737
	<u>\$ 35,114</u>	<u>\$ 47,691</u>

**NOTE 5 - UNEARNED REVENUE**

Unearned revenue at June 30, 2015, consists of the following:

	<u>2015</u>
ABC Unified School District	\$ 150,000
Los Alamitos Unified School District	178,889
Total	<u>\$ 328,889</u>

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

**NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 AND 2014**

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***NOTE 6 - DUE TO MEMBERS***

The amounts due to members at June 30, 2015 and 2014, are summarized below:

	<u>2015</u>	<u>2014</u>
ABC Unified School District	\$ 896,790	1,043,840
Anaheim City School District	198,678	284,099
Buena Park School District	177,120	181,491
Centralia School District	267,690	263,107
Coastline Regional Occupational Program	59,034	58,333
Cypress School District	118,313	118,877
Greater Anaheim Special Education Local Plan Area	8,865	8,834
La Habra City School District	19,829	121,988
Los Alamitos Unified School District	414,816	605,442
Magnolia School District	190,682	197,974
North Orange County Regional Occupational Program	42,763	39,262
Northern Orange County Self-Funded Workers' Compensation Authority	68	68
Orange County Fringe Benefits	68	68
Savanna School District	10,419	17,687
South Coast Regional Occupational Program	7,955	7,928
Westminster School District	55,914	131,294
Total	<u>\$ 2,469,004</u>	<u>\$ 3,080,292</u>

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

**NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 AND 2014**

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**NOTE 7 - RECONCILIATION OF CLAIMS LIABILITY**

As discussed in Note 1G, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related legal expenses. The following represents changes in those aggregate liabilities for the Authority during the fiscal year ended June 30:

	<u>2015</u>	<u>2014</u>
<b>Claims liabilities at beginning of the fiscal year</b>	\$ 576,412	\$ 317,712
<b>Incurred expenses related to:</b>		
Insured events of the current fiscal year	234,163	425,441
Insured events of prior fiscal years	(86,576)	81,252
Total Incurred Expenses	<u>147,587</u>	<u>506,693</u>
<b>Payments related to:</b>		
Insured events of the current fiscal year	59,270	94,989
Insured events of prior fiscal years	224,822	153,004
Total Payments	<u>284,092</u>	<u>247,993</u>
<b>Claims liabilities at end of the fiscal year</b>	<u>\$ 439,907</u>	<u>\$ 576,412</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Claims liability	\$ 439,907	\$ 576,412
Unallocated loss adjustment expenses	208,531	253,988
	648,438	830,400
Current portion	(190,000)	(210,000)
Noncurrent portion	<u>\$ 458,438</u>	<u>\$ 620,400</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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**NOTE 8 - NET POSITION**

Net position is composed of the following elements as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted		
Designated		
Capital target	\$ 547,640	\$ 549,357
Undesignated	65,182	(141,272)
Total Net Position	<u>\$ 612,822</u>	<u>\$ 408,085</u>

**NOTE 9 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS**

The Authority's member agencies are members of Southern California Regional Liability Excess Fund (So Cal ReLiEF) and Schools Excess Liability Fund (SELF) public entity risk pools. Member agencies pay an annual premium to So Cal ReLiEF and SELF for property and liability coverage. The relationship between the Authority and the pools are such that they are not component units of the Authority for financial reporting purposes.

So Cal ReLiEF and SELF have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between So Cal ReLiEF and SELF and the Authority are included in these statements. Audited financial statements are available from the respective entities.

	<u>ReLiEF</u>	<u>SELF</u>
<b>A. <u>Entity</u></b>		
<b>B. <u>Purpose</u></b>	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere
<b>C. <u>Participants</u></b>	State-wide educational entities	State-wide educational entities
<b>D. <u>Governing Board</u></b>	Consisting of elected representative of the members by region	Consisting of elected representative of the members by region
<b>E. <u>Payments for the Current Year</u></b>	<u>\$ 2,133,988</u>	<u>\$ 111,932</u>

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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, 2015**

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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, 2015**

	2006	2007	2008
(1) Required contribution and investment revenue:			
Earned	\$ 3,280,642	\$ 3,600,529	\$ 3,674,183
Ceded	(2,543,684)	(2,830,931)	(2,957,262)
Net earned	736,958	769,598	716,921
(2) Unallocated expenses	326,511	252,936	323,018
(3) Estimated claims and expenses, end of policy year:			
Incurred	294,403	285,840	364,382
Ceded	*	*	*
Net incurred	294,403	285,840	364,382
(4) Net paid (cumulative) as of:			
June 30, 2006	6,128	-	
June 30, 2007	109,048	10,807	-
June 30, 2008	141,035	41,988	117,107
June 30, 2009	140,036	123,448	212,914
June 30, 2010	140,036	129,024	287,629
June 30, 2011	140,036	129,024	318,999
June 30, 2012	140,036	129,024	318,999
June 30, 2013	140,036	129,024	318,999
June 30, 2014	140,036	129,024	318,999
June 30, 2015	140,036	129,024	318,999
(5) Re-estimated ceded claims and expenses			
(6) Re-estimated net incurred claims and expenses:			
June 30, 2006	294,403	-	
June 30, 2007	138,168	285,840	-
June 30, 2008	118,536	149,028	364,382
June 30, 2009	144,729	177,011	387,495
June 30, 2010	140,036	130,511	352,276
June 30, 2011	140,036	129,024	318,999
June 30, 2012	143,476	129,024	318,999
June 30, 2013	140,036	129,024	318,999
June 30, 2014	140,036	129,024	318,099
June 30, 2015	140,036	129,024	318,999
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	\$ 154,367	\$ 156,816	\$ 45,383

\* Information not available.

June 30,						
2009	2010	2011	2012	2013	2014	2015
\$ 3,410,080	\$ 3,337,354	\$ 3,240,308	\$ 3,187,692	\$ 3,293,451	\$ 3,525,997	\$ 3,029,604
(2,692,648)	(2,657,325)	(2,578,053)	(2,542,295)	(2,686,807)	(2,919,870)	(2,458,826)
717,432	680,029	662,255	645,397	606,644	606,127	570,778
415,104	248,516	255,402	224,429	238,817	312,833	218,454
402,172	261,143	261,156	301,471	215,277	425,441	234,163
*	*	*	*	*	*	*
402,172	261,143	261,156	301,471	215,277	425,441	234,163
-	-	-	-	-	-	-
71,725	-	-	-	-	-	-
206,760	26,804	-	-	-	-	-
226,534	114,331	82,860	-	-	-	-
225,533	172,349	109,761	40,549	-	-	-
225,534	184,364	202,471	175,718	32,821	-	-
225,534	184,364	202,471	257,095	105,285	94,989	-
225,534	184,364	202,471	287,529	214,848	173,955	59,270
-	-	-	-	-	-	-
402,172	-	-	-	-	-	-
331,626	261,143	-	-	-	-	-
247,097	293,862	261,156	-	-	-	-
225,533	192,309	180,082	301,471	-	-	-
225,534	184,364	207,646	251,436	215,277	-	-
225,534	184,364	202,471	311,635	296,705	425,441	-
225,534	184,364	202,471	290,330	357,404	393,612	234,163
<u>\$ 176,638</u>	<u>\$ 76,779</u>	<u>\$ 58,685</u>	<u>\$ 11,141</u>	<u>\$ (142,127)</u>	<u>\$ 31,829</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, 2015, 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 October 7, 2015.

**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.

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

Rancho Cucamonga, California  
October 7, 2015

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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  
FOR THE YEARS ENDED JUNE 30, 2015 AND 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  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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