

**NORTHERN ORANGE COUNTY
SELF-FUNDED WORKERS'
COMPENSATION AGENCY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016 AND 2015

**NORTHERN ORANGE COUNTY SELF-FUNDED WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

COSTA MESA, CALIFORNIA

JUNE 30, 2016

BOARD OF DIRECTORS

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Scott Martin	Centralia School District	President
Kelvin Tsunozumi	Buena Park School District	Vice President
Lynn Simmons	Coastline Regional Occupational Program	Secretary/Treasurer
Tim McLellan	Cypress School District	Member
Kathleen Thomason	Greater Anaheim Special Education Local Plan Area	Member
Carol Argomaniz	La Habra City School District	Member
Patricia Meyer	Los Alamitos Unified School District	Member
Annette Cleveland	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 SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**TABLE OF CONTENTS
JUNE 30, 2016 AND 2015**

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	16

INDEPENDENT AUDITOR'S REPORT

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 <i>Government Auditing Standards</i>	25
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

SCHEDULE OF FINDINGS

Schedule of Financial Statement Findings	27
Summary Schedule of Prior Audit Findings	28

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northern Orange County Self-Funded Workers' Compensation Agency
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Orange County Self-Funded Workers' Compensation Agency (the Agency) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Agency'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 Agency'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 Agency'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northern Orange County Self-Funded Workers' Compensation Agency, as of June 30, 2016 and 2015, 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, 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 28, 2016, on our consideration of the Northern Orange County Self-Funded Workers' Compensation Agency'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 Northern Orange County Self-Funded Workers' Compensation Agency's internal control over financial reporting and compliance.

Vavrieh, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 28, 2016



Northern Orange County Self-Funded Workers' Compensation Agency

PRESIDENT

Eric Fano
Savanna School District
1330 South Knott Avenue
Anaheim, CA 92804
(714) 236-3809

VICE PRESIDENT

Tim McLellan
Cypress School District
9470 Moody Street
Cypress, CA 90630
(714) 220-6900

TREASURER

Lynn Simmons
Coastline R.O.P.
1001 Presidio Square
Costa Mesa, CA 92626
(714) 220-6941

MEMBER DISTRICTS:

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 Self-Funded Workers' Compensation Agency (NOCSFWCA) for the fiscal years ended June 30, 2015 and June 30, 2016. It discusses NOCSFWCA's financial operations and analyzes the significant financial changes from the prior year. Readers should review the independent financial audit in conjunction with this report to enhance their understanding of NOCSFWCA's financial performance.

Introduction and Background

NOCSFWCA is a public risk sharing pool established pursuant to a Joint Power Agreement effective July 1, 1977, for the purpose of self-funding workers' compensation. Participation in NOCSFWCA gives members the advantage of pooled member contributions, sharing of claim liability risk and purchase of insurance at a lower cost. NOCSFWCA's membership consists of 12 individual member districts, from the Northern Orange County area. A Full Board of Directors comprised of one representative from each member governs NOCSFWCA. Each member has one vote. The Board elects from its members, a President, Vice President, Secretary, and Treasurer.

NOCSFWCA is able to retain a degree of control over their rate structure adding to the stability and longevity of their program. NOCSFWCA 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 program year will receive rebates or assessments. Further, other items such as administrative expenses and investment revenue can be accurately allocated to the proper program year's pooled equity or deficit.

Since its inception, NOCSFWCA has 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), NOCSFWCA has maintained a high level of performance, member satisfaction, and fiscal stewardship among organizations of its kind.



**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Mission Statement

"The mission of Northern Orange County Self-Funded Workers' Compensation Agency is to protect the members financial resources exposed to workers' compensation losses. Through its collective resources the authority will provide risk management and loss control services to assist in the reduction of claims with the goal of providing a safe work environment."

Program Structure

NOCSFWCA participated in SAWCX II from 1988-1989 to 1994-1995 for its excess coverage in the self-insured program years. As a member of SAWCX II, they paid an annual member contribution based upon their Self-Insured Retention (SIR) and shared in all rebates or deficits proportionate to their participation. On a biannual basis SAWCX II performs an actuarial review to analyze estimated ultimate incurred loss costs. Based upon increases in actuarial estimates, the Board of Directors has taken action to assess the current and former members of SAWCX II for deficit program years.

On July 1, 1995, NOCSFWCA took advantage of the insurance market and the lower rate structure by selecting a fully insured program that existed until June 30, 2003. In program year 2003-2004, NOCSFWCA joined as a member of the Protected Insurance Program for Schools (PIPS) under a Finite Risk Sharing program that utilizes reinsurance and continued as a member through 2015-2016.

Financial Management and Control

NOCSFWCA 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 are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

NOCSFWCA has contracted with Keenan & Associates for administrative management responsibilities. These services include ensuring that NOCSFWCA 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 before 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 NOCSFWCA Board on a quarterly basis. A comprehensive financial management information report is provided semi-annually and is the basis for the independent financial audit.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

NOCSFWCA 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.

Basic Financial Statements

NOCSFWCA'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, Statements of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position provides information on NOCSFWCA'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 revenue versus operating expenses for fiscal years 2014-2015 and 2015-2016 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2015-2016 in cash and cash equivalents.

NOCSFWCA 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 NOCSFWCA's Capital Target Policy revised on June 24, 2015, and reviewed annually. Over NOCSFWCA's 39 years of operation, it has declared and returned net member experience rebates of \$10,249,621.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

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 2014-2015 to the 2015-2016 program year.

	<u>As of June 30,</u>			
	<u>2016</u>	<u>2015</u>	<u>Difference</u>	<u>Percentage</u>
Current Assets				
Deposits and Investments	\$ 1,787,163	\$ 2,051,489	\$ (264,326)	(12.88) %
Other Assets	2,973	23,482	(20,509)	(87.34)
Total Assets	<u>1,790,136</u>	<u>2,074,971</u>	<u>(284,835)</u>	<u>(13.73)</u>
Current Liabilities				
Accounts Payable and Due to Members	1,134,268	1,423,287	(289,019)	(20.31)
Claims Liabilities	50,000	100,000	(50,000)	(50.00)
Total Current Liabilities	<u>1,184,268</u>	<u>1,523,287</u>	<u>(339,019)</u>	<u>(22.26)</u>
Noncurrent Liabilities				
Claim Liabilities and ULAE	227,879	179,543	48,336	26.92
Total Liabilities	<u>1,412,147</u>	<u>1,702,830</u>	<u>(290,683)</u>	<u>(17.07)</u>
Net Position				
Undesignated	(119,000)	46,274	(165,274)	(357.16)
Designated - Capital Target	496,989	325,867	171,122	52.51
Total Net Position	<u>\$ 377,989</u>	<u>\$ 372,141</u>	<u>\$ 5,848</u>	<u>1.57 %</u>

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Assets:

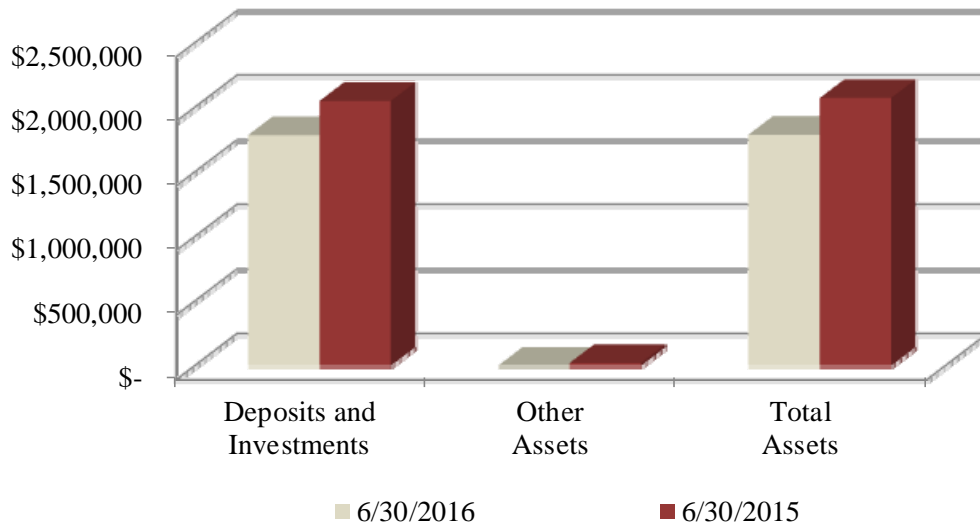
The overall assets of NOCSFWCA decreased in 2015-2016 by \$284,835 or 13.73 percent, which is largely attributed to:

- Investment Income in the amount of \$12,400

Offset by:

- Safety Credit utilization of \$290,379
- Claims paid in 2015-2016 for the self-insured program years of \$12,585

This decrease in assets can be seen below:



The funds not necessary for the payment of claims are invested in the Orange County Treasury. Those assets needed for current operations are maintained with the State of California Local Agency Investment Fund (L.A.I.F.) and Union Bank general and claim checking account.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Liabilities:

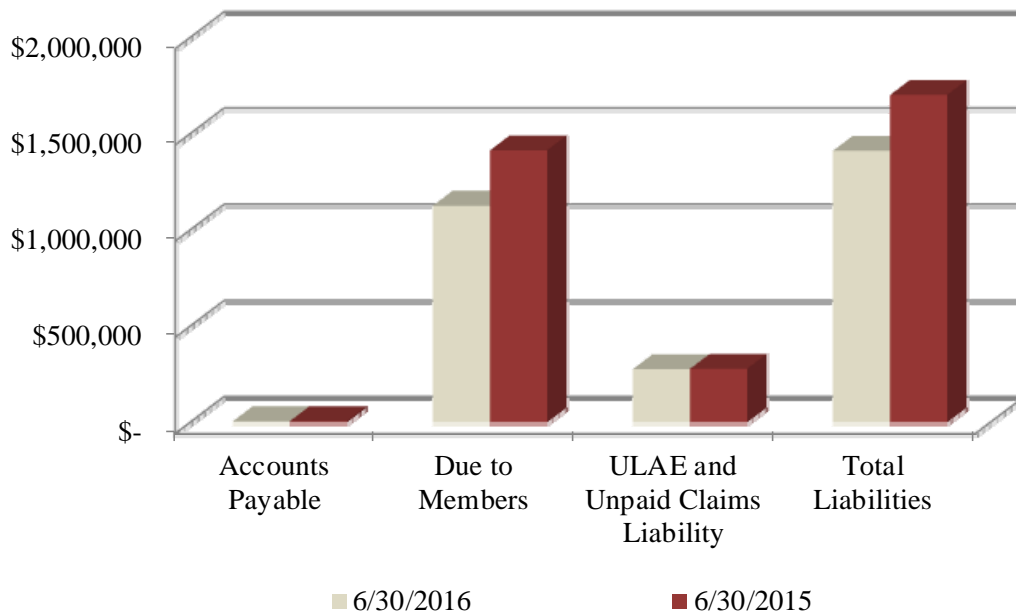
The overall liabilities of NOCSFWCA decreased in 2015-2016 by \$290,683 or 17.07 percent, which is mainly attributed to:

- Claims paid in 2015-2016 of \$12,585
- Safety Credit utilization of \$290,379

Offset by:

- An increase in Claim Ultimate of \$13,856 for the self-insured program year 1994-1995 and prior, based on the actuary study as of April 2016

This decrease in liabilities can be seen below:



**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Fund Net Position:

NOCSFWCA's Net Position of \$377,989 is below the capital target, and reflects an actuarially-determined greater than 90 percent probability level funding of its outstanding liabilities. A 90 percent probability level funding means that there is only a ten 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, NOCSFWCA's financial position provides an increased probability of overall reserve adequacy. Probability level funding recommendations based upon the Bay Actuarial Consultants actuarial study dated April 2016 are:

- 80% probability level \$87,415
- 90% probability level \$346,989

In order to prevent premature release of the Net Position, NOCSFWCA has adopted a capital target policy that is reviewed annually. The capital target is set at an actuarially determined contingency margin at 90 percent probability level plus an additional \$150,000 as approved at the April 27, 2016 Board of Directors meeting. 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.

When rebates are declared by NOCSFWCA, the members have four choices for the use of the funds: 1) Credit next year's contribution, 2) Credit a Safety Credit Program, 3) Direct return to the member, and 4) Leave in NOCSFWCA in the member's name or in an interest bearing account.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Statement of Revenues, Expenses, and Changes in Net Position:

Expenses are less than revenues by \$5,484 in 2015-2016, resulting in a net increase to the Fund Net Position of 1.57 percent as shown in the Condensed Statement of Revenues/Expenses shown below.

	<u>As of June 30,</u>		<u>Difference</u>	<u>Percentage</u>
	<u>2016</u>	<u>2015</u>		
Operating Revenue:				
Contributions	\$ 5,885,482	\$ 5,174,285	\$ 711,197	13.74 %
Safety Credit Program	(13,854)	(39,000)	25,146	(64.48)
Total Operating Revenue	<u>5,871,628</u>	<u>5,135,285</u>	<u>736,343</u>	<u>14.34</u>
Operating Expenses:				
PIPS Premium	5,615,008	4,886,024	728,984	14.92
Claims Activity	10,921	(5,307)	16,228	(305.78)
Claims Administration	9,450	9,450	-	-
Risk Management Fee	15,700	10,912	4,788	43.88
Operating Costs	227,121	230,972	(3,851)	(1.67)
Total Operating Expenses	<u>5,878,200</u>	<u>5,132,051</u>	<u>746,149</u>	<u>14.54</u>
Non Operating Revenues				
Investment Income	<u>12,420</u>	<u>4,206</u>	<u>8,214</u>	<u>195.29</u>
Change in Net Position	5,848	7,440	(1,592)	(21.40)
Beginning Net Position	<u>372,141</u>	<u>364,701</u>	<u>7,440</u>	<u>2.04</u>
Ending Net Position	<u>\$ 377,989</u>	<u>\$ 372,141</u>	<u>\$ 5,848</u>	<u>1.57 %</u>

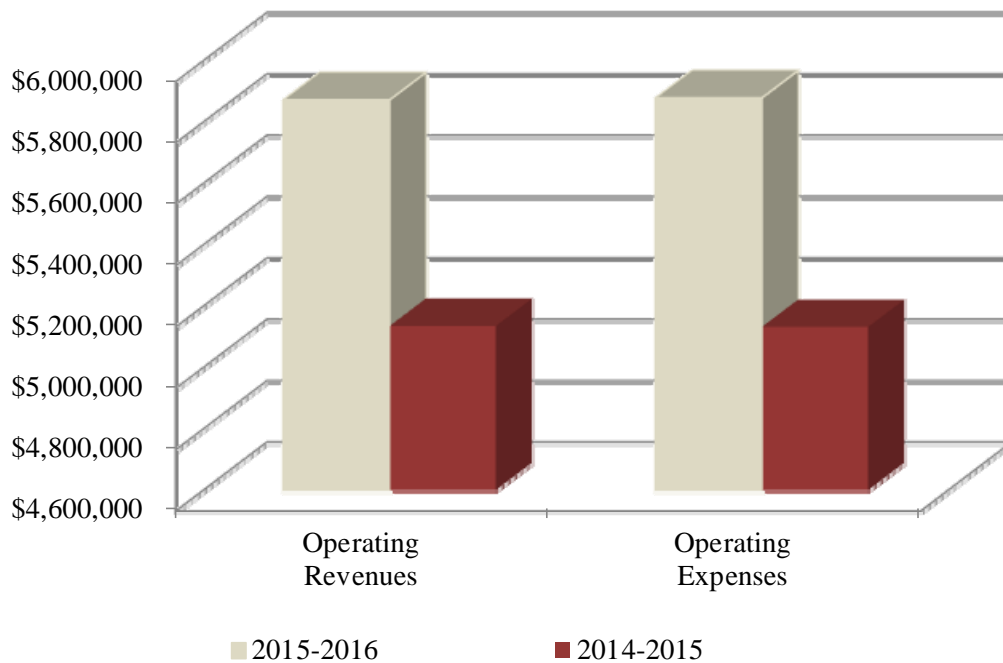
Operating revenue consists of contributions received from the members offset by excess insurance premiums. Premium contributions and excess insurance increased by \$711,197. Premium contributions increased due to a 2.34 percent increase in estimated payroll and a 1.95 percent increase in rates.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Total operating expenses increased by 14.54 percent in 2015-2016 to \$5,878,200. The greatest cost increase is in the Excess Insurance premium of \$728,984, which is consistent with the increase in contributions, resulting from the 2.34 percent increase in payroll.

Below is a graph that reflects a comparison of operating income and expense for 2014-2015 and 2015-2016:



Budgetary Highlights:

Each year the NOCSFWCA 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 a 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. NOCSFWCA is not required to make mid-year budget adjustments.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Below is a summary of the budget information with a comparison to actual expenses. The largest difference between budgeted to actual numbers results from the prior year PIPS.

	2015-2016			
	Adopted Budget	Actual	Difference	Percentage
Operating Revenue				
Member Contributions	\$ 5,541,000	\$ 5,885,482	\$ 344,482	6.22 %
Safety Credit Program	(13,854)	(13,854)	-	-
Total Operating Revenues	<u>5,527,146</u>	<u>5,871,628</u>	<u>344,482</u>	<u>6.23</u>
Operating Expenses:				
Excess Insurance	5,270,526	5,615,008	344,482	6.54
Claims Activity	(9,450)	10,921	20,371	(215.57)
Claims Administration	9,450	9,450	-	-
Risk Management Fee	15,700	15,700	-	-
Operating Costs	<u>240,920</u>	<u>227,121</u>	<u>(13,799)</u>	<u>(5.73)</u>
Total Operating Expenses	<u>5,527,146</u>	<u>5,878,200</u>	<u>351,054</u>	<u>6.35</u>
Non Operating Income				
Investment Income	<u>4,539</u>	<u>12,420</u>	<u>7,881</u>	<u>173.63</u>
Change in Net Position	4,539	5,848	1,309	28.84
Beginning Net Position	<u>372,141</u>	<u>372,141</u>	<u>-</u>	<u>-</u>
Ending Net Position	<u>\$ 376,680</u>	<u>\$ 377,989</u>	<u>\$ 1,309</u>	<u>0.35 %</u>

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

From a California standpoint, the Workers' Compensation rates are beginning to stabilize at current levels primarily as a result of SB 863 which passed in 2012 appears to be stemming the pace of increase.

For large Public Entities however, such as PIPS or other large JPAs that have over an estimated payroll of about \$100,000,000, program rates will also be largely based on their own experience.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Deposits and investments	\$ 1,787,163	\$ 2,051,489
Prepaid expense	-	15,700
Receivables	2,973	7,782
Total Assets	<u>1,790,136</u>	<u>2,074,971</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	7,006	8,104
Due to members	1,127,262	1,415,183
Current portion of unpaid claims and loss adjustment expenses	<u>50,000</u>	<u>100,000</u>
Total Current Liabilities	1,184,268	1,523,287
Unpaid claims and loss adjustment expenses, non-current portion	<u>227,879</u>	<u>179,543</u>
Total Liabilities	<u>1,412,147</u>	<u>1,702,830</u>
 NET POSITION - UNRESTRICTED	 <u>\$ 377,989</u>	 <u>\$ 372,141</u>

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

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING INCOME		
Contributions	\$ 5,885,482	\$ 5,174,285
Safety credit program	(13,854)	(39,000)
Total Operating Income	<u>5,871,628</u>	<u>5,135,285</u>
OPERATING EXPENSES		
Excess insurance	5,615,008	4,886,024
Claims payments	12,585	7,794
Provision (Credit) for loss reserves	3,591	(13,903)
Provision (Credit) for ULAE	(5,255)	802
Claims administration	9,450	9,450
Administration expenses	19,904	24,158
JPA administration	90,750	90,750
Risk management	15,700	10,912
Contract services	32,229	25,751
DSIP assessment	84,238	90,313
Total Operating Expenses	<u>5,878,200</u>	<u>5,132,051</u>
Operating Income (Loss)	<u>(6,572)</u>	<u>3,234</u>
NON-OPERATING REVENUES		
Interest, net of interest allocated directly to members of \$6,395 in 2016 and \$4,767 in 2015	<u>12,420</u>	<u>4,206</u>
CHANGE IN NET POSITION	5,848	7,440
NET POSITION, BEGINNING OF YEAR	<u>372,141</u>	<u>364,701</u>
NET POSITION, END OF YEAR	<u>\$ 377,989</u>	<u>\$ 372,141</u>

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

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others, net	5,583,707	\$ 5,094,040
Cash paid for claims and settlements	(8,112)	(16,535)
Cash paid for excess insurance	(5,615,008)	(4,886,024)
Cash paid to suppliers for goods and services	(236,648)	(281,543)
Net Cash Used in Operating Activities	<u>(276,061)</u>	<u>(90,062)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>11,735</u>	<u>3,997</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(264,326)	(86,065)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,051,489	2,137,554
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,787,163</u>	<u>\$ 2,051,489</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	\$ (6,572)	\$ 3,234
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Changes in Assets and Liabilities:		
Decrease in accounts receivable	5,494	27,949
(Increase) Decrease in prepaid expenses	15,700	(3,600)
Decrease in accounts payable	(1,098)	(63,299)
Decrease in amounts due members	(287,921)	(41,245)
Decrease in claims and unallocated expense liability	(1,664)	(13,101)
Net Cash Used in Operating Activities	<u>\$ (276,061)</u>	<u>\$ (90,062)</u>

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

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Northern Orange County Self-Funded Workers' Compensation Agency (the Agency) was formed and became operational on September 28, 1977, when the Cypress Elementary School District, Los Alamitos Unified School District, Magnolia Elementary School District, Savanna Elementary School District, and Westminster Elementary School District joined together under the California Government Code to create a public agency. The following local educational agencies became members of the Agency on the respective dates:

Centralia Elementary School District	10/14/77
La Habra Elementary School District	10/01/78
Buena Park Elementary School District	07/01/79
Greater Anaheim Special Education Local Plan Area (GASELPA)	11/01/85
Coastline Regional Occupational Program	07/01/87
North Orange County Regional Occupational Program	10/01/87
South Coast Regional Occupations Program (Formerly - Capistrano Laguna Beach ROP)	07/01/96

The purpose of the Agency is to provide its members the necessary workers' compensation coverage as presented by the laws of the State of California.

The Agency functions as a pool for its respective members. Each member of the Agency is liable only for its prorata share, based on all premiums paid, of all debts and liabilities of the Agency.

The Agency includes all funds and account groups that are controlled by or dependent on the Agency's governing board for financial reporting purposes. The Agency 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 Agency determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 Agency 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 Agency has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

C. Budgets 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 that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Agency considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Agency considers deposits with the county and the State Treasurer's Pool to be cash equivalents during the fiscal years ended June 30, 2016 and 2015.

F. Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

G. Claims Liabilities

The Agency establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims administrative costs) 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 excess insurance 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. Claims liabilities are computed 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. Member Contributions

Each member's contribution is determined based upon the number of plan participants and the contribution rate for each classification of covered participant. The rates for each member are determined based on each member's loss history, unusual exposures, and other pertinent information. If the total obligations would exceed the total assets of the Agency, the members may be assessed additional contributions.

I. Excess Insurance

The Agency uses excess insurance agreements to reduce its exposure to large losses. Excess insurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of the Agency as direct insurer of the risks insured. The Agency does not report excess insurance risks as liabilities unless it is probable that those risks will not be covered by excess insurance carriers.

J. Income Taxes

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

K. Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

The Agency has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The Agency has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The Agency has implemented the provisions of this Statement as of June 30, 2016.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - CASH AND INVESTMENTS

A. Summary of Cash and Investments

Cash and investments as of June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Cash on hand and in banks	\$ 4,875	\$ 166
Cash in trust account	100,000	100,000
Investments in County Treasury	1,410,875	1,396,965
Investments in State Investment Pool	271,413	554,358
Total Cash and Cash Equivalents	<u>\$ 1,787,163</u>	<u>\$ 2,051,489</u>

B. Policies and Practices

The Agency is authorized under California Government Code to make direct investments in local agency 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 Agency is considered to be an involuntary participant in an external investment pool as the Agency is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code Section 41001*). The fair value of the Agency's investment in the pool is reported in the accounting financial statements at amounts based upon the Agency'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 Agency 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 Agency's investment in the pool is reported in the accompanying financial statement at amounts based upon the Agency'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.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

E. Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency 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 agencies. 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, 2016 and 2015, the Agency's bank balances were not exposed to custodial credit risk.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Reinsurance receivable	\$ 978	\$ 6,472
Interest income	1,995	1,310
Total Accounts Receivable	<u>\$ 2,973</u>	<u>\$ 7,782</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 6,500	\$ 6,577
Claims payable	506	1,527
Total Accounts Payable	<u>\$ 7,006</u>	<u>\$ 8,104</u>

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 - DUE TO MEMBERS

The amounts due to members at June 30, 2016 and 2015, are summarized below:

	<u>2016</u>	<u>2015</u>
Buena Park School District	\$ 118,701	\$ 112,561
Centralia School District	405,110	402,800
Coastline Regional Occupational Program	28,220	27,557
Cypress School District	108,235	107,606
Greater Anaheim Special Education Local Plan Area (GASELPA)	8,761	9,212
La Habra City School District	32,922	46,461
Los Alamitos Unified School District	155,840	465,486
Magnolia School District	83,741	89,273
North Orange County Regional Occupational Program	101,929	63,977
Savanna Elementary	20,493	20,374
South Coast Regional Occupational Program	-	6,934
Westminster School District	63,310	62,942
Total	<u>\$ 1,127,262</u>	<u>\$ 1,415,183</u>

NOTE 6 - UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Agency establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Agency during the years ended June 30, 2016 and 2015:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Claims liabilities at beginning of fiscal year	\$ 256,007	\$ 269,910
Incurred expenses related to:		
Insured events of prior fiscal years	16,176	(6,109)
Payments related to:		
Insured events of prior fiscal years	12,585	7,794
Claims liabilities at end of fiscal year	<u>\$ 259,598</u>	<u>\$ 256,007</u>

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

The component units of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Claims liability	\$ 259,598	\$ 256,007
Unallocated loss adjustment expenses	18,281	23,536
	<u>277,879</u>	<u>279,543</u>
Current portion	(50,000)	(100,000)
	<u>\$ 227,879</u>	<u>\$ 179,543</u>

NOTE 7 - NET POSITION

Net position is composed of the following elements as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrestricted		
Designated - Capital target	\$ 496,989	\$ 325,867
Undesignated	(119,000)	46,274
Total Net Position	<u>\$ 377,989</u>	<u>\$ 372,141</u>

NOTE 8 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The Agency participates in two joint ventures under joint powers agreements (JPA's) as described below. The relationship between the Agency and the JPAs is that the JPAs are not component units of the Agency for financial reporting purposes.

Schools Alliance for Workers' Compensation Excess Self-Funded (SAWCX II)

SAWCX II arranges for and provides for the joint group purchase of workers' compensation excess protection for its members. SAWCX II is governed by a board consisting of a representative from each member. The board controls the operations of SAWCX II, including approval of an operating budget. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in SAWCX II.

No payments were made to SAWCX II during the 2015-2016 program years.

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

The Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS)

The PIPS arranges for and provides for the joint group purchase of workers' compensation reinsurance for its members. The PIPS is governed by an executive board consisting of nine members, five are K-12, and four are community colleges. This board controls the operations of the PIPS including approval of an operating budget. Each member pays a premium commensurate with their experience modification within the pool and shares surpluses and deficits proportionate to their participation in PIPS.

Payments for the current year	<u><u>\$ 5,615,008</u></u>
-------------------------------	----------------------------

INDEPENDENT AUDITOR'S REPORTS



**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 Self-Funded Workers' Compensation Agency
Torrance, 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 Self-Funded Workers' Compensation Agency (the Agency) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Northern Orange County Self-Funded Workers' Compensation Agency's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Orange County Self-Funded Workers' Compensation Agency'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 Northern Orange County Self-Funded Workers' Compensation Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Orange County Self-Funded Workers' Compensation Agency'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 Agency'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 Northern Orange County Self-Funded Workers' Compensation Agency'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 28, 2016

SCHEDULE OF FINDINGS

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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

**NORTHERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Entity)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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