

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2017 AND 2016

WESTERN ORANGE COUNTY SELF-FUNDED WORKERS' COMPENSATION AGENCY

(A Joint Powers Authority)

COSTA MESA, CALIFORNIA

JUNE 30, 2017

BOARD OF DIRECTORS

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President

Ms. Leisa Winston

Laguna Beach Unified School District

Vice President

Ms. Ann Kantor

Orange County Department of Education

Secretary-Treasurer

Mr. Felix Avila

Ocean View School District

Member

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

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JUNE 30, 2017 AND 2016**

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FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Western Orange County Self-Funded Workers' Compensation Agency (the Agency) as of and for the years ended June 30, 2017 and 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Western Orange County Self-Funded Workers' Compensation Agency as of June 30, 2017 and 2016, 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 7, and claims development information on pages 19 and 20, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Orange County Self-Funded Workers' Compensation Agency's basic financial statements. The accompanying schedules of premiums earned and results of operations by year since inception are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of premiums earned and results of operations since inception is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the Western 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 solely 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 the effectiveness of the Agency's 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 Western Orange County Self-Funded Workers' Compensation Agency's internal control over financial reporting and compliance.

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2017

Western Orange County Self-Funded Workers' Compensation Agency

BOARD OF DIRECTORS

President
Barbara Ott
Brea Olinda Unified SD
(714) 990-7827

Vice President
Leisa Winston
Laguna Beach Unified SD
(949) 497-7700 x5232

Secretary-Treasurer
Ann Kantor
Orange County DOE
(714) 966-4059

MEMBER
Felix Avila
Ocean View SD
(714) 847-2551 x1410

MANAGEMENT'S DISCUSSION AND ANALYSIS

Since 1979, Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA), a self-insurance pool, has provided coverage to local educational agencies in California. WOCS-FWCA operates programs for workers' compensation. In addition to its programs, WOCS-FWCA provides claims administration and loss control training to its members.

WOCS-FWCA is governed by a four-member Board of Directors comprised of representatives from Brea Olinda Unified School District, Laguna Beach Unified School District, Ocean View School District, and Orange County Department of Education. From its members, the Board of Directors elects a President, Vice President, and Secretary-Treasurer.

The Secretary-Treasurer is responsible for the administration of policies as set forth by the pool's organizational documents, bylaws, and the Board of Directors.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Individual program accounting is maintained in-house and is provided as supplemental information to the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The Statements of Net Position provides information about the combined financial position of WOCS-FWCA as of June 30, 2017 and 2016. The Statements of Revenues, Expenses, and Changes in Net Position reports the operations of WOCS-FWCA for the years ended June 30, 2017 and 2016. The Statements of Cash Flows are presented on the direct method to reflect the operations of WOCS-FWCA for the years ended June 30, 2017 and 2016, based strictly on the inflow and outflow of cash.

The footnotes provide information on unique accounting policies of WOCS-FWCA such as development of estimates of incurred but not reported liabilities and the provision for unallocated loss adjustment expenses. There were no significant accounting changes during the fiscal year.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

CONDENSED FINANCIAL INFORMATION

**Statements of Net Position
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets	\$ 19,706,622	\$ 20,109,813
LIABILITIES		
Current liabilities	3,687,947	3,165,998
Unpaid claims and assessments	8,227,996	8,781,973
Total Liabilities	<u>11,915,943</u>	<u>11,947,971</u>
NET POSITION	<u>\$ 7,790,679</u>	<u>\$ 8,161,842</u>

**Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Member contributions	\$ 3,521,110	\$ 4,328,374
Other income	411	5,117
Total Operating Revenue	<u>3,521,521</u>	<u>4,333,491</u>
Operating Expenses:		
Claims	2,622,027	1,862,146
Provision (Credit) for claims and claim adjustment expense	107,809	(46,193)
Commercial excess insurance premiums	273,968	295,306
Contract services/administrative expenses	356,610	328,078
Safety credit program	102,742	126,796
Total Operating Expenses	<u>3,463,156</u>	<u>2,566,133</u>
Nonoperating Revenue and Expense:		
Interest income	155,444	114,159
Equity distributions	(584,972)	-
Total Nonoperating Revenue and Expense	<u>(429,528)</u>	<u>114,159</u>
Change in Net Position	(371,163)	1,881,517
Total Net Position, Beginning of Year	<u>8,161,842</u>	<u>6,280,325</u>
Total Net Position, End of Year	<u>\$ 7,790,679</u>	<u>\$ 8,161,842</u>

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

**ANALYSIS OF OVERALL FINANCIAL POSITION
AND RESULTS OF OPERATIONS**

While the assets of WOCS-FWCA decreased by approximately \$403,191 from June 30, 2016 to June 30, 2017, net position decreased by \$371,163 for the same period.

The decrease in current assets of \$403,191 from June 30, 2016 to June 30, 2017, is due to a decrease in cash and cash equivalents.

Total liabilities decreased by approximately \$32,028 from June 30, 2016 to June 30, 2017. The largest decrease in liabilities was due to a decrease in claims liabilities.

Member contributions for the workers' compensation program decreased by \$807,264 for the year ended June 30, 2017, primarily due to a decrease in the manual rate of premium contributions and also the use of the expected confidence level.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

**ANALYSIS OF SIGNIFICANT VARIATION BETWEEN ORIGINAL
AND FINAL BUDGET AMOUNTS**

**Workers' Compensation Program
For the Year Ended June 30, 2017**

	Original Budget	Final Budget	Budget Variance	Actual	Budget/ Actual Variance
Revenue:					
Member contributions	\$ 3,434,958	\$ 3,434,958	0%	\$ 3,521,110	3%
Interest income	90,000	90,000	0%	155,444	73%
Other income	-	-	0%	411	-
Total Revenue	3,524,958	3,524,958	0%	3,676,965	4%
Expenditures:					
Claims paid	2,250,000	2,250,000	0%	2,622,027	-17%
Provision for loss reserves	-	-	0%	107,809	-
Claims processing	250,000	250,000	0%	236,676	5%
Excess insurance	300,000	300,000	0%	273,968	9%
SELF assessment	188,770	188,770	0%	-	100%
Administration	138,000	138,000	0%	119,934	13%
Safety credits	103,049	103,049	0%	102,742	0%
Equity distributions	-	-	0%	584,972	-
Total Expenditures	3,229,819	3,229,819	0%	4,048,128	-25%
Net Change in Net Position	\$ 295,139	\$ 295,139	0%	\$ (371,163)	

The difference between the actual versus final budget was primarily due to the budgeted amount for provision payment of claims was under budgeted.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

**Workers' Compensation Program
For the Year Ended June 30, 2016**

	Original Budget	Final Budget	Budget Variance	Actual	Budget/ Actual Variance
Revenue:					
Member contributions	\$ 4,226,539	\$ 4,226,539	0%	\$ 4,328,374	2%
Interest income	67,500	67,500	0%	114,159	69%
Other income	-	-	0%	5,117	-
Total Revenue	4,294,039	4,294,039	0%	4,447,650	4%
Expenditures:					
Claims paid	3,000,000	3,000,000	0%	1,862,146	38%
Credit for loss reserves	-	-	0%	(46,193)	-
Claims processing	250,000	250,000	0%	217,142	13%
Excess insurance	305,000	305,000	0%	295,306	3%
SELF assessment	188,770	188,770	0%	-	100%
Administration	190,500	190,500	0%	110,936	42%
Safety credits	126,796	126,796	0%	126,796	0%
Total Expenditures	4,061,066	4,061,066	0%	2,566,133	37%
Net Change in Net Position	\$ 232,973	\$ 232,973	0%	\$ 1,881,517	

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the WOCS-FWCA finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Western Orange County Self-Funded Workers' Compensation Agency, Attention: Ann Kantor, 200 Kalmus Drive, Costa Mesa, California, 92626.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Deposits and investments	\$ 19,603,459	\$ 19,938,940
Accounts receivable	103,163	170,873
Total Assets	<u>19,706,622</u>	<u>20,109,813</u>
LIABILITIES		
Current liabilities		
Accounts payable	166,161	117,212
Current portion of SELF assessment	188,786	188,786
Current portion of unpaid claims and claim adjustment expenses	<u>3,333,000</u>	<u>2,860,000</u>
Total Current Liabilities	<u>3,687,947</u>	<u>3,165,998</u>
Non-current portion of SELF assessment	943,950	1,132,736
Unpaid claims and claim adjustment expenses, non-current portion	<u>7,284,046</u>	<u>7,649,237</u>
Total Liabilities	<u>11,915,943</u>	<u>11,947,971</u>
NET POSITION - UNRESTRICTED	<u>\$ 7,790,679</u>	<u>\$ 8,161,842</u>

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

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
OPERATING INCOME		
Premium contributions	\$ 3,521,110	\$ 4,328,374
Less: Excess insurance premium	(273,968)	(295,306)
	<u>3,247,142</u>	<u>4,033,068</u>
Other income	411	5,117
Total Operating Income	<u>3,247,553</u>	<u>4,038,185</u>
OPERATING EXPENSES		
Claims paid, net of recoveries of \$406,211 in 2017 and \$699,013 in 2016	2,622,027	1,862,146
Provision (credit) for claims liability	107,809	(46,193)
Claims administration	236,676	217,142
Other administrative costs	51,334	61,509
Safety credit program	102,742	126,796
State fee	68,600	49,427
Total Operating Expenses	<u>3,189,188</u>	<u>2,270,827</u>
Operating Income	<u>58,365</u>	<u>1,767,358</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income, net of fees of \$11,813 in 2017 and \$12,718 in 2016	155,444	114,159
Equity distributions	(584,972)	-
Total Non-Operating Revenues (Expenses)	<u>(429,528)</u>	<u>114,159</u>
CHANGE IN NET POSITION	<u>(371,163)</u>	<u>1,881,517</u>
NET POSITION, BEGINNING OF YEAR	<u>8,161,842</u>	<u>6,280,325</u>
NET POSITION, END OF YEAR	<u>\$ 7,790,679</u>	<u>\$ 8,161,842</u>

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

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 3,537,021	\$ 4,228,846
Cash paid for claims and settlements	(2,518,588)	(1,883,688)
Cash paid for excess insurance	(273,968)	(295,306)
Cash paid to SELF for assessments	(188,786)	(188,458)
Cash paid to suppliers for goods and services	(457,091)	(473,497)
Net Cash Provided by Operating Activities	<u>98,588</u>	<u>1,387,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>150,903</u>	<u>108,645</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Equity distributions	<u>(584,972)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(335,481)	1,496,542
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>19,938,940</u>	<u>18,442,398</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,603,459</u>	<u>\$ 19,938,940</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 58,365	\$ 1,767,358
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in Assets and Liabilities:		
(Increase) Decrease in receivables	72,251	(88,188)
Increase (Decrease) in accounts payable	48,949	(56,622)
Decrease in amount due SELF	(188,786)	(188,458)
Increase (Decrease) in claims liability and ULAE	107,809	(46,193)
Total Adjustments	<u>40,223</u>	<u>(379,461)</u>
Net Cash Provided by Operating Activities	<u>\$ 98,588</u>	<u>\$ 1,387,897</u>

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

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Western Orange County Self-Funded Workers' Compensation Agency (the Agency) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

A. Financial Reporting Entity

The Western Orange County Self-Funded Workers' Compensation Agency was formed and became operational on July 1, 1979, when the Brea Olinda Unified School District, Huntington Beach City School District, Laguna Beach Unified School District, and Ocean View School District joined together under the *California Government Code* to create a public agency. The Orange County Department of Education became a member of the Agency on July 1, 1980. Effective July 1, 2011, Huntington Beach City School District withdrew as a member of the Agency. 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 shall be liable for its pro-rata share of all debts and liabilities of the Agency and its pro-rata share of all debts and liabilities for workers' compensation claims against the Agency arising out of facts occurring while a member of the Agency. A member's pro-rata share shall be determined based upon that member's premium in proportion to the total premiums paid by all participating members in the Agency.

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

In the event of the dissolution of the Agency, 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 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 generally accepted accounting principles. The Agency determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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. 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 Governmental Accounting Standards Board (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. Accounts Receivable

Accounts receivable generally includes investment earnings from deposits with the county treasury, member contributions and insurance recoveries. Management has analyzed these accounts and believes all amounts are fully collectible.

D. 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.

E. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Agency considers deposits with the County Treasury and cash in the claims revolving account to be cash equivalents.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

F. 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.

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. 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.

I. 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.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Deposits and investments as of June 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
County Treasury	\$ 19,203,459	\$ 19,538,940
Cash in Trust Revolving Account	400,000	400,000
Total Deposits and Investments	<u>\$ 19,603,459</u>	<u>\$ 19,938,940</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.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

D. 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, 2017 and 2016, the Agency's bank balance of \$195,286 and \$190,502, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Agency.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 and 2016, consisted of the following:

	2017	2016
Member contributions	\$ 86,152	\$ 158,586
Interest income	16,828	12,287
Other	183	-
	<u>\$ 103,163</u>	<u>\$ 170,873</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017 and 2016, consisted of the following:

	2017	2016
Trust account reimbursement	\$ 161,229	\$ 57,790
County administration fee	122	361
Member contributions	-	56,751
Trade accounts	4,810	2,310
	<u>\$ 166,161</u>	<u>\$ 117,212</u>

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 - 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, 2017 and 2016:

	2017	2016
Claims liabilities at beginning of fiscal year	<u>\$ 9,509,237</u>	<u>\$ 9,555,430</u>
Incurred expenses related to:		
Insured events of the current fiscal year	2,272,833	2,549,348
Insured events of prior fiscal years	457,003	(34,382)
Total Incurred Expenses	<u>2,729,836</u>	<u>2,514,966</u>
Payments related to:		
Insured events of the current fiscal year	629,752	357,161
Insured events of prior fiscal years	1,992,275	2,203,998
Total Payments	<u>2,622,027</u>	<u>2,561,159</u>
Claims liabilities at end of fiscal year	<u>\$ 9,617,046</u>	<u>\$ 9,509,237</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2017 and 2016, were as follows:

	2017	2016
Claims liability	\$ 9,617,046	\$ 9,509,237
Unallocated loss adjustment expenses	1,000,000	1,000,000
	10,617,046	10,509,237
Current portion	(3,333,000)	(2,860,000)
Non-current portion	<u>\$ 7,284,046</u>	<u>\$ 7,649,237</u>

At June 30, 2017 and 2016, estimated unpaid losses of \$9,617,046 and \$9,509,237 were not discounted.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6 - PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Agency is a member of Schools Excess Liability Fund (SELF) public entity risk pool. The relationship between the Agency and SELF is such that SELF is not a component unit of the Agency for financial reporting purposes.

SELF has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between SELF and the Agency are included in these statements.

A. <u>Entity</u>	Schools Excess Liability Fund (SELF)	
B. <u>Purpose</u>	Arranges for excess workers' compensation and liability insurance	
C. <u>Participants</u>	Various public educational agencies throughout California	
D. <u>Governing Board</u>	Representatives from each member district	
E. <u>Payments made in the Current Year</u>		<u>\$ 188,786</u>

Due to deficits incurred primarily in fiscal years 1989-1990 through 2004-2005, a deficit recoupment plan has been established whereby members have been assessed additional contributions. Repayment requirements for the Agency currently are scheduled as follows:

Estimated balance from prior year	\$ 1,321,522
Paid during the current year	<u>(188,786)</u>
	1,132,736
Less: Current portion	<u>188,786</u>
Non-current portion	<u>\$ 943,950</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

The following table illustrates how the Agency's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Agency 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 excess insurers, and net earned contribution revenue and reported investment revenue.
- 2) This line shows each fiscal year's other operating costs of the Agency, including overhead and claims expense not allocable to individual claims.
- 3) This line shows the Agency's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurers, 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 excess insurers 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. (This 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.

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

	2008	2009	2010
1. Required contribution and investment revenues:			
Earned	\$ 4,851,710	\$ 4,758,653	\$ 4,682,388
Excess	653,285	387,387	383,064
Net earned	4,198,425	4,371,266	4,299,324
2. Unallocated expenses	1,078,029	1,058,168	458,646
3. Estimated claims and expenses, end of policy year			
Incurred	2,326,769	2,620,310	2,590,046
Excess	-	-	-
Net incurred	2,326,769	2,620,310	2,590,046
4. Paid (cumulative) as of:			
End of policy year	361,945	266,764	273,597
One year later	677,317	615,093	703,159
Two years later	918,289	834,681	983,244
Three years later	1,145,528	906,267	1,145,185
Four years later	1,312,462	1,011,765	1,248,299
Five years later	1,462,970	1,134,669	1,366,996
Six years later	1,515,007	1,293,213	1,486,132
Seven years later	1,541,635	1,326,315	1,516,831
Eight years later	1,556,534	1,366,184	-
Nine years later	1,600,036	-	-
5. Re-estimated excess claims and expenses:	2,113	3,000	550
6. Re-estimated net incurred claims and expenses:			
End of policy year	2,326,769	2,620,310	2,590,046
One year later	2,246,968	2,279,872	2,140,381
Two years later	2,109,292	1,984,216	2,283,876
Three years later	2,088,125	1,952,555	2,049,775
Four years later	2,014,220	1,597,677	1,907,400
Five years later	1,900,748	1,505,525	2,037,451
Six years later	1,875,424	1,770,477	2,130,763
Seven years later	1,874,432	1,798,785	1,921,983
Eight years later	1,812,772	1,702,442	-
Nine years later	1,889,070	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ (437,699)	\$ (917,868)	\$ (668,063)

2011	2012	2013	2014	2015	2016	2017
\$ 4,109,609	\$ 3,287,515	\$ 3,630,232	\$ 3,685,470	\$ 3,933,378	\$ 4,447,650	\$ 3,676,965
358,205	304,054	325,219	314,073	305,176	295,306	273,968
3,751,404	2,983,461	3,305,013	3,371,397	3,628,202	4,152,344	3,402,997
706,734	(28,664) [579,853	579,767	422,106	454,874	459,352
2,524,958	2,270,016	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833
-	-	-	-	-	-	-
2,524,958	2,270,016	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833
552,733	348,906	407,431	378,459	332,878	357,161	629,752
1,059,231	1,074,820	1,013,184	886,046	798,204	1,012,085	-
1,659,979	1,254,596	1,624,868	1,193,060	1,135,829	-	-
1,941,560	1,360,355	1,801,364	1,391,469	-	-	-
2,207,799	1,612,241	1,909,036	-	-	-	-
2,295,787	1,750,291	-	-	-	-	-
2,381,650	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,277	99	63,474	2,011	20,405	3,412	-
2,524,958	2,270,016	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833
3,579,050	2,948,420	2,436,399	2,653,860	2,405,421	2,885,629	-
3,571,949	2,313,867	2,825,384	2,671,379	2,381,189	-	-
3,283,388	2,207,521	2,882,115	2,342,242	-	-	-
3,315,073	2,026,107	2,740,796	-	-	-	-
3,123,132	2,138,213	-	-	-	-	-
2,964,769	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
\$ 439,811	\$ (131,803)	\$ 513,256	\$ (36,639)	\$ (180,744)	\$ 336,281	\$ -

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SUPPLEMENTARY INFORMATION

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**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**SCHEDULE OF PREMIUMS EARNED
FOR THE YEAR ENDED JUNE 30, 2017**

Each member of the Agency makes its contribution of premiums based on its actual payroll, times the latest Workers' Compensation Inspection Rating Bureau rate (\$1.89 per \$100 of payroll), times an experience modification factor, times a weight factor, for the respective school district. The experience modification factor and the weight factor are determined by the board.

The following schedule illustrates the calculation of the actual premiums for each member of the Agency for the current year:

School District	Estimated Payroll from July 1 to June 30	Actual Payroll from July 1 to June 30	Rate [1]	EMF [2]	Computed Premium	Premiums Received at June 30, 2017	Premiums Due at June 30, 2017
Brea Olinda	\$ 34,708,998	\$ 36,981,471	1.48	0.952	\$ 521,054	\$ 489,036	\$ 32,018
Laguna Beach	30,300,000	30,934,372	1.48	0.862	394,648	386,555	8,093
Ocean View	59,184,545	60,951,122	1.48	0.937	845,246	820,748	24,498
Orange County Department of Education	108,772,459	110,120,239	1.48	1.080	1,760,162	1,738,619	21,543
	<u>\$ 232,966,002</u>	<u>\$ 238,987,204</u>			<u>\$ 3,521,110</u>	<u>\$ 3,434,958</u>	<u>\$ 86,152</u>

[1] Manual rate per \$100 of payroll

[2] Experience modification factor

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**RESULTS OF OPERATIONS BY YEAR SINCE INCEPTION
FOR THE YEAR ENDED JUNE 30, 2017**

The following schedule illustrates the results of operations by year since inception. Contributions, interest income, and other costs are reflected in the year earned. Incurred claim costs are reflected in the year coverage is provided.

June 30,	Contributions	Interest Income	Claims Paid	Claims Liability	Total Incurred Costs
1980	\$ 508,307	\$ 10,673	\$ 598,890	\$ -	\$ 598,890
1981	721,329	81,472	471,615	-	471,615
1982	827,095	158,671	481,132	-	481,132
1983	821,110	205,842	1,428,537	-	1,428,537
1984	936,295	196,410	848,776	-	848,776
1985	1,169,466	264,552	870,104	-	870,104
1986	2,107,146	274,558	1,492,284	-	1,492,284
1987	2,046,320	351,435	1,049,123	-	1,049,123
1988	1,991,549	424,114	963,244	-	963,244
1989	1,721,834	551,580	1,489,585	-	1,489,585
1990	1,617,230	862,220	2,008,516	-	2,008,516
1991	1,553,744	754,252	1,313,222	-	1,313,222
1992	1,384,616	783,585	1,834,402	-	1,834,402
1993	1,067,370	804,805	1,982,083	-	1,982,083
1994	1,326,972	725,939	1,257,230	-	1,257,230
1995	1,264,277	218,950	1,530,108	126,944	1,657,052
1996	1,419,969	455,703	1,595,768	-	1,595,768
1997	1,430,127	463,989	2,445,868	-	2,445,868
1998	1,917,472	497,336	1,355,245	-	1,355,245
1999	2,016,442	486,586	2,838,717	82,154	2,920,871
2000	2,001,067	576,780	2,597,236	114,398	2,711,634
2001	1,849,865	614,212	4,060,587	73,250	4,133,837
2002	2,444,940	272,845	2,164,753	-	2,164,753
2003	3,462,707	137,001	1,815,721	-	1,815,721
2004	3,412,981	106,842	3,628,514	260,352	3,888,866
2005	3,595,019	214,268	1,812,189	-	1,812,189
2006	3,721,635	413,018	1,655,443	100,941	1,756,384
2007	4,171,816	582,576	2,738,101	29,683	2,767,784
2008	4,336,667	515,043	1,600,036	272,575	1,872,611
2009	4,463,541	277,497	1,366,184	301,631	1,667,815
2010	4,396,969	175,017	1,516,831	343,386	1,860,217
2011	4,015,122	94,487	2,381,650	552,241	2,933,891
2012	3,206,205	78,074	1,750,291	416,409	2,166,700
2013	3,577,967	51,899	1,909,036	770,429	2,679,465
2013	-	-	(100,616) [15]	-	(100,616)
2014	3,639,434	45,960	1,391,469	900,844	2,292,313
2015	3,872,229	60,919	1,135,829	1,224,750	2,360,579
2016	4,328,374	114,159	1,012,085	1,774,226	2,786,311
2017	3,521,250	155,444	629,752	2,272,833	2,902,585
Total	<u>\$ 91,866,458</u>	<u>\$ 13,058,713</u>	<u>\$ 62,919,540</u>	<u>\$ 9,617,046</u>	<u>\$ 72,536,586</u>

[1] Unallocated expenses include a bankruptcy loss of \$903,966

[2] Unallocated expenses include a bankruptcy recovery of \$16,872

[3] Unallocated expenses include a bankruptcy recovery of \$241,564

[4] Unallocated expenses include a bankruptcy recovery of \$212,543

[5] Unallocated expenses include a bankruptcy recovery of \$193,234

[6] Unallocated expenses include SELF assessment of \$1,510,370

[7] Unallocated expenses include SELF assessment of \$906,207

[8] Unallocated expenses include SELF assessment of \$317,144

[9] Unallocated expenses include SELF assessment of \$112,447

[10] Unallocated expenses include SELF assessment of \$517,599

[11] Unallocated expenses include SELF assessment credit of \$118,367 and legal fee reimbursements of \$110,000

[12] Unallocated expenses include SELF assessment of \$215,802

[13] Unallocated expenses include SELF assessment credit of \$503,847

[14] Unallocated expenses include SELF assessment of \$191,771

[15] During 2012-2013 the third party claims administrator adjusted the loss run for prior years claims

Other Costs		Ending Balance
\$ 76,594		\$ (156,504)
88,404		242,782
65,558		439,076
90,904		(492,489)
86,725		197,204
94,065		469,849
93,111		796,309
106,858		1,241,774
135,852		1,316,567
128,012		655,817
164,385		306,549
195,396		799,378
504,856		(171,057)
429,266		(539,174)
428,462		367,219
1,506,817	[1]	(1,680,642)
607,959	[2]	(328,055)
371,266		(923,018)
211,914	[3]	847,649
369,694	[4]	(787,537)
446,038	[5]	(579,825)
217,992		(1,887,752)
476,819		76,213
681,411		1,102,576
2,354,881	[6]	(2,723,924)
1,276,043		721,055
1,964,769	[7]	413,500
1,434,418	[8]	552,190
1,731,314	[9]	1,247,785
1,589,115	[10]	1,484,108
621,308	[11]	2,090,461
1,064,939	[12]	110,779
272,155	[13]	845,424
1,012,456	[14]	(62,055)
-		100,616
891,968		501,113
728,513		844,056
752,802		903,420
1,324,867		(550,758)
<u>\$ 23,273,039</u>		<u>\$ 7,790,679</u>

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INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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***

Board of Directors
Western Orange County Self-Funded Workers' Compensation Agency
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 Western Orange County Self-Funded Workers' Compensation Agency (the Agency) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Western Orange County Self-Funded Workers' Compensation Agency's basic financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Western 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 the Western Orange County Self-Funded Workers' Compensation Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western 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 the Western 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.

Varrinell, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2017

SCHEDULE OF FINDINGS

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**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

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

**WESTERN ORANGE COUNTY SELF-FUNDED
WORKERS' COMPENSATION AGENCY
(A Joint Powers Authority)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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