

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2018 AND 2017



WESTERN ORANGE COUNTY SELF-FUNDED WORKERS' COMPENSATION AGENCY

(A Joint Powers Authority)

COSTA MESA, CALIFORNIA

JUNE 30, 2018

BOARD OF DIRECTORS

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Ms. Barbara Ott	Brea Olinda Unified School District	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

This page left blank intentionally.

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

**TABLE OF CONTENTS
JUNE 30, 2018 AND 2017**

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information	19
--------------------------------	----

SUPPLEMENTARY INFORMATION

Schedule of Premiums Earned	22
Results of Operations by Year Since Inception	23

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
---	----

This page left blank intentionally.

FINANCIAL SECTION

This page left blank intentionally.



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 (WOCS-FWCA) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise WOCS-FWCA'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 an opinion 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 WOCS-FWCA'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 WOCS-FWCA'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 opinion.

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, 2018 and 2017, 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 WOCS-FWCA '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 November 9, 2018, on our consideration of WOCS-FWCA '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 WOCS-FWCA '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 WOCS-FWCA 's internal control over financial reporting and compliance.

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 9, 2018

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, 2018 and 2017. The Statements of Revenues, Expenses, and Changes in Net Position reports the operations of WOCS-FWCA for the years ended June 30, 2018 and 2017. The Statements of Cash Flows are presented on the direct method to reflect the operations of WOCS-FWCA for the years ended June 30, 2018 and 2017, 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, 2018 AND 2017**

CONDENSED FINANCIAL INFORMATION

**Statements of Net Position
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 19,995,135	\$ 19,706,622
LIABILITIES		
Current liabilities	3,926,356	3,687,947
Unpaid claims and assessments	8,428,282	8,227,996
Total Liabilities	<u>12,354,638</u>	<u>11,915,943</u>
NET POSITION	<u>\$ 7,640,497</u>	<u>\$ 7,790,679</u>

**Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenue:		
Member contributions	\$ 3,535,306	\$ 3,521,110
Other income	149	411
Total Operating Revenue	<u>3,535,455</u>	<u>3,521,521</u>
Operating Expenses:		
Claims	2,707,269	2,622,027
Provision for claims and claim adjustment expense	453,072	107,809
Commercial excess insurance premiums	291,105	273,968
Contract services/administrative expenses	362,034	356,610
Safety credit program	109,616	102,742
Total Operating Expenses	<u>3,923,096</u>	<u>3,463,156</u>
Nonoperating Revenue and Expense:		
Interest income	237,459	155,444
Equity distributions	-	(584,972)
Total Nonoperating Revenue and Expense	<u>237,459</u>	<u>(429,528)</u>
Change in Net Position	(150,182)	(371,163)
Total Net Position, Beginning of Year	<u>7,790,679</u>	<u>8,161,842</u>
Total Net Position, End of Year	<u>\$ 7,640,497</u>	<u>\$ 7,790,679</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

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

While the assets of WOCS-FWCA increased by approximately \$288,513 from June 30, 2017 to June 30, 2018, net position decreased by \$150,182 for the same period.

The increase in current assets of \$288,513 from June 30, 2017 to June 30, 2018, is due to an increase in cash and cash equivalents.

Total liabilities increased by approximately \$438,695 from June 30, 2017 to June 30, 2018. The largest increase in liabilities was due to an increase in claims liabilities.

Member contributions for the workers' compensation program increased by \$14,196 for the year ended June 30, 2018, primarily due to an increase in payroll offset by 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, 2018 AND 2017**

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

**Workers' Compensation Program
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Budget/ Actual Variance</u>
Revenue:					
Member contributions	\$ 3,653,881	\$ 3,653,881	0%	\$ 3,535,306	-3%
Interest income	175,000	175,000	0%	237,459	36%
Other income	-	-	0%	149	-
Total Revenue	<u>3,828,881</u>	<u>3,828,881</u>	0%	<u>3,772,914</u>	-1%
Expenditures:					
Claims paid	3,200,000	3,200,000	0%	2,707,269	15%
Provision for loss reserves	-	-	0%	453,072	-
Claims processing	242,000	242,000	0%	241,410	0%
Excess insurance	292,000	292,000	0%	291,105	0%
SELF assessment	188,770	188,770	0%	-	100%
Administration	143,000	143,000	0%	120,624	16%
Safety credits	109,616	109,616	0%	109,616	0%
Total Expenditures	<u>4,175,386</u>	<u>4,175,386</u>	0%	<u>3,923,096</u>	6%
Net Change in Net Position	<u>\$ (346,505)</u>	<u>\$ (346,505)</u>	0%	<u>\$ (150,182)</u>	

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Budget/ Actual Variance</u>
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%
Credit 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)	

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)**

**STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Deposits and investments	\$ 19,934,313	\$ 19,603,459
Accounts receivable	60,822	103,163
Total Assets	<u>19,995,135</u>	<u>19,706,622</u>
LIABILITIES		
Current liabilities		
Accounts payable	340,570	166,161
Current portion of SELF assessment	188,786	188,786
Current portion of unpaid claims and claim adjustment expenses	<u>3,397,000</u>	<u>3,333,000</u>
Total Current Liabilities	3,926,356	3,687,947
Non-current portion of SELF assessment	755,164	943,950
Unpaid claims and claim adjustment expenses, non-current portion	<u>7,673,118</u>	<u>7,284,046</u>
Total Liabilities	<u>12,354,638</u>	<u>11,915,943</u>
NET POSITION - UNRESTRICTED	<u>\$ 7,640,497</u>	<u>\$ 7,790,679</u>

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

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

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING INCOME		
Premium contributions	\$ 3,535,306	\$ 3,521,110
Less: Excess insurance premium	(291,105)	(273,968)
	<u>3,244,201</u>	<u>3,247,142</u>
Other income	149	411
Total Operating Income	<u>3,244,350</u>	<u>3,247,553</u>
OPERATING EXPENSES		
Claims paid, net of recoveries of \$381,278 in 2018 and \$406,211 in 2017	2,707,269	2,622,027
Provision for claims liability	453,072	107,809
Claims administration	241,410	236,676
Other administrative costs	46,991	51,334
Safety credit program	109,616	102,742
State fee	73,633	68,600
Total Operating Expenses	<u>3,631,991</u>	<u>3,189,188</u>
Operating Income (Loss)	<u>(387,641)</u>	<u>58,365</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income, net of fees of \$11,900 in 2018 and \$11,813 in 2017	237,459	155,444
Equity distributions	-	(584,972)
Total Non-Operating Revenues (Expenses)	<u>237,459</u>	<u>(429,528)</u>
CHANGE IN NET POSITION	(150,182)	(371,163)
NET POSITION, BEGINNING OF YEAR	<u>7,790,679</u>	<u>8,161,842</u>
NET POSITION, END OF YEAR	<u>\$ 7,640,497</u>	<u>\$ 7,790,679</u>

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

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 3,741,341	\$ 3,537,021
Cash paid for claims and settlements	(2,682,620)	(2,518,588)
Cash paid for excess insurance	(291,105)	(273,968)
Cash paid to SELF for assessments	(188,786)	(188,786)
Cash paid to suppliers for goods and services	(475,570)	(457,091)
Net Cash Provided by Operating Activities	<u>103,260</u>	<u>98,588</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>227,594</u>	<u>150,903</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Equity distributions	<u>-</u>	<u>(584,972)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	330,854	(335,481)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>19,603,459</u>	<u>19,938,940</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,934,313</u>	<u>\$ 19,603,459</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (387,641)	\$ 58,365
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Changes in Assets and Liabilities:		
Decrease in receivables	52,206	72,251
Increase in accounts payable	174,409	48,949
Decrease in amount due SELF	(188,786)	(188,786)
Increase in claims liability and ULAE	453,072	107,809
Total Adjustments	<u>490,901</u>	<u>40,223</u>
Net Cash Provided by Operating Activities	<u>\$ 103,260</u>	<u>\$ 98,588</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, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA) 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 WOCS-FWCA on July 1, 1980. Effective July 1, 2011, Huntington Beach City School District withdrew as a member of WOCS-FWCA. The purpose of WOCS-FWCA is to provide its members the necessary workers' compensation coverage as presented by the laws of the State of California.

WOCS-FWCA functions as a pool for its respective members. Each member of WOCS-FWCA shall be liable for its pro-rata share of all debts and liabilities of WOCS-FWCA and its pro-rata share of all debts and liabilities for workers' compensation claims against WOCS-FWCA arising out of facts occurring while a member of WOCS-FWCA. 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 WOCS-FWCA.

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 WOCS-FWCA, 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.

WOCS-FWCA includes all funds and account groups that are controlled by or dependent on WOCS-FWCA's governing board for financial reporting purposes. WOCS-FWCA has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. WOCS-FWCA 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, 2018 AND 2017**

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.

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, WOCS-FWCA considers deposits with the County Treasury and cash in the claims revolving account to be cash equivalents.

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

G. Claims Liabilities

WOCS-FWCA 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

WOCS-FWCA 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 WOCS-FWCA as direct insurer of the risks insured. WOCS-FWCA 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

WOCS-FWCA'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.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Deposits and investments as of June 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
County Treasury	\$ 19,534,313	\$ 19,203,459
Trust Revolving Account	400,000	400,000
Total Deposits and Investments	<u>\$ 19,934,313</u>	<u>\$ 19,603,459</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

B. Policies and Practices

WOCS-FWCA 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

WOCS-FWCA is considered to be an involuntary participant in an external investment pool as WOCS-FWCA is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of WOCS-FWCA's investment in the pool is reported in the accounting financial statements at amounts based upon WOCS-FWCA'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. Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, WOCS-FWCA's deposits may not be returned to it. WOCS-FWCA 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, 2018 and 2017, WOCS-FWCA's bank balance of \$25,147 and \$195,286, 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 WOCS-FWCA.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Member contributions	\$ 34,129	\$ 86,152
Interest income	26,693	16,828
Other	-	183
	<u>\$ 60,822</u>	<u>\$ 103,163</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Trust account reimbursement	\$ 185,878	\$ 161,229
County administration fee	1,012	122
Member contributions	152,704	-
Safety credit reimbursements	976	-
Trade accounts	-	4,810
	<u>\$ 340,570</u>	<u>\$ 166,161</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 - UNPAID CLAIMS LIABILITIES

As discussed in Note 1, WOCS-FWCA 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 WOCS-FWCA during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Claims liabilities at beginning of fiscal year	\$ 9,617,046	\$ 9,509,237
Incurred expenses related to:		
Insured events of the current fiscal year	2,920,948	2,272,833
Insured events of prior fiscal years	239,393	457,003
Total Incurred Expenses	<u>3,160,341</u>	<u>2,729,836</u>
Payments related to:		
Insured events of the current fiscal year	448,685	629,752
Insured events of prior fiscal years	2,258,584	1,992,275
Total Payments	<u>2,707,269</u>	<u>2,622,027</u>
Claims liabilities at end of fiscal year	<u>\$ 10,070,118</u>	<u>\$ 9,617,046</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Claims liability	\$ 10,070,118	\$ 9,617,046
Unallocated loss adjustment expenses	1,000,000	1,000,000
	11,070,118	10,617,046
Current portion	(3,397,000)	(3,333,000)
Non-current portion	<u>\$ 7,673,118</u>	<u>\$ 7,284,046</u>

At June 30, 2018 and 2017, estimated unpaid losses of \$10,816,135 and \$9,617,046, respectively, are reflected at their net present values of \$10,070,118 and \$9,617,046, respectively. At June 30, 2018, unpaid claims were discounted at 2.0%. At June 30, 2017, unpaid claims were not discounted.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 - PARTICIPATION IN PUBLIC ENTITY RISK POOL

WOCS-FWCA is a member of Schools Excess Liability Fund (SELF) public entity risk pool. The relationship between WOCS-FWCA and SELF is such that SELF is not a component unit of WOCS-FWCA 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 WOCS-FWCA 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 WOCS-FWCA currently are scheduled at \$188,786 per year through 2022-2023. The reconciliation of the SELF assessment for 2017-2018 is as follows:

Estimated balance from prior year	\$ 1,132,736
Paid during the current year	(188,786)
	<u>943,950</u>
Less: Current portion	(188,786)
Non-current portion	<u>\$ 755,164</u>

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.



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

VALUE THE *difference*

**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 WOCS-FWCA as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise WOCS-FWCA's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WOCS-FWCA'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 WOCS-FWCA's internal control. Accordingly, we do not express an opinion on the effectiveness of WOCS-FWCA'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 WOCS-FWCA'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 WOCS-FWCA'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 WOCS-FWCA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WOCS-FWCA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 9, 2018