

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

WESTERN ORANGE COUNTY SELF-FUNDED WORKERS' COMPENSATION AGENCY

(A Joint Powers Authority)

COSTA MESA, CALIFORNIA

JUNE 30, 2015

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

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

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JUNE 30, 2015**

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FINANCIAL SECTION



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 year ended June 30, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, and claims development information on pages 18 and 19, 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 October 15, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Western Orange County Self-Funded Workers' Compensation Agency's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 15, 2015

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 Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the combined financial position of WOCS-FWCA as of June 30, 2015. The Statement of Revenues, Expenses, and Changes in Net Position reports the operations of WOCS-FWCA for the year ended June 30, 2015. The Statement of Cash Flows is presented on the direct method to reflect the operations of WOCS-FWCA for the year ended June 30, 2015, 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, 2015**

CONDENSED FINANCIAL INFORMATION

**Statement of Net Position
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets	<u>\$ 18,519,569</u>	<u>\$ 18,442,153</u>
LIABILITIES		
Current liabilities	3,662,620	2,685,053
Unpaid claims and assessments	<u>8,576,624</u>	<u>9,428,930</u>
Total Liabilities	<u>12,239,244</u>	<u>12,113,983</u>
NET POSITION	<u><u>\$ 6,280,325</u></u>	<u><u>\$ 6,328,170</u></u>

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

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

**Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Operating Revenue:		
Member contributions	\$ 3,872,229	\$ 3,639,434
Other income	230	76
Total Operating Revenue	<u>3,872,459</u>	<u>3,639,510</u>
Operating Expenses:		
Claims	2,817,281	2,174,292
Provision (Credit) for claims and claim adjustment expense	436,660	(1,570,365)
Commercial excess insurance premiums	305,176	314,073
SELF assessment	-	5,532
Contract services/administrative expenses	305,855	462,211
Safety credit program	116,251	112,024
Total Operating Expenses	<u>3,981,223</u>	<u>1,497,767</u>
Nonoperating Revenue:		
Interest income	<u>60,919</u>	<u>45,960</u>
Change in Net Position	(47,845)	2,187,703
Total Net Position, Beginning of Year	<u>6,328,170</u>	<u>4,140,467</u>
Total Net Position, End of Year	<u><u>\$ 6,280,325</u></u>	<u><u>\$ 6,328,170</u></u>

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

While the assets of WOCS-FWCA increased by approximately \$77,416 from June 30, 2014 to June 30, 2015, net position decreased \$47,845 for the same period.

The increase in current assets of approximately \$77,416 from June 30, 2014 to June 30, 2015, is due to an increase in cash.

Total liabilities increased by approximately \$125,261 from June 30, 2014 to June 30, 2015. The largest increase in liabilities was due claims liabilities.

**WESTERN ORANGE COUNTY SELF-FUNDED
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(A Joint Powers Authority)**

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

Member contributions for the workers' compensation program increased \$232,795 for the year ended June 30, 2015, primarily due to an increase in the manual rate of premium contributions. The increase in operating expenses of the workers' compensation program was primarily due to claims payments and claims adjustment expenses.

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

**Workers' Compensation Program
For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Budget/ Actual Variance</u>
Revenue:					
Member contributions	\$ 3,875,039	\$ 3,875,039	0%	\$ 3,872,229	0%
Interest income	65,000	65,000	0%	60,919	-6%
Other income	-	-	0%	230	0%
Total Revenue	<u>3,940,039</u>	<u>3,940,039</u>	0%	<u>3,933,378</u>	0%
Expenditures:					
Claims	2,500,000	2,500,000	0%	2,817,281	-13%
Provision for loss reserves	-	-	0%	436,660	0%
Claims processing	250,000	250,000	0%	216,453	13%
Excess insurance	323,004	323,004	0%	305,176	6%
SELF assessment	188,770	188,770	0%	-	100%
Administration	113,500	113,500	0%	89,402	21%
Safety credits	116,251	116,251	0%	116,251	0%
Total Expenditures	<u>3,491,525</u>	<u>3,491,525</u>	0%	<u>3,981,223</u>	-14%
Net Increase (Decrease) in Net Position	<u>\$ 448,514</u>	<u>\$ 448,514</u>	0%	<u>\$ (47,845)</u>	

The difference between the actual versus final budget was primarily due to the budgeted amount for provision payment of claims and claims adjustment expenses was not budgeted.

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

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

**Workers' Compensation Program
For the Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Budget/ Actual Variance</u>
Revenue:					
Member contributions	\$ 3,734,136	\$ 3,734,136	0%	\$ 3,639,434	-3%
Interest income	76,071	76,071	0%	45,960	-40%
Other income	-	-	0%	76	0%
Total Revenue	<u>3,810,207</u>	<u>3,810,207</u>	0%	<u>3,685,470</u>	-3%
Expenditures:					
Claims	2,500,000	2,500,000	0%	2,174,292	13%
Provision for loss reserves	-	-	0%	(1,570,365)	0%
Claims processing	250,000	250,000	0%	246,350	1%
Excess insurance	360,000	360,000	0%	314,073	13%
SELF assessment	200,000	200,000	0%	5,532	97%
Administration	114,500	114,500	0%	215,861	-89%
Safety credits	112,024	112,024	0%	112,024	0%
Total Expenditures	<u>3,536,524</u>	<u>3,536,524</u>	0%	<u>1,497,767</u>	58%
Net Increase in Net Position	<u>\$ 273,683</u>	<u>\$ 273,683</u>	0%	<u>\$ 2,187,703</u>	

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, 2015**

ASSETS

Current assets	
Deposits and investments	\$ 18,442,398
Accounts receivable	77,171
Total Assets	<u>18,519,569</u>

LIABILITIES

Current liabilities	
Accounts payable	173,834
Current portion of SELF assessment	188,786
Current portion of unpaid claims and claim adjustment expenses	<u>3,300,000</u>
Total Current Liabilities	3,662,620
Non-current portion of SELF assessment	1,321,194
Unpaid claims and claim adjustment expenses, non-current portion	<u>7,255,430</u>
Total Liabilities	<u>12,239,244</u>

NET POSITION - UNRESTRICTED	<u><u>\$ 6,280,325</u></u>
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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 YEAR ENDED JUNE 30, 2015**

OPERATING INCOME

Premium contributions	\$ 3,872,229
Less: Excess insurance premium	<u>(305,176)</u>
	3,567,053
Other income	<u>230</u>
Total Operating Income	<u><u>3,567,283</u></u>

OPERATING EXPENSES

Claims paid, net of recoveries of \$189,612	2,817,281
Provision for claims liability	436,660
Claims administration	216,453
Other administrative costs	45,202
Safety credit program	116,251
State fee	<u>44,200</u>
Total Operating Expenses	<u><u>3,676,047</u></u>
Operating Loss	<u>(108,764)</u>

NON-OPERATING REVENUES

Investment income, net of fees of \$13,026	<u>60,919</u>
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CHANGE IN NET POSITION

(47,845)

NET POSITION, BEGINNING OF YEAR

6,328,170

NET POSITION, END OF YEAR

\$ 6,280,325

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 YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from members and others	\$ 3,780,567
Cash paid for claims and settlements	(2,877,049)
Cash paid for excess insurance	(305,176)
Cash paid to SELF for assessments	(188,950)
Cash paid to suppliers for goods and services	(423,105)
Net Cash Used in Operating Activities	<u>(13,713)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>60,454</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS 46,741

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 18,395,657

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 18,442,398

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

Operating loss	\$ (108,764)
Adjustments to reconcile operating loss to net cash used in operating activities	
Changes in assets and liabilities:	
Increase in receivables	(30,210)
Decrease in accounts payable	(122,449)
Decrease in amount due SELF	(188,950)
Increase in claims liability and ULAE	436,660
Total Adjustments	<u>95,051</u>
Net Cash Used in Operating Activities	<u><u>\$ (13,713)</u></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, 2015**

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, 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. 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, 2015**

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, 2015**

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

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

Cash in revolving	\$ 400,000
County Treasury	18,042,398
Total Deposits and Investments	<u>\$ 18,442,398</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. 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, 2015, the Agency's bank balance of \$145,582 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Agency.

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

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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Member contributions	\$ 70,398
Interest income	6,773
	<u>\$ 77,171</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Trust account reimbursement	\$ 79,332
County administration fee	998
Member contributions	73,208
Trade accounts	20,296
	<u>\$ 173,834</u>

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

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

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Claims liabilities at beginning of fiscal year	<u>\$ 9,118,770</u>	<u>\$ 10,689,135</u>
Incurred expenses related to:		
Insured events of the current fiscal year	2,561,933	2,378,881
Insured events of prior fiscal years	692,008	(1,774,954)
Total Incurred Expenses	<u>3,253,941</u>	<u>603,927</u>
Payments related to:		
Insured events of the current fiscal year	332,878	378,459
Insured events of prior fiscal years	2,484,403	1,795,833
Total Payments	<u>2,817,281</u>	<u>2,174,292</u>
Claims liabilities at end of fiscal year	<u>\$ 9,555,430</u>	<u>\$ 9,118,770</u>

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

	<u>2015</u>	<u>2014</u>
Claims liability	\$ 9,555,430	\$ 9,118,770
Unallocated loss adjustment expenses	1,000,000	1,000,000
	<u>10,555,430</u>	<u>10,118,770</u>
Current portion	<u>(3,300,000)</u>	<u>(2,200,000)</u>
Non-current portion	<u>\$ 7,255,430</u>	<u>\$ 7,918,770</u>

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

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

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.

<u>Entity</u>	Schools Excess Liability Fund (SELF)	
<u>Purpose</u>	Arranges for excess workers' compensation and liability insurance	
<u>Participants</u>	Various public educational agencies throughout California	
<u>Governing Board</u>	Representatives from each member district	
<u>Payments for 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	\$ 1,698,930
Paid during the current year	(188,786)
Adjustment to assessment	(164)
	<u>1,509,980</u>
Less: Current portion	188,786
Non-current portion	<u>\$ 1,321,194</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

**CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015**

	Fiscal and Policy Year Ended June 30,		
	2006	2007	2008
1. Required contribution and investment revenues:			
Earned	\$ 4,134,653	\$ 4,754,392	\$ 4,851,710
Excess	692,883	607,633	653,285
Net earned	3,441,770	4,146,759	4,198,425
2. Unallocated expenses	1,382,559	828,022	1,078,029
3. Estimated claims and expenses, end of policy year			
Incurred	2,531,967	2,513,686	2,326,769
Excess	-	-	-
Net incurred	2,531,967	2,513,686	2,326,769
4. Paid (cumulative) as of:			
End of policy year	264,588	399,025	361,945
One year later	589,678	1,043,054	677,317
Two years later	804,915	1,316,094	918,289
Three years later	975,776	1,571,132	1,145,528
Four years later	1,099,349	1,760,464	1,312,462
Five years later	1,162,337	1,956,377	1,462,970
Six years later	1,221,707	2,148,594	1,515,007
Seven years later	1,260,710	2,366,448	1,515,007
Eight years later	1,305,860	2,366,448	-
Nine years later	1,305,860	-	-
5. Re-estimated excess claims and expenses:	2,809	851	2,113
6. Re-estimated net incurred claims and expenses:			
End of policy year	2,531,967	2,513,686	2,326,769
One year later	1,719,946	2,649,042	2,246,968
Two years later	1,568,854	2,943,257	2,109,292
Three years later	1,738,547	2,997,365	2,088,125
Four years later	1,906,881	3,265,184	2,014,220
Five years later	2,143,445	3,268,032	1,900,748
Six years later	1,938,910	3,094,208	1,875,424
Seven years later	2,128,306	2,770,509	1,874,432
Eight years later	2,046,787	2,711,510	-
Nine years later	1,955,925	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ (576,042)	\$ 197,824	\$ (452,337)

2009	2010	2011	2012	2013	2014	2015
\$ 4,758,653	\$ 4,682,388	\$ 4,109,609	\$ 3,287,515	\$ 3,630,232	\$ 3,685,470	\$ 3,933,378
387,387	383,064	358,205	304,054	325,219	314,073	305,176
4,371,266	4,299,324	3,751,404	2,983,461	3,305,013	3,371,397	3,628,202
1,058,168	458,646	706,734	(28,664) [1]	579,853	579,767	422,106
2,620,310	2,590,046	2,524,958	2,270,016	2,227,540	2,378,881	2,561,933
-	-	-	-	-	-	-
2,620,310	2,590,046	2,524,958	2,270,016	2,227,540	2,378,881	2,561,933
266,764	273,597	552,733	348,906	407,431	378,459	332,878
615,093	703,159	1,059,231	1,074,820	1,013,184	886,046	-
834,681	983,244	1,659,979	1,254,596	1,624,868	-	-
906,267	1,145,185	1,941,560	1,360,355	-	-	-
1,011,765	1,248,299	1,941,560	-	-	-	-
1,134,669	1,248,299	-	-	-	-	-
1,134,669	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
3,000	40,550	1,433	99	13,642	-	-
2,620,310	2,590,046	2,524,958	2,270,016	2,227,540	2,378,881	2,561,933
2,279,872	2,140,381	3,579,050	2,948,420	2,436,399	2,653,860	-
1,984,216	2,283,876	3,571,949	2,313,867	2,825,384	-	-
1,952,555	2,049,775	3,283,388	2,207,521	-	-	-
1,597,677	1,907,400	3,315,073	-	-	-	-
1,505,525	2,037,451	-	-	-	-	-
1,770,477	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
\$ (849,833)	\$ (552,595)	\$ 790,115	\$ (62,495)	\$ 597,844	\$ 274,979	\$ -

SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF PREMIUMS EARNED
FOR THE YEAR ENDED JUNE 30, 2015**

Each member of the Agency makes its contribution of premiums based on its actual payroll, times the latest Workers' Compensation Inspection Rating Bureau rate (\$1.785 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:

<u>School District</u>	<u>Estimated Payroll from July 1 to June 30</u>	<u>Actual Payroll from July 1 to June 30</u>	<u>Rate [1]</u>	<u>EMF [2]</u>	<u>Computed Premium</u>	<u>Premiums Received at June 30, 2015</u>	<u>Premiums Due at June 30, 2015</u>
Brea Olinda	\$ 31,300,000	\$ 31,643,687	1.79	1.035	\$ 584,609	\$ 578,260	\$ 6,349
Laguna Beach	26,700,000	27,283,821	1.79	1.005	489,451	478,978	10,473
Ocean View	52,904,905	56,269,723	1.79	0.892	895,938	842,362	53,576
Orange County Department of Education	106,208,113	102,272,098	1.79	1.042	1,902,231	1,975,439	(73,208)
	<u>\$ 217,113,018</u>	<u>\$ 217,469,329</u>			<u>\$ 3,872,229</u>	<u>\$ 3,875,039</u>	<u>\$ (2,810)</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, 2015**

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	1,418,914	-	1,418,914
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	1,496,925	-	1,496,925
1987	2,046,320	351,435	1,048,501	-	1,048,501
1988	1,991,549	424,114	963,244	-	963,244
1989	1,721,834	551,580	1,598,355	-	1,598,355
1990	1,617,230	862,220	2,007,560	-	2,007,560
1991	1,553,744	754,252	1,312,136	-	1,312,136
1992	1,384,616	783,585	1,825,068	84,222	1,909,290
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	-	1,530,108
1996	1,419,969	455,703	1,595,768	-	1,595,768
1997	1,430,127	463,989	2,453,961	-	2,453,961
1998	1,917,472	497,336	1,352,424	-	1,352,424
1999	2,016,442	486,586	2,648,062	83,881	2,731,943
2000	2,001,067	576,780	2,562,310	89,629	2,651,939
2001	1,849,865	614,212	3,993,002	111,783	4,104,785
2002	2,444,940	272,845	2,168,111	-	2,168,111
2003	3,462,707	137,001	1,813,507	-	1,813,507
2004	3,412,981	106,842	3,584,891	92,981	3,677,872
2005	3,595,019	214,268	1,812,147	-	1,812,147
2006	3,721,635	413,018	1,758,010	509,110	2,267,120
2007	4,171,816	582,576	2,557,884	285,278	2,843,162
2008	4,336,667	515,043	1,539,522	292,590	1,832,112
2009	4,463,541	277,497	1,290,213	433,582	1,723,795
2010	4,396,969	175,017	1,366,446	632,146	1,998,592
2011	4,015,122	94,487	2,206,366	1,071,063	3,277,429
2012	3,206,205	78,074	1,358,997	788,093	2,147,090
2013	3,577,967	51,899	1,561,394	1,159,652	2,721,046
2013	-	-	(100,616) [15]	-	(100,616)
2014	3,639,434	45,960	884,034	1,641,110	2,525,144
2015	3,872,229	60,919	332,878	2,280,310	2,613,188
Total	<u>\$ 84,016,834</u>	<u>\$ 12,789,110</u>	<u>\$ 58,449,952</u>	<u>\$ 9,555,430</u>	<u>\$ 68,005,382</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
- [16] During 2013-2014 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		(482,866)
86,725		197,204
94,065		469,849
93,111		791,668
106,858		1,242,396
135,852		1,316,567
128,012		547,047
164,385		307,505
195,396		800,464
504,856		(245,945)
429,266		(539,174)
428,462		367,219
1,506,817	[1]	(1,553,698)
607,959	[2]	(328,055)
371,266		(931,111)
211,914	[3]	850,470
369,694	[4]	(598,609)
446,038	[5]	(520,130)
217,992		(1,858,700)
476,819		72,855
681,411		1,104,790
2,354,881	[6]	(2,512,930)
1,276,043		721,097
1,964,769	[7]	(97,236)
1,434,418	[8]	476,812
1,731,314	[9]	1,288,284
1,589,115	[10]	1,428,128
621,308	[11]	1,952,086
1,064,939	[12]	(232,759)
272,155	[13]	865,034
1,012,456	[14]	(103,636)
-		100,616
891,968		268,282
728,513		591,447
<u>\$ 22,520,237</u>		<u>\$ 6,280,325</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***

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, 2015, 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 October 15, 2015.

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.

Vavrieh, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 15, 2015

SCHEDULE OF FINDINGS

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

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS
JUNE 30, 2015**

None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

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