NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2016 AND 2015

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

COSTA MESA, CALIFORNIA

JUNE 30, 2016

BOARD OF DIRECTORS

REPRESENTATIVE	MEMBER	OFFICE
Tim McLellan	Cypress School District	President
Kathleen Thomason	Greater Anaheim Special Education Local Plan Area	Vice President
Lynn Simmons	Coastline Regional Occupational Program	Secretary/Treasurer
Joshie Cox	ABC Unified School District	Member
Kelvin Tsunezumi	Buena Park School District	Member
Scott Martin	Centralia School District	Member
Carol Argomaniz	La Habra City School District	Member
Patricia Meyer	Los Alamitos Unified School District	Member
Annette Cleveland	Magnolia School District	Member
Howard Burkett	North Orange County Regional Occupational Program	Member
Eric Fano	Savanna School District	Member
Cindy Fox	South Coast Regional Occupational Program	Member
Tony Wold	Westminster School District	Member

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northern Orange County Liability & Property
Self-Insurance Authority
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Orange County Liability & Property Self-Insurance Authority (the Authority) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northern Orange County Liability & Property Self-Insurance Authority as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and claims development information on pages 25 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 28, 2016

NOC L&P SIA

Northern Orange County Liability & Property Self-Insurance Authority

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

VICE PRESIDENT
Kathleen Thomason
GASELPA
7300 LaPalma Avenue
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TREASURER
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1001 Presidio Square
Costa Mesa, CA 92626
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This discussion and analysis provides an overview of the financial condition of Northern Orange County Liability & Property Self-Insurance Authority (NOCLPSIA) for the fiscal years ended June 30, 2015 and June 30, 2016. It examines and reviews NOCLPSIA's financial operations and analyzes the significant financial changes from the prior year. Readers should review the financial management information report and the independent financial audit in conjunction with this report to enhance their understanding of NOCLPSIA's financial performance.

Introduction and Background:

NOCLPSIA is a public risk sharing pool established pursuant to a Joint Power Agreement effective August 1, 1979, for the purpose of self-funding property and liability claims. Participation in NOCLPSIA gives members the advantage of pooled member contributions, sharing of claim liability risk and purchase of insurance at a lower cost. NOCLPSIA's membership consists of 13 individual member districts from the Northern Orange County area. A Full Board of Directors comprised of one representative from each member governs NOCLPSIA. Each member has one vote. The Board elects from its members a President, Vice President, and Secretary/Treasurer.

NOCLPSIA is able to retain a degree of control over their rate structure adding to the stability and longevity of their program. NOCLPSIA operates on a fiscal/program year from July 1st through June 30th with each program year operating separately from every other program year. By tracking financial activity by program year, only the members participating in a given year receive potential rebates or assessments. At the same time, other items such as administrative expenses and investment income can be accurately allocated to the proper program years' pooled equity or deficit.

Since its inception, NOCLPSIA has also been proactive in controlling its costs by developing a comprehensive risk management program and safety credit reimbursement plan. The purpose of the reimbursement plan is to provide a fund for each member to designate their portion of rebates and additional contributions. This fund is then utilized at the discretion of the members for reimbursement and implementation of various safety and loss control programs within their districts.

Accredited by the California Association of Joint Powers Authorities (CAJPA), NOCLPSIA continues to maintain a high level of performance, member satisfaction, and fiscal stewardship among organizations of its kind.

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

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

Mission Statement:

"The mission of Northern Orange County Liability and Property Self-Insurance Authority is to provide its members with comprehensive property and liability coverage utilizing both risk retention and risk transfer. Through its collective resources the authority will provide stable rates and specialized risk management services."

Program Structure:

NOCLPSIA participates in Southern California Regional Liability Excess Fund (SCR), a risk pooling solution, for excess coverage at a Member Retained Limit (MRL) of $25,000 per occurrence for property and liability. NOCLPSIA self-insures its property claims up to $25,000 per occurrence and liability claims up to $25,000 per occurrence. SCR pools for the first $250,000 of a property loss including the MRL and purchases reinsurance for property claims up to $250,000,000 in excess of $250,000. SCR pools for the first $1,000,000 of a liability loss including the MRL and purchases reinsurance for liability claims up to $24 million excess of $1 million including member's MRL. Some members of the program purchased an additional $25 million in excess liability coverage for excess liability limits to $50 million. NOCLPSIA members have the option of purchasing liability coverage up to $50 million above the $9 million excess of $1 million from So Cal ReLiEF or Schools Excess Liability Fund (SELF).

Financial Management and Control:

NOCLPSIA is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

NOCLPSIA has contracted with Keenan & Associates for administrative management responsibilities. These services include ensuring that NOCLPSIA meets its commitment to the members for operational efficiency, organizational integrity and for implementing policies established by the Board of Directors as set forth in organizational documents and bylaws. Service Enhancement Technologies (SETECH), a Division of Keenan & Associates, provides financial management and financial reporting to the Board. Budgetary control is provided by verification of budgeted amounts prior to expenses and the continued analysis of all account totals compared to budgeted amounts. Detailed financial statements and Treasurer's Reports include budget-to-actual comparisons and are provided to the NOCLPSIA Board on a quarterly basis. A comprehensive financial management information report is provided semi-annually and is the basis for the independent financial audit.

NOCLPSIA has also contracted with Bay Actuarial Consultants to provide an independent actuarial review of the overall program. This study confirms the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for all program years. Finally, Vavrinek, Trine, Day & Co., LLP Certified Public Accountants has performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

NOCLPSIA's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position provides information on NOCLPSIA's program assets and liabilities, with the difference reported as Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing total operating income versus operating expenses for fiscal years 2014-2015 and 2015-2016 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2015-2016 in cash and cash equivalents.

NOCLPSIA calculates the financial position of each program year on the basis that each year stands on its own. Specifically, the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenses of each claim year are accounted for in the year they are incurred. At the close of each year, an evaluation of the Net Asset position of individual program years is conducted, and any funds remaining after taking into account outstanding liabilities and other obligations, are considered eligible for return to members in accordance with NOCLPSIA's Capital Target Policy adopted April 25, 2012.

Over NOCLPSIA's 37 years of operation, it has declared and returned to date net member experience rebates of $5,925,470 and has received $2,562,523 in net returns from So Cal ReLiEF.

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

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

FINANCIAL ANALYSIS

Condensed Statement of Net Position:

Below is a summary of the Statement of Net Position showing total assets versus total liabilities with a percentage of change from the 2014-2015 to the 2015-2016 program year.

	Fiscal Year Ended June 30,			
	2016	2015	Difference	Percentage
Assets				
Deposits and Investments	$ 3,041,226	$ 4,016,605	$ (975,379)	(24.28) %
Accounts/Interest Receivable	2,533	1,884	649	34.45
Member Deductible Receivable	88,951	75,778	13,173	17.38
Total Assets	3,132,710	4,094,267	(961,557)	(23.49)
Liabilities				
Other Liabilities and Unearned Revenue	1,857,816	2,833,007	(975,191)	(34.42)
Claims Liabilities and ULAE	652,073	648,438	3,635	0.56
Total Liabilities	2,509,889	3,481,445	(971,556)	(27.91)
Net Position				
Undesignated	96,104	65,182	30,922	47.44
Designated - Capital Target	526,717	547,640	(20,923)	(3.82)
Total Net Position	$ 622,821	$ 612,822	$ 9,999	1.63 %

NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

Assets:

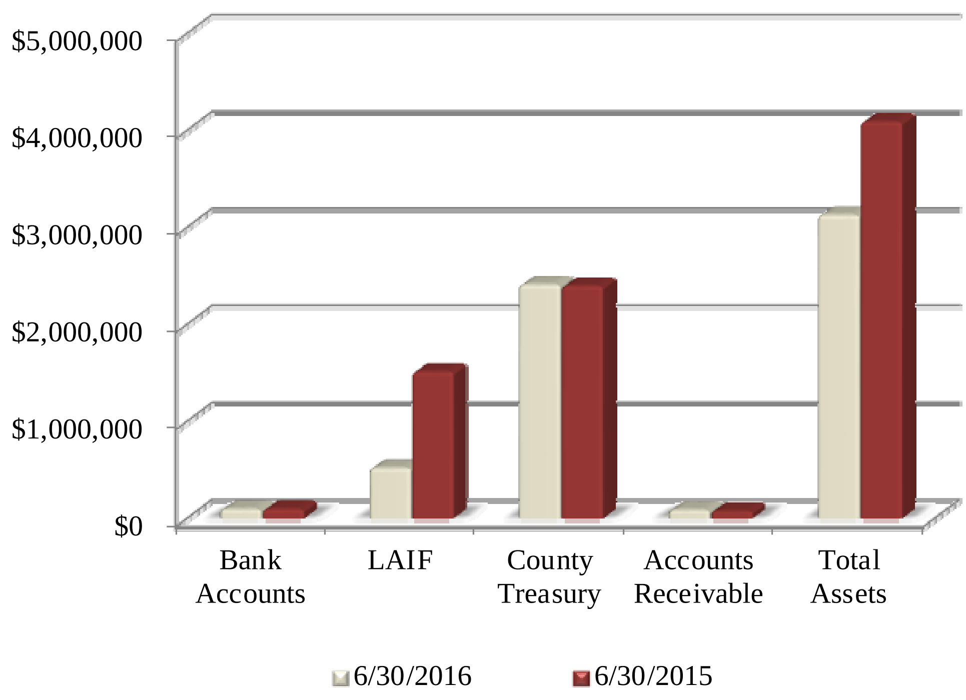
The assets of NOCLPSIA decreased $961,557 or 23.49% from $4,094,267 on June 30, 2015, to $3,132,710 on June 30, 2016, mainly due to:

- Deposit of the 2015-2016 member contributions for future claims of $315,338

Offset by,

- Utilization in Unearned Revenue and Due to Members funds in 2015-2016 of $977,456
- Claims paid in 2015-2016 of $314,846

This decrease in assets can be seen below:



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

Liabilities:

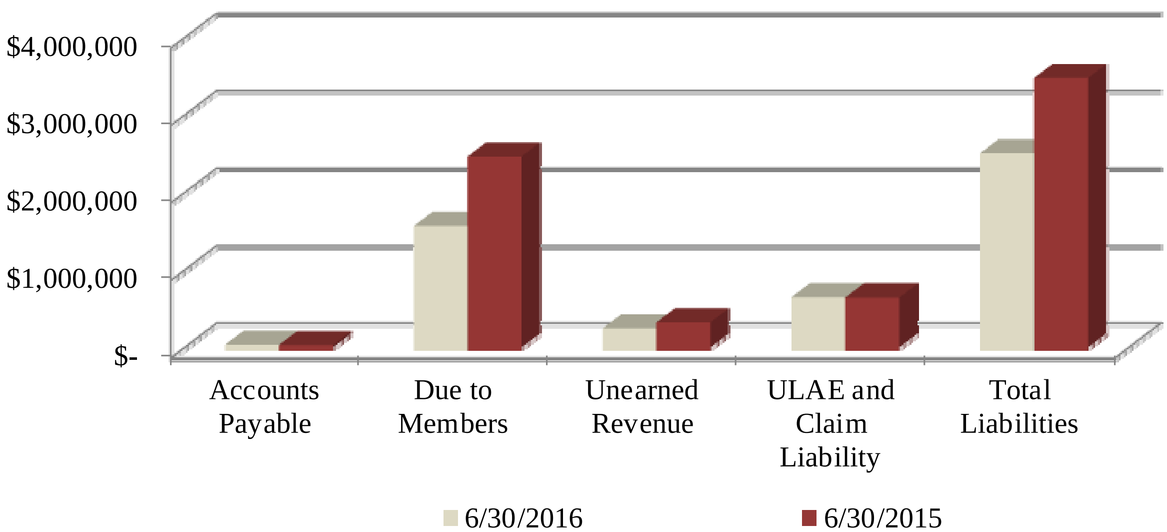
The overall liabilities of NOCLPSIA decreased in 2015-2016 by $971,556 or 27.91%, which is mainly attributed to:

- Utilization in Unearned Revenue and Due to Members funds in 2015-2016 of $977,456
- Claims paid in 2015-2016 of $314,846
- A net decrease in the actuarially-determined estimated ultimate incurred of $77,699 for the program years 2014-2015 and prior due to better than expected loss development

Offset by,

- The recognition of the 2015-2016 Estimate Ultimate Incurred of $393,147

This decrease in liabilities can be seen below:



Net Position:

The Net Position of NOCLPSIA increased in 2015-2016 by $9,999 or 1.63%. This is largely attributed to:

- Administrative Expenditures below budget of $58,729
- Contingency funding at 70% probability for 2015-2016 of $35,078
- A net decrease in the actuarially-determined estimated ultimate incurred of $77,699 for the program years 2014-2015 and prior due to better than expected loss development

Offset by,

- A net increase in the actuarially-determined estimated ultimate incurred of $124,782 for program year 2015-2016 due to increased claims activity

NOCLPSIA's undesignated Net Position of $622,821 reflects an actuarially determined greater than 90% probability level funding of its outstanding liabilities. A 90% probability level funding means that there is only a 10% probability that the outstanding liability is higher or lower than the actuary's best estimate. While many actuarial funding recommendations are at the 70% probability level, the 90% probability level funding provides NOCLPSIA an increased probability of overall reserve adequacy. The following probability level funding recommendations are based upon the Bay Actuarial Consultants actuarial study dated April 2016:

70% probability level	$15,032
80% probability level	$26,717
90% probability level	$43,959

In order to prevent premature release of the Fund Net Position, NOCLPSIA has adopted a capital target policy that is reviewed annually. The capital target is set at an 80 percent probability level with a contingency margin of $500,000 utilizing a five-year distribution method not including the current year. Once the fund balance is calculated, the sum of those funds is reduced by the capital target/contingency margin and the balance is identified for return to members upon approval by the Board of Directors.

NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

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

Income exceeds expenses by $9,999 in 2015-2016, resulting in an increase to the Net Position of 1.63 percent as shown in the Condensed Statement of Income/Expenses shown below.

	Fiscal Year Ended June 30,			
	2016	**2015**	**Difference**	**Percentage**
Operating Revenue:				
Contributions	$ 3,251,700	$ 3,023,248	$ 228,452	7.56 %
Repayment of Deductibles	(60,490)	(54,309)	(6,181)	11.38
Safety Credit Program	(8,562)	(24,896)	16,334	(65.61)
Total Operating Revenues	3,182,648	2,944,043	238,605	8.10
Operating Expenses:				
Claims Activity	318,481	102,130	216,351	211.84
Claims Administration	67,550	56,272	11,278	20.04
Risk Management Fee	80,192	80,192	-	-
Operating Costs	45,940	48,242	(2,302)	(4.77)
Excess Insurance	2,673,628	2,458,826	214,802	8.74
Total Operating Expenses	3,185,791	2,745,662	440,129	16.03
Non Operating Revenues:				
Investment Income	13,142	6,356	6,786	106.77
Change in Net Position	9,999	204,737	(194,738)	(95.12)
Beginning Net Position	612,822	408,085	204,737	50.17
Ending Net Position	$ 622,821	$ 612,822	$ 9,999	1.63 %

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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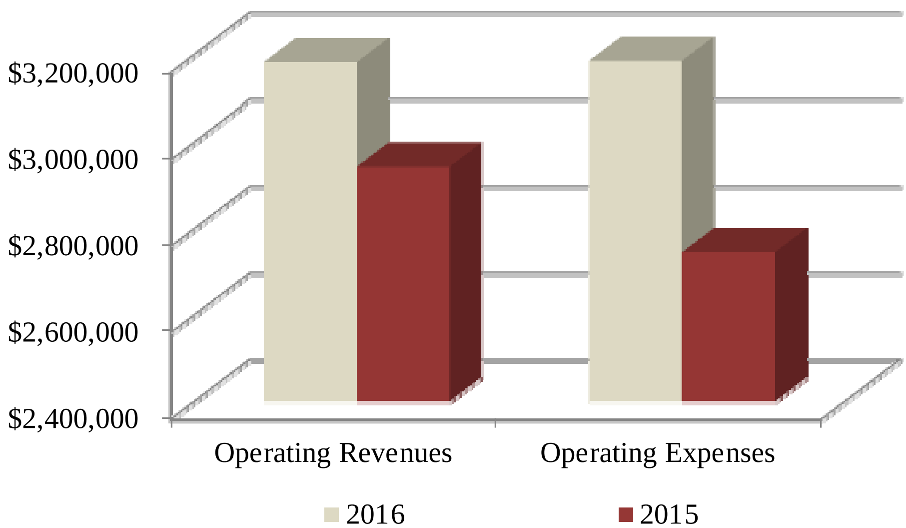
Operating Revenue consists of contributions received from the members, payment of member deductibles and contributions to the Safety Credit Program. Member contributions increased from $3,023,248 in 2014-2015 to $3,251,700 in 2015-2016, an increase of 7.56 percent.

Total operating expenses increased in 2015-2016 to $3,185,791. The reasons for this increase are mainly due to:

- A increase in Claims Activity due to a Net Increase in Estimate Ultimate Incurred as previously discussed,
- A increase in Excess Insurance expense of $214,802, consistent with the increase in Member Contributions

Below is a graph that reflects a comparison of operating income and expense for June 30, 2015, and June 30, 2016:



Budgetary Highlights:

Each year the NOCLPSIA Board of Directors approves a budget and establishes rates and funding levels for the program year. The preliminary budget is reviewed by the Board in May, with the final budget to be approved by the Board in June. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. NOCLPSIA is not required to make mid-year budget adjustments.

NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Below is a summary of the budget information with a comparison to actual expenses. Variances in total operating revenue are due to additional endorsements to the So Cal ReLiEF Memorandum of Coverage, including rental value coverage added during the program year. Variances in other insurance deposits and premiums are also due to additional coverage.

	2015-2016			
	Adopted	**Actual**	**Difference**	**Percentage**
Operating Revenue:				
Member Contributions	$ 3,251,700	$ 3,251,700	$ -	- %
Repayment of Deductibles	(60,490)	(60,490)	-	-
Safety Credit Program	(8,562)	(8,562)	-	-
Total Operating Income	3,182,648	3,182,648	-	-
Operating Expenses:				
Excess Insurance	2,674,677	2,673,628	(1,049)	(0.04)
Claims Activity	224,881	318,481	93,600	41.62
Claims Administration	120,000	67,550	(52,450)	(43.71)
Risk Management Fees	80,192	80,192	-	-
Operating Costs	52,820	45,940	(6,880)	(13.03)
Total Operating Expenses	3,152,570	3,185,791	33,221	1.05
Non-Operating Income and Expenses				
Investment Income	3,263	13,142	9,879	302.76
Change in Net Position	33,341	9,999	(23,342)	(70.01)
Beginning Net Position	612,822	612,822	-	-
Ending Net Position	$ 646,163	$ 622,821	$ (23,342)	(3.61) %

<u>Description of Facts or Conditions That are Expected to Have a Significant Effect on Financial Position or Results of Operations:</u>

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

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

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

NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY
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STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS	**2016**	**2015**
Current Assets		
Deposits and investments	$ 3,041,226	$ 4,016,605
Receivables	91,484	77,662
Total Assets	3,132,710	4,094,267
LIABILITIES		
Current Liabilities		
Accounts payable	37,379	35,114
Unearned revenue	250,000	328,889
Due to members	1,570,437	2,469,004
Current portion of unpaid claims and claim adjustment expenses	275,000	190,000
Total Current Liabilities	2,132,816	3,023,007
Unpaid claims and claim adjustment expenses, non-current portion	377,073	458,438
Total Liabilities	2,509,889	3,481,445
NET POSITION - UNRESTRICTED	$ 622,821	$ 612,822

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

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

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

	2016	2015
OPERATING INCOME		
Contributions	$ 3,251,700	$ 3,023,248
Repayment of Deductibles	(60,490)	(54,309)
Safety Credit Program	(8,562)	(24,896)
Total Operating Income	3,182,648	2,944,043
OPERATING EXPENSES		
Excess insurance	2,673,628	2,458,826
Claims paid	314,846	284,092
Credit for loss reserves	(7,790)	(136,505)
Provision (Credit) for claims adjustment expenses	11,425	(45,457)
Claims administration	67,550	56,272
Risk management fees	80,192	80,192
Consulting fees	28,500	25,751
Other operating costs	17,440	22,491
Total Operating Expenses	3,185,791	2,745,662
Operating Income (Loss)	(3,143)	198,381
NON-OPERATING REVENUES		
Interest, net of interest allocated directly to members of $9,495 in 2016 and $8,438 in 2015	13,142	6,356
CHANGE IN NET POSITION	9,999	204,737
NET POSITION, BEGINNING OF YEAR	612,822	408,085
NET POSITION, END OF YEAR	$ 622,821	$ 612,822

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

NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	3,090,586	$ 3,282,724
Cash paid for claims and settlements	(315,215)	(283,541)
Cash paid for excess insurance	(2,673,628)	(2,458,826)
Cash paid to suppliers for goods and services	(191,048)	(193,334)
Cash paid for the benefit of members, net	(898,567)	(611,288)
Net Cash Used in Operating Activities	(987,872)	(264,265)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	12,493	6,329
NET CHANGE IN CASH AND CASH EQUIVALENTS	(975,379)	(257,936)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,016,605	4,274,541
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,041,226	$ 4,016,605
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	$ (3,143)	$ 198,381
Adjustments to reconcile excess of operating income (loss) to net cash used in operating activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(13,173)	9,792
Decrease in prepaid expense	-	4,500
Increase (Decrease) in accounts payable	2,265	(12,577)
Increase (Decrease) in unearned revenue	(78,889)	328,889
Decrease in amounts due members	(898,567)	(611,288)
Decrease in claims liability	(7,790)	(136,505)
Increase (Decrease) in unallocated loss adjustment expenses	11,425	(45,457)
Total Adjustments	(984,729)	(462,646)
Net Cash Used in Operating Activities	$ (987,872)	$ (264,265)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Northern Orange County Liability & Property Self-Insurance Authority (the Authority) was formed on August 1, 1979, under a joint powers agreement between participating local educational agencies located primarily within Orange County, pursuant to Title 1, Division 7, Chapter 5, Article 1 (Section 6500 et seq.) of the California Government Code. The purpose of the Authority is to provide a more viable and economical insurance program to its members than individual members might otherwise be able to obtain operating on their own. During the fiscal year ended June 30, 2016, there were 13 participants in the Authority's self-insured program. Members may withdraw from the Authority after having completed a minimum of 36 consecutive months as a member of the Authority. A member may withdraw from its status as a member at the end of any fiscal year by notifying the Board of Directors in writing no later than December 31 of the fiscal year at the end of which the withdrawal is to be effective, pursuant to the terms and conditions of the governing bylaws.

In the event of the dissolution of the Authority, the participating members would receive a pro-rata share of any fund equity or be liable for a pro-rata share of any debts and liabilities based upon the premiums and claims of such members.

The Authority includes all funds and account groups that are controlled by or dependent on the Authority's governing board for financial reporting purposes. The Authority has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. The Authority determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Basis of Accounting

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles (GAAP). Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

C. Budget and Budgetary Accounting

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Deposits with the County Treasury and the State Investment Pool are considered to be cash equivalents during the fiscal year ended June 30, 2016 and 2015.

F. Accounts Receivable

Accounts receivable generally includes investment earnings from deposits and member deductibles. Management has analyzed these accounts and believes all amounts are fully collectible.

G. Unpaid Claims Liabilities

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

H. Premium Contributions

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

I. Reinsurance

The Authority uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of loss from reinsurers, although it does not discharge the primary liability of the Authority as direct insurer of the risks reinsured. The Authority does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

J. Income Taxes

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

K. Change in Accounting Principles

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

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

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

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

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

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

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

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

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

NOTE 2 - CASH AND INVESTMENTS

A. <u>Summary of Cash and Investments</u>

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

	2016	2015
Cash on hand and in banks	$ 732	$ 361
Cash in trust account	100,000	100,000
Investments in County Treasury	2,416,136	2,400,830
Investments in State Investment Pool	524,358	1,515,414
Total Deposits and Investments	$ 3,041,226	$ 4,016,605

B. Policies and Practices

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

C. Investment in County Treasury

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

D. Investment in the State Investment Pool

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

E. Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the Authority's bank balances were not exposed to custodial credit risk.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - RECEIVABLES

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

	2016	2015
Member deductibles	$ 88,951	$ 75,778
Interest income	2,533	1,884
Total Accounts Receivable	$ 91,484	$ 77,662

NOTE 4 - ACCOUNTS PAYABLE

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

	2016	2015
Claims payable	$ 12,136	$ 12,505
Vendor payables	25,243	22,609
Total Accounts Payable	$ 37,379	$ 35,114

NOTE 5 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	2016	2015
ABC Unified School District	$ 250,000	$ 250,000
Los Alamitos Unified School District	-	78,889
Total Unearned Revenue	$ 250,000	$ 328,889

NOTE 6 - DUE TO MEMBERS

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

	2016	2015
ABC Unified School District	$ 650,583	$ 896,790
Anaheim City School District	-	198,678
Buena Park School District	182,071	177,120
Centralia School District	269,035	267,690
Coastline Regional Occupational Program	59,884	59,034
Cypress School District	114,988	118,313
Greater Anaheim Special Education Local Plan Area	8,917	8,865
La Habra City School District	15,325	19,829
Los Alamitos Unified School District	18,236	414,816
Magnolia School District	146,567	190,682
North Orange County Regional Occupational Program	43,015	42,763
Northern Orange County Self-Funded Workers' Compensation Authority	68	68
Orange County Fringe Benefits	68	68
Savanna School District	10,480	10,419
South Coast Regional Occupational Program	14	7,955
Westminster School District	51,186	55,914
Total	$ 1,570,437	$ 2,469,004

NOTE 7 - RECONCILIATION OF CLAIMS LIABILITY

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

	2016	2015
Claims liabilities at beginning of the fiscal year	$ 439,907	$ 576,412
Incurred expenses related to:		
Insured events of the current fiscal year	393,147	234,163
Insured events of prior fiscal years	(86,091)	(86,576)
Total Incurred Expenses	307,056	147,587
Payments related to:		
Insured events of the current fiscal year	166,922	59,270
Insured events of prior fiscal years	147,924	224,822
Total Payments	314,846	284,092
Claims liabilities at end of the fiscal year	$ 432,117	$ 439,907

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

	2016	2015
Claims liability	$ 432,117	$ 439,907
Unallocated loss adjustment expenses	219,956	208,531
	652,073	648,438
Current portion	(275,000)	(190,000)
Noncurrent portion	$ 377,073	$ 458,438

NOTE 8 - NET POSITION

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

	2016	2015
Unrestricted		
Designated		
Capital target	$ 526,717	$ 547,640
Undesignated	96,104	65,182
Total Net Position	$ 622,821	$ 612,822

NOTE 9 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

A. **Entity**	So Cal ReLiEF	SELF
B. **Purpose**	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere
C. **Participants**	State-wide educational entities	State-wide educational entities
D. **Governing Board**	Consisting of elected representative of the members by region	Consisting of elected representative of the members by region
E. **Payments for the Current Year**	$ 2,310,215	$ 112,440

REQUIRED SUPPLEMENTARY INFORMATION

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

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2016

The following table illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the past years. The rows of the table are defined as follows:

1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2) This line shows each fiscal year's other operating costs of the Authority including overhead and claims expense not allocable to individual claims.
3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*).
4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation result from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)
7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

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

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2016

	2007	2008	2009
(1) Required contribution and investment revenue:			
Earned	$ 3,600,529	$ 3,674,183	$ 3,410,080
Ceded	(2,830,931)	(2,957,262)	(2,692,648)
Net earned	769,598	716,921	717,432
(2) Unallocated expenses	252,936	323,018	415,104
(3) Estimated claims and expenses, end of policy year:			
Incurred	285,840	364,382	402,172
Ceded	*	*	*
Net incurred	285,840	364,382	402,172
(4) Net paid (cumulative) as of:			
June 30, 2007	10,807	-	
June 30, 2008	41,988	117,107	-
June 30, 2009	123,448	212,914	71,725
June 30, 2010	129,024	287,629	206,760
June 30, 2011	129,024	318,999	226,534
June 30, 2012	129,024	318,999	225,533
June 30, 2013	129,024	318,999	225,534
June 30, 2014	129,024	318,999	225,534
June 30, 2015	129,024	318,999	225,534
June 30, 2016	129,024	318,999	225,534
(5) Re-estimated ceded claims and expenses			
(6) Re-estimated net incurred claims and expenses:			
June 30, 2007	285,840	-	
June 30, 2008	149,028	364,382	-
June 30, 2009	177,011	387,495	402,172
June 30, 2010	130,511	352,276	331,626
June 30, 2011	129,024	318,999	247,097
June 30, 2012	129,024	318,999	225,533
June 30, 2013	129,024	318,999	225,534
June 30, 2014	129,024	318,099	225,534
June 30, 2015	129,024	318,999	225,534
June 30, 2016	129,024	318,999	225,534
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	$ 156,816	$ 45,383	$ 176,638

* Information not available.

June 30,						
2010	2011	2012	2013	2014	2015	2016
$ 3,337,354	$ 3,240,308	$ 3,187,692	$ 3,293,451	$ 3,525,997	$ 3,029,604	$ 3,264,842
(2,657,325)	(2,578,053)	(2,542,295)	(2,686,807)	(2,919,870)	(2,458,826)	(2,673,628)
680,029	662,255	645,397	606,644	606,127	570,778	591,214
248,516	255,402	224,429	238,817	312,833	218,454	274,159
261,143	261,156	301,471	215,277	425,441	234,163	393,147
*	*	*	*	*	*	*
261,143	261,156	301,471	215,277	425,441	234,163	393,147
-						
26,804	-					
114,331	82,860	-				
172,349	109,761	40,549	-			
184,364	202,471	175,718	32,821	-		
184,364	202,471	257,095	105,285	94,989	-	
184,364	202,471	287,529	214,848	173,955	59,270	-
184,364	202,471	290,330	238,662	211,373	151,524	166,922
-						
261,143	-					
293,862	261,156	-				
192,309	180,082	301,471	-			
184,364	207,646	251,436	215,277	-		
184,364	202,471	311,635	296,705	425,441	-	
184,364	202,471	290,330	357,404	393,612	234,163	-
184,364	202,471	290,330	257,404	246,476	303,571	393,147
$ 76,779	$ 58,685	$ 11,141	$ (42,127)	$ 178,965	$ (69,408)	$ -

INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Northern Orange County Liability & Property
Self-Insurance Authority
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Northern Orange County Liability & Property Self-Insurance Authority (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Northern Orange County Liability & Property Self-Insurance Authority's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Northern Orange County Liability & Property Self-Insurance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northern Orange County Liability & Property Self-Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northern Orange County Liability & Property Self-Insurance Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northern Orange County Liability & Property Self-Insurance Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 28, 2016

SCHEDULE OF FINDINGS

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

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

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