NORTHERN ORANGE COUNTY LIABILITY & PROPERTY SELF-INSURANCE AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2017 AND 2016

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

COSTA MESA, CALIFORNIA

JUNE 30, 2017

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	College and Career Advantage	Member
Tony Wold	Westminster School District	Member

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

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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, 2017 and 2016, 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.

10681 Foothill Blvd., Suite 300 Rancho Cucamonga, CA 91730 Tel: 909.466.4410 www.vtdcpa.com Fax: 909.466.4431

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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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 27, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northern Orange County Liability and Property Self-Insurance Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 27, 2017

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

VICE PRESIDENT
Kathleen Thomason
GASELPA
7300 LaPalma Avenue
Buena Park, CA 90620
(714) 828-1766

TREASURER
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Coastline R.O.P.
1001 Presidio Square
Costa Mesa, CA 92626
(714) 979-1955

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, 2016 and June 30, 2017. 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.

California Association of Joint Powers Authorities
Accredited with Excellence

Manager: Keenan & Associates, 901 Calle Amanecer, Suite 200, San Clemente, CA 92673, (949) 940-1760, Fax (949) 369-0324

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 2015-2016 and 2016-2017 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2016-2017 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 38 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.

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 2015-2016 to the 2016-2017 program year.

	Fiscal Year Ended June 30,			
	2017	**2016**	**Difference**	**Percentage**
Assets				
Deposits and Investments	$ 3,075,832	$ 3,041,226	$ 34,606	1.14 %
Accounts/Interest Receivable	3,409	2,533	876	34.58
Member Deductible Receivable	50,479	88,951	(38,472)	(43.25)
Total Assets	3,129,720	3,132,710	(2,990)	(0.10)
Liabilities				
Other Liabilities and Unearned Revenue	1,611,323	1,857,816	(246,493)	(13.27)
Claims Liabilities and ULAE	530,857	652,073	(121,216)	(18.59)
Total Liabilities	2,142,180	2,509,889	(367,709)	(14.65)
Net Position				
Undesignated	463,839	96,104	367,735	382.64
Designated - Capital Target	523,701	526,717	(3,016)	(0.57)
Total Net Position	$ 987,540	$ 622,821	$ 364,719	58.56 %

Assets:

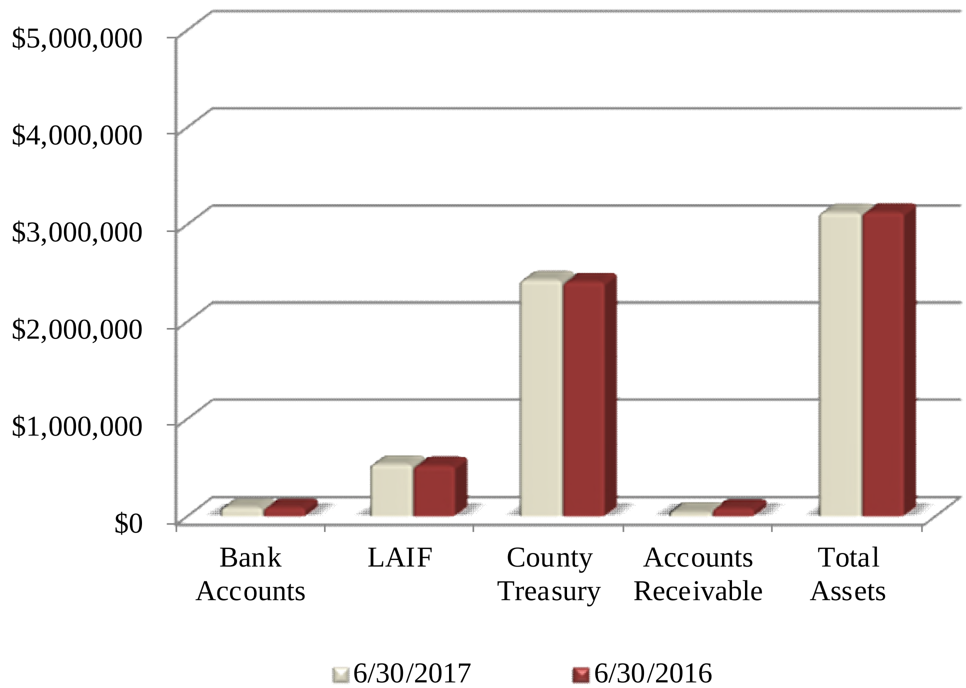
The assets of NOCLPSIA decreased $2,990 or 0.10% from $3,132,710 on June 30, 2016, to $3,129,720 on June 30, 2017, mainly due to:

- Deposit of the 2016-2017 member contributions for future claims of $337,399
- Net Investment Income of $15,421

Offset by,

- Utilization in unearned revenue and due to members funds in 2016-2017 of $248,900
- Claims paid in 2016-2017 of $109,317

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 accounts.

Liabilities:

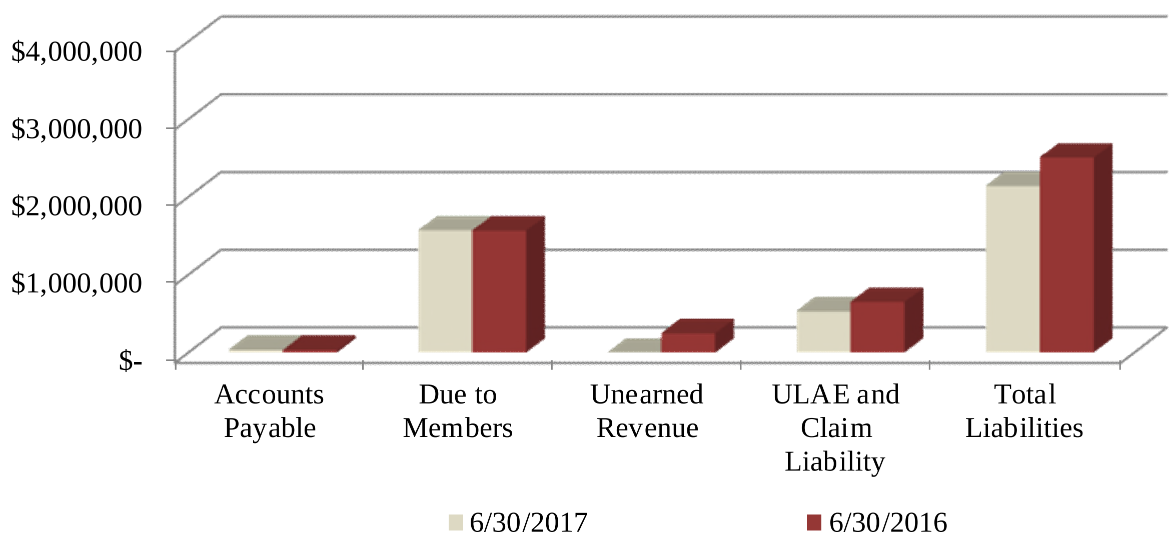
The overall liabilities of NOCLPSIA decreased in 2016-2017 by $367,709 or 14.65%, which is mainly attributed to:

- Utilization in unearned revenue and due to members funds in 2016-2017 of $248,900
- Claims paid in 2016-2017 of $109,317
- A net decrease in the actuarially-determined estimated ultimate incurred of $181,443 for the program years 2015-2016 and prior due to better than expected loss development

Offset by,

- The recognition of the 2016-2017 estimate ultimate incurred of $248,249

This decrease in liabilities can be seen below:



Net Position:

The net position of NOCLPSIA increased in 2016-2017 by $364,719 or 58.56%. This is largely attributed to:

- Administrative expenditures below budget of $88,454
- Contingency funding at 70% probability for 2016-2017 of $27,463
- A net decrease in the actuarially-determined estimated ultimate incurred of $181,443 for the program years 2015-2016 and prior due to better than expected loss development
- Net investment income of $15,421

Offset by,

- A net increase in the actuarially-determined estimated ultimate incurred of $23,770 for program year 2016-2017 due to increased claims activity

NOCLPSIA's undesignated net position of $987,540 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 2017:

70% probability level	$14,813
80% probability level	$23,701
90% probability level	$38,513

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.

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

Income exceeds expenses by $364,719 in 2016-2017, resulting in an increase to the net position of 58.56 percent as shown in the Condensed Statement of Income/Expenses shown below.

	Fiscal Year Ended June 30,			
	2017	2016	Difference	Percentage
Operating Revenue:				
Contributions	$ 3,657,295	$ 3,251,700	$ 405,595	12.47 %
Repayment of Deductibles	(62,290)	(60,490)	(1,800)	2.98
Safety Credit Program	(44,645)	(8,562)	(36,083)	421.43
Total Operating Revenues	3,550,360	3,182,648	367,712	11.55
Operating Expenses:				
Claims Activity	(11,899)	318,481	(330,380)	(103.74)
Claims Administration	40,000	67,550	(27,550)	(40.78)
Risk Management Fee	83,868	80,192	3,676	4.58
Operating Costs	54,431	45,940	8,491	18.48
Excess Insurance	3,034,662	2,673,628	361,034	13.50
Total Operating Expenses	3,201,062	3,185,791	15,271	0.48
Non Operating Revenues:				
Investment Income	15,421	13,142	2,279	17.34
Change in Net Position	364,719	9,999	354,720	3,547.55
Beginning Net Position	622,821	612,822	9,999	1.63
Ending Net Position	$ 987,540	$ 622,821	$ 364,719	58.56 %

Operating revenue consists of contributions received from the members, payment of member deductibles and contributions to the Safety Credit Program. Member contributions increased from $3,251,700 in 2015-2016 to $3,657,295 in 2016-2017, an increase of 12.47 percent.

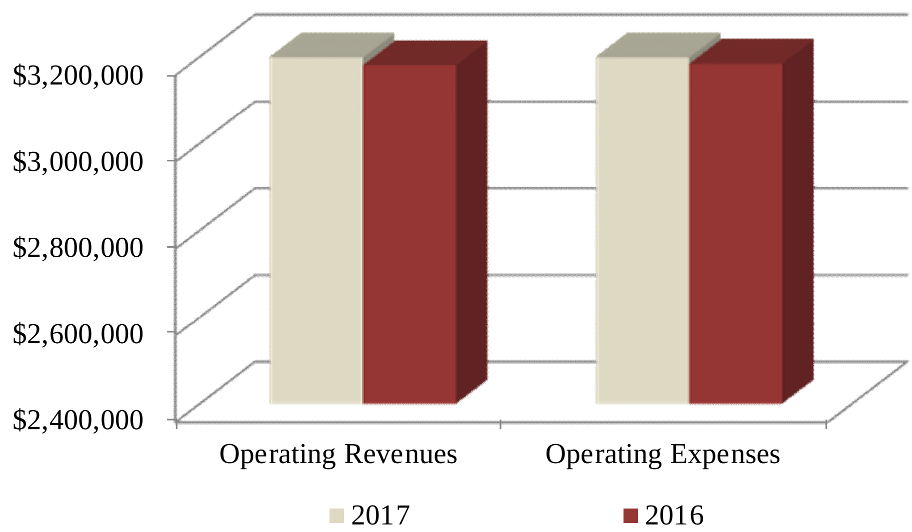
Total operating expenses increased in 2016-2017 to $3,201,062 from $3,185,791. The reasons for this increase are mainly due to:

- An increase in excess insurance expense of $361,034, consistent with the increase in member contribution

Offset by,

- A decrease in claims activity due to a net decrease in estimate ultimate incurred as previously discussed

Below is a graph that reflects a comparison of operating income and expense for June 30, 2016, and June 30, 2017:



<u>Budgetary Highlights:</u>

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.

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.

	2016-2017			
	Adopted	**Actual**	**Difference**	**Percentage**
Operating Revenue:				
Member Contributions	$ 3,657,134	$ 3,657,295	$ 161	- %
Repayment of Deductibles	(62,291)	(62,290)	1	-
Safety Credit Program	(44,645)	(44,645)	-	-
Total Operating Income	3,550,198	3,550,360	162	-
Operating Expenses:				
Excess Insurance	3,031,503	3,034,662	3,159	0.10
Claims Activity	229,479	(11,899)	(241,378)	(105.19)
Claims Administration	120,000	40,000	(80,000)	(66.67)
Risk Management Fees	83,868	83,868	-	-
Operating Costs	62,885	54,431	(8,454)	(13.44)
Total Operating Expenses	3,527,735	3,201,062	(326,673)	(9.26)
Non-Operating Income and Expenses				
Investment Income	4,707	15,421	10,714	227.62
Change in Net Position	27,170	364,719	337,549	1,242.36
Beginning Net Position	622,821	622,821	-	-
Ending Net Position	$ 649,991	$ 987,540	$ 337,549	51.93 %

<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, or deteriorating loss experience take place.

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

STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets		
Deposits and investments	$ 3,075,832	$ 3,041,226
Receivables	53,888	91,484
Total Assets	3,129,720	3,132,710
LIABILITIES		
Current Liabilities		
Accounts payable	39,786	37,379
Unearned revenue	-	250,000
Due to members	1,571,537	1,570,437
Current portion of unpaid claims and claim adjustment expenses	150,000	275,000
Total Current Liabilities	1,761,323	2,132,816
Unpaid claims and claim adjustment expenses, non-current portion	380,857	377,073
Total Liabilities	2,142,180	2,509,889
NET POSITION - UNRESTRICTED	$ 987,540	$ 622,821

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, 2017 AND 2016

	2017	2016
OPERATING INCOME		
Contributions	$ 3,657,295	$ 3,251,700
Repayment of Deductibles	(44,645)	(60,490)
Safety Credit Program	(62,290)	(8,562)
Total Operating Income	3,550,360	3,182,648
OPERATING EXPENSES		
Excess insurance	3,034,662	2,673,628
Claims paid	109,317	314,846
Credit for loss reserves	(43,273)	(7,790)
Provision (Credit) for claims adjustment expenses	(77,943)	11,425
Claims administration	40,000	67,550
Risk management fees	83,868	80,192
Consulting fees	27,320	28,500
Other operating costs	27,111	17,440
Total Operating Expenses	3,201,062	3,185,791
Operating Income (Loss)	349,298	(3,143)
NON-OPERATING REVENUES		
Interest, net of interest allocated directly to members of $11,438 in 2017 and $9,495 in 2016	15,421	13,142
CHANGE IN NET POSITION	364,719	9,999
NET POSITION, BEGINNING OF YEAR	622,821	612,822
NET POSITION, END OF YEAR	$ 987,540	$ 622,821

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	$ 3,338,832	$ 3,090,586
Cash paid for claims and settlements	(88,182)	(315,215)
Cash paid for excess insurance	(3,034,662)	(2,673,628)
Cash paid to suppliers for goods and services	(197,027)	(191,048)
Cash paid for the benefit of members, net	1,100	(898,567)
Net Cash Provided by (Used in) Operating Activities	20,061	(987,872)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	14,545	12,493
NET CHANGE IN CASH AND CASH EQUIVALENTS	34,606	(975,379)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,041,226	4,016,605
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,075,832	$ 3,041,226
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	$ 349,298	$ (3,143)
Adjustments to reconcile excess of operating income (loss) to net cash provided by (used in) operating activities:		
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	38,472	(13,173)
Increase in accounts payable	2,407	2,265
Decrease in unearned revenue	(250,000)	(78,889)
Increase (decrease) in amounts due members	1,100	(898,567)
Decrease in claims liability	(43,273)	(7,790)
Increase (decrease) in unallocated loss adjustment expenses	(77,943)	11,425
Total Adjustments	(329,237)	(984,729)
Net Cash Provided by (Used in) Operating Activities	$ 20,061	$ (987,872)

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, 2017, there were 15 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

Cash equivalents consist of highly liquid investments with original maturities of three months or less. For purposes of the Statement of Cash Flows, deposits with the County Treasury and the State Investment Pool Local Agency Investment Fund (LAIF) are considered to be cash equivalents.

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.

NOTE 2 - CASH AND INVESTMENTS

A. Summary of Cash and Investments

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

	2017	2016
Cash on hand and in banks	$ 951	$ 732
Cash in trust account	100,000	100,000
Investments in County Treasury	2,435,091	2,416,136
Investments in State Investment Pool	539,790	524,358
Total Deposits and Investments	$ 3,075,832	$ 3,041,226

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, 2017 and 2016, the Authority's bank balances were not exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the Authority has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Authority's own data. The Authority should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the Authority are not available to other market participants.

Uncategorized - Investments in the State Investment Pool Local Agency Investment Fund and Country Treasury are not measured using the input levels above because the Authority's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017 and 2016, consist of the following:

	2017	2016
Member deductibles	$ 50,479	$ 88,951
Interest income	3,409	2,533
Total Accounts Receivable	$ 53,888	$ 91,484

NOTE 5 - ACCOUNTS PAYABLE

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

	2017	2016
Claims payable	$ 33,271	$ 12,136
Vendor payables	6,515	25,243
Total Accounts Payable	$ 39,786	$ 37,379

NOTE 6- UNEARNED REVENUE

Unearned revenue at June 30, 2016 consisted of the following. There was no unearned revenue at June 30, 2017.

	2016
ABC Unified School District	$ 250,000

NOTE 7 - DUE TO MEMBERS

The amounts due to members at June 30, 2017 and 2016, are summarized below:

	2017	2016
ABC Unified School District	$ 654,912	$ 650,583
Buena Park School District	183,539	182,071
Centralia School District	270,104	269,035
Coastline Regional Occupational Program	60,869	59,884
Cypress School District	115,915	114,988
Greater Anaheim Special Education Local Plan Area	8,989	8,917
La Habra City School District	2,325	15,325
Los Alamitos Unified School District	18,383	18,236
Magnolia School District	141,655	146,567
North Orange County Regional Occupational Program	43,362	43,015
Northern Orange County Self-Funded Workers' Compensation Authority	68	68
Orange County Fringe Benefits	68	68
Savanna School District	12,714	10,480
College and Career Advantage	14	14
Westminster School District	58,620	51,186
Total	$ 1,571,537	$ 1,570,437

NOTE 8 - 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:

	2017	2016
Claims liabilities at beginning of the fiscal year	$ 432,117	$ 439,907
Incurred expenses related to:		
Insured events of the current fiscal year	248,249	393,147
Insured events of prior fiscal years	(182,205)	(86,091)
Total Incurred Expenses	66,044	307,056
Payments related to:		
Insured events of the current fiscal year	33,380	166,922
Insured events of prior fiscal years	75,937	147,924
Total Payments	109,317	314,846
Claims liabilities at end of the fiscal year	$ 388,844	$ 432,117

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

	2017	2016
Claims liability	$ 388,844	$ 432,117
Unallocated loss adjustment expenses	142,013	219,956
	530,857	652,073
Current portion	(150,000)	(275,000)
Noncurrent portion	$ 380,857	$ 377,073

NOTE 9 - NET POSITION

Net position is composed of the following elements as of June 30, 2017 and 2016:

	2017	2016
Unrestricted		
Designated		
Capital target	$ 523,701	$ 526,717
Undesignated	463,839	96,104
Total Net Position	$ 987,540	$ 622,821

NOTE 10 - 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**	$ 2,634,304	$ 114,545

Required Supplementary Information

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2017

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, 2017

	2008	2009	2010
(1) Required contribution and investment revenue:			
Earned	$ 3,674,183	$ 3,410,080	$ 3,337,354
Ceded	(2,957,262)	(2,692,648)	(2,657,325)
Net earned	716,921	717,432	680,029
(2) Unallocated expenses	323,018	415,104	248,516
(3) Estimated claims and expenses, end of policy year:			
Incurred	364,382	402,172	261,143
Ceded	*	*	*
Net incurred	364,382	402,172	261,143
(4) Net paid (cumulative) as of:			
June 30, 2008	117,107		
June 30, 2009	212,914	71,725	
June 30, 2010	287,629	206,760	26,804
June 30, 2011	318,999	226,534	114,331
June 30, 2012	318,999	225,533	172,349
June 30, 2013	318,999	225,534	184,364
June 30, 2014	318,999	225,534	184,364
June 30, 2015	318,999	225,534	184,364
June 30, 2016	318,999	225,534	184,364
June 30, 2017	318,999	225,534	184,364
(5) Re-estimated ceded claims and expenses			
(6) Re-estimated net incurred claims and expenses:			
June 30, 2008	364,382		
June 30, 2009	387,495	402,172	
June 30, 2010	352,276	331,626	261,143
June 30, 2011	318,999	247,097	293,862
June 30, 2012	318,999	225,533	192,309
June 30, 2013	318,999	225,534	184,364
June 30, 2014	318,099	225,534	184,364
June 30, 2015	318,999	225,534	184,364
June 30, 2016	318,999	225,534	184,364
June 30, 2017	318,999	225,534	184,364
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	$ 45,383	$ 176,638	$ 76,779

* Information not available.

June 30,						
2011	2012	2013	2014	2015	2016	2017
$ 3,240,308	$ 3,187,692	$ 3,293,451	$ 3,525,997	$ 3,029,604	$ 3,264,842	$ 3,672,716
(2,578,053)	(2,542,295)	(2,686,807)	(2,919,870)	(2,458,826)	(2,673,628)	(3,034,662)
662,255	645,397	606,644	606,127	570,778	591,214	638,054
255,402	224,429	238,817	312,833	218,454	274,159	100,356
261,156	301,471	215,277	425,441	234,163	393,147	248,249
*	*	*	*	*	*	*
261,156	301,471	215,277	425,441	234,163	393,147	248,249
82,860						
109,761	40,549					
202,471	175,718	32,821				
202,471	257,095	105,285	94,989			
202,471	287,529	214,848	173,955	59,270		
202,471	290,330	238,662	211,373	151,524	166,922	
202,471	290,330	240,867	212,077	221,745	170,491	33,380
261,156						
180,082	301,471					
207,646	251,436	215,277				
202,471	311,635	296,705	425,441			
202,471	290,330	257,404	393,612	234,163		
202,471	290,330	257,404	246,476	303,571	393,147	
202,471	290,330	252,404	245,784	237,374	283,593	248,249
$ 58,685	$ 11,141	$ (37,127)	$ 179,657	$ (3,211)	$ 109,554	$ -

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, 2017, 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 27, 2017.

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 27, 2017

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, 2017

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, 2017

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