



Financial Statements
June 30, 2021 and 2020

Northern Orange County Liability and Property Self Insurance Authority

Northern Orange County Liability and Property Self Insurance Authority

Anaheim, California

Board of Directors

June 30, 2021

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Northern Orange County Liability and Property Self Insurance Authority

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Independent Auditor's Report

The Board of Directors
Northern Orange County Liability and Property Self Insurance Authority
Anaheim, California

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Orange County Liability and Property Self-Insurance Authority (NOCLPSIA), which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NOCLPSIA as of June 30, 2021 and 2020, and the results of its operations and cash flows for the years then ended in conformity 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 11 and ten-year claims development information on pages 23 and 24 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 a report dated November 10, 2021 on our consideration of Northern Orange County Liability and Property Self-Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Northern Orange County Liability and Property Self-Insurance Authority's internal control over financial reporting and compliance.



Rancho Cucamonga, California
November 10, 2021



This discussion and analysis provides an overview of the financial condition of Northern Orange County Liability and Property Self Insurance Authority (NOCLPSIA) for the fiscal years ended June 30, 2021 and June 30, 2020. 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 15 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 can 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 with excellence 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.

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."

Northern Orange County Liability and Property Self Insurance Authority

Management's Discussion and Analysis
June 30, 2021 and 2020

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.

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, Eide Bailly 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 Revenues, 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 2020-2021 and 2019-2020 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2020-2021 in cash and cash equivalents.

Northern Orange County Liability and Property Self Insurance Authority

Management's Discussion and Analysis

June 30, 2021 and 2020

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 and reviewed annually.

Over NOCLPSIA's 41 years of operation, it has declared and returned to date net member experience rebates of \$6,156,999 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 2019-2020 to the 2020-2021 program year.

	Fiscal Year Ended June 30,		Difference	Percentage
	2021	2020		
Assets				
Deposits and investments	\$ 3,117,644	\$ 3,083,986	\$ 33,658	1.09 %
Prepaid expense	750	417	333	79.86
Accounts/interest receivable	1,624	4,132	(2,508)	(60.70)
Member deductible receivable	48,443	53,027	(4,584)	(8.64)
Total assets	<u>3,168,461</u>	<u>3,141,562</u>	<u>26,899</u>	<u>0.86</u>
Liabilities				
Other liabilities and unearned revenue	1,061,501	1,146,719	(85,218)	(7.43)
Claims liabilities and ULAE	559,319	632,546	(73,227)	(11.58)
Total liabilities	<u>1,620,820</u>	<u>1,779,265</u>	<u>(158,445)</u>	<u>(8.91)</u>
Net Position				
Undesignated	1,027,237	759,383	267,854	35.27
Designated - capital target	520,404	602,914	(82,510)	(13.69)
Total net position	<u>\$ 1,547,641</u>	<u>\$ 1,362,297</u>	<u>\$ 185,344</u>	<u>13.61 %</u>

Northern Orange County Liability and Property Self Insurance Authority
Management's Discussion and Analysis
June 30, 2021 and 2020

Assets:

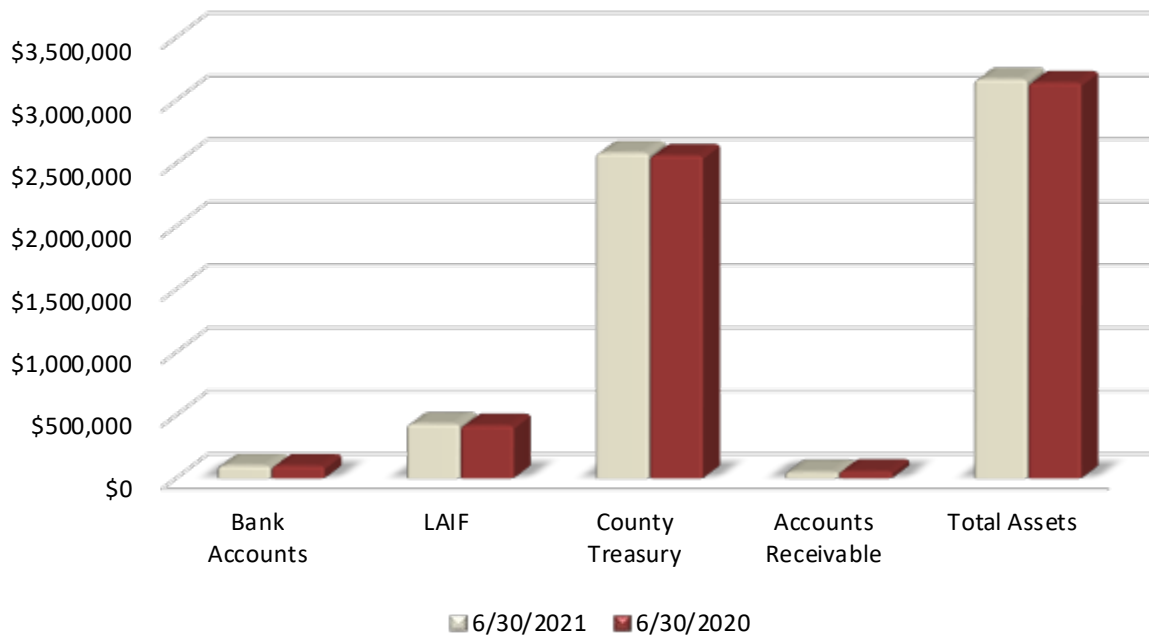
The assets of NOCLPSIA increased \$26,899 or 0.86% from \$3,141,562 on June 30, 2020, to \$3,168,461 on June 30, 2021, mainly due to:

- Retained Funding at 70% for 2020-2021 of \$259,207
- Administrative expenditures below budget of \$74,093
- Net Investment Income of \$20,833

Offset by,

- Net cash activity in unearned revenue, accounts payable, due to members and safety credit in 2020-2021 of \$85,218
- Net claims paid in 2020-2021 of \$242,780

This increase 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.

Northern Orange County Liability and Property Self Insurance Authority
 Management's Discussion and Analysis
 June 30, 2021 and 2020

Liabilities:

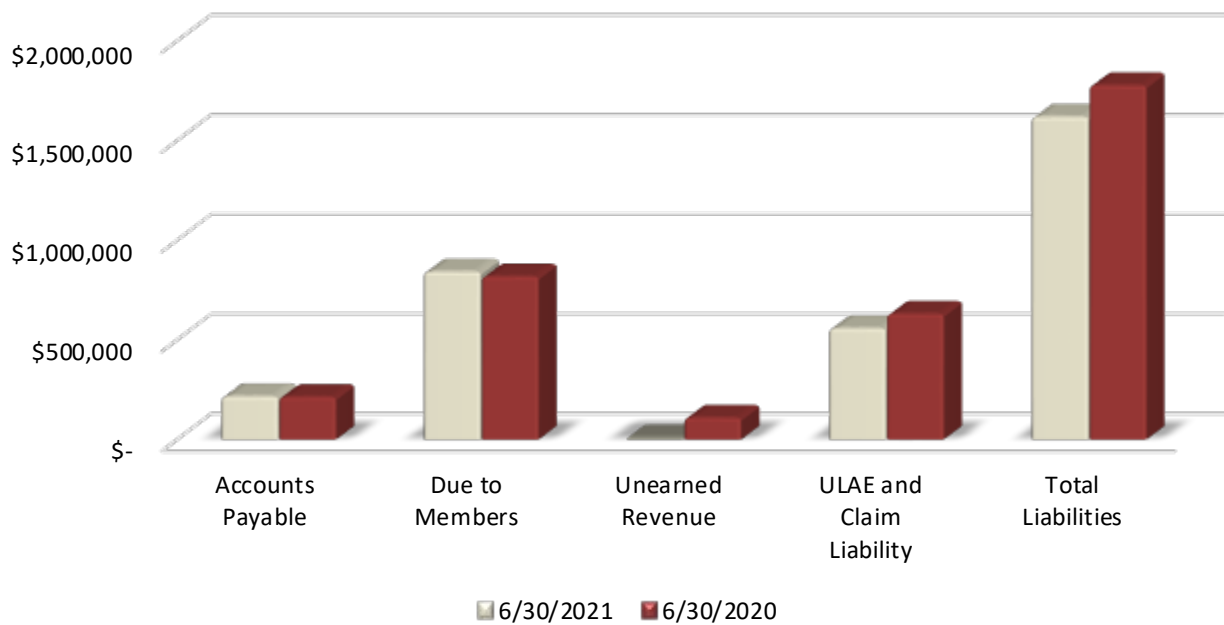
The overall liabilities of NOCLPSIA decreased in 2020-2021 by \$158,445 or 8.91%, which is mainly attributed to:

- Net cash activity in unearned revenue, accounts payable, due to members and safety credit in 2020-2021 of \$85,218
- A net decrease in the actuarially-determined estimated ultimate incurred of \$59,039 for the program years 2019-2020 and prior due to better than expected loss development
- Claims paid in 2020-2021 of \$242,780

Offset by,

- The recognition of the 2020-2021 actuarially-determined estimated ultimate incurred of \$214,860
- An increase to the unallocated loss adjustment expense of \$13,732

This decrease in liabilities can be seen below:



Northern Orange County Liability and Property Self Insurance Authority

Management's Discussion and Analysis

June 30, 2021 and 2020

Net Position:

The net position of NOCLPSIA increased in 2020-2021 by \$185,344 or 13.61%. This is largely attributed to:

- Contingency funding at 70% probability for 2020-2021 of \$34,244
- Administrative expenditures below budget of \$74,093
- A net credit from ReLiEF for property reinsurance and ancillary coverage of \$764
- Net investment income of \$20,833
- A net decrease in the actuarially-determined estimated ultimate incurred of \$59,039 for the program years 2019-2020 and prior due to better than expected loss development
- A net decrease in the actuarially-determined estimated ultimate incurred of \$10,103 for program year 2020-2021 due to decreased claims activity

Offset by,

- An increase to the unallocated loss adjustment expense of \$13,732

NOCLPSIA's undesignated net position of \$1,547,641 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 March 2021:

70% probability level	\$ 10,202
80% probability level	\$ 20,404
90% probability level	\$ 35,706

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% 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 and Property Self Insurance Authority
Management's Discussion and Analysis
June 30, 2021 and 2020

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

Income exceeded expenses by \$185,344 in 2020-2021, resulting in an increase to the net position of 13.61% as shown in the Condensed Statement of Income/Expenses shown below.

	Fiscal Year Ended June 30,		Difference	Percentage
	2021	2020		
Operating Income				
Contributions	\$ 5,030,814	\$ 4,820,510	\$ 210,304	4.36 %
Repayment of deductibles	(42,437)	(47,504)	5,067	(10.67)
Safety credit program	(46,104)	(48,180)	2,076	(4.31)
Total operating income	<u>4,942,273</u>	<u>4,724,826</u>	<u>217,447</u>	<u>4.60</u>
Operating Expenses				
Claims activity	169,553	180,609	(11,056)	(6.12)
Claims administration	55,040	40,847	14,193	34.75
Risk management fee	83,868	83,868	-	-
Operating costs	50,548	60,091	(9,543)	(15.88)
Excess insurance	4,418,753	4,152,468	266,285	6.41
Total operating expenses	<u>4,777,762</u>	<u>4,517,883</u>	<u>259,879</u>	<u>5.75</u>
Non-Operating Income				
Investment income	20,833	51,414	(30,581)	(59.48)
Change in Net Position	185,344	258,357	(73,013)	(28.26)
Beginning Net Position	1,362,297	1,103,940	258,357	23.40
Ending Net Position	<u>\$ 1,547,641</u>	<u>\$ 1,362,297</u>	<u>\$ 185,344</u>	<u>13.61 %</u>

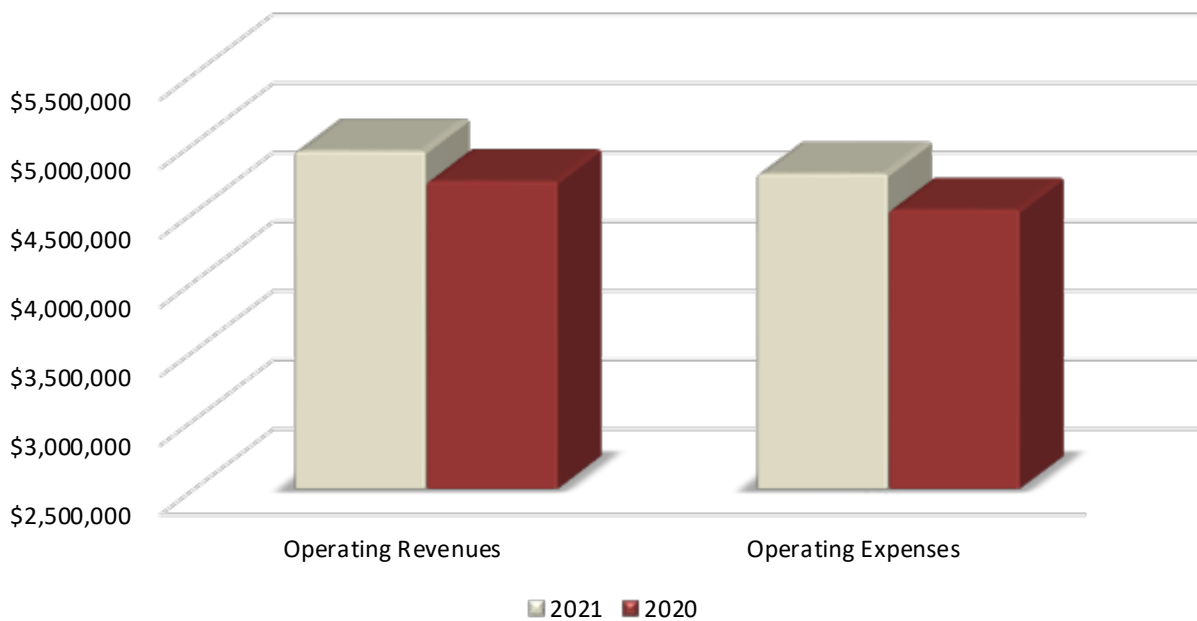
Pool operating revenues consist of contributions received from members offset by contributions for accounts receivable recognized at June 30, 2020. Member Contributions have increased \$210,304 or 4.36% from \$4,724,826 in 2019-2020 to \$4,942,273 in 2020-2021. This is based upon the annual renewal process. There was a decrease of 0.21% in Average Daily Attendance (ADA) and 3.35% increase of Total Insured Value (TIV) for 2020-2021. In addition, there was an overall increase in the liability and property rates, this is based on the Authority's recent loss experience.

Northern Orange County Liability and Property Self Insurance Authority
Management's Discussion and Analysis
June 30, 2021 and 2020

Total operating expenses increased in 2020-2021 to \$4,777,762 from \$4,517,883. The reasons for this increase are mainly due to:

- An increase in excess insurance expense of \$266,285 or 6.41%, which consistent with the increase in member contributions
- An overall increase in claims activity despite a net decrease of \$59,039 in the actuarially-determined estimated ultimate incurred for the program years 2019-2020 and prior, and the recognition of \$214,860 for actuarially-determined estimated ultimate incurred for the program year 2020-2021 as recognized in 2020-2021.
- A decrease in operating costs of \$9,543.

Below is a graph that reflects a comparison of operating income and expense for June 30, 2021, and June 30, 2020:



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 and Property Self Insurance Authority

Management's Discussion and Analysis

June 30, 2021 and 2020

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.

	2020-2021		Difference	Percentage
	Adopted	Actual		
Operating Income				
Member Contributions	\$ 5,030,814	\$ 5,030,814	\$ -	- %
Repayment of Deductibles	(42,437)	(42,437)	-	-
Safety Credit Program	(46,104)	(46,104)	-	-
Total operating income	<u>4,942,273</u>	<u>4,942,273</u>	<u>-</u>	<u>-</u>
Operating Expenses				
Excess Insurance	4,419,517	4,418,753	764	0.02
Claims Activity	229,963	169,553	60,410	26.27
Claims Administration	120,000	55,040	64,960	54.13
Risk Management Fees	83,868	83,868	-	-
Operating Costs	59,681	50,548	9,133	15.30
Total operating expenses	<u>4,913,029</u>	<u>4,777,762</u>	<u>135,267</u>	<u>2.75</u>
Non-Operating Income				
Investment Income	35,975	20,833	(15,142)	(42.09)
Change in Net Position	65,219	185,344	120,125	184.19
Beginning Net Position	1,362,297	1,362,297	-	-
Ending Net Position	<u>\$ 1,427,516</u>	<u>\$ 1,547,641</u>	<u>\$ 120,125</u>	<u>8.41 %</u>

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

Property and Liability rates are impacted by the overall state of an insured's loss experience and the global insurance industry experience. The insurance industry had been in a prolonged soft market whereby there were lower losses an abundance of capacity and depressed rates. This began to change a few years ago as global catastrophes, California wildfires, social inflation, sexual abuse, loss development from prior year claims and large jury verdicts increased the exposures and cost of claims. Many insurance carriers ceased writing public agencies due to law enforcement, auto, traumatic brain injury exposures, sexual abuse and long-term "tail" risk concerns. All these issues contributed to the insurance market shifting from soft to hard as capacity significantly decreased, while retentions and rates increased.

Northern Orange County Liability and Property Self Insurance Authority

Statements of Net Position

June 30, 2021 and 2020

	2021	2020
Assets		
Current assets		
Deposits and investments	\$ 3,117,644	\$ 3,083,986
Prepaid expense	750	417
Accounts receivables	50,067	57,159
	3,168,461	3,141,562
Total assets	3,168,461	3,141,562
Liabilities		
Current liabilities		
Accounts payable	217,588	215,372
Unearned revenue	-	111,589
Due to members	843,913	819,758
Current portion of unpaid claims and claim adjustment expenses	150,000	200,000
	1,211,501	1,346,719
Total current liabilities	1,211,501	1,346,719
Unpaid claims and claim adjustment expenses, non-current portion	409,319	432,546
	1,620,820	1,779,265
Total liabilities	1,620,820	1,779,265
Net Position - Unrestricted	\$ 1,547,641	\$ 1,362,297

Northern Orange County Liability and Property Self Insurance Authority
 Statements of Revenues, Expenses, and Changes in the Net Position
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Income		
Contributions	\$ 5,030,814	\$ 4,820,510
Repayment of deductibles	(42,437)	(47,504)
Safety credit program	(46,104)	(48,180)
	<u>4,942,273</u>	<u>4,724,826</u>
Total operating income		
Operating Expenses		
Excess insurance	4,418,753	4,152,468
Claims paid	242,780	126,675
Provision (credit) for loss reserves	(86,959)	61,553
Provision (credit) for claims adjustment expenses	13,732	(7,619)
Claims administration	55,040	40,847
Risk management fees	83,868	83,868
Consulting fees	31,023	30,120
Other operating costs	19,525	29,971
	<u>4,777,762</u>	<u>4,517,883</u>
Total operating expenses		
Operating income	<u>164,511</u>	<u>206,943</u>
Non-Operating Income		
Interest income, net of interest allocated directly to members of \$6,575 in 2021 and \$16,757 in 2020	<u>20,833</u>	<u>51,414</u>
Change in Net Position	185,344	258,357
Net Position, Beginning of Year	<u>1,362,297</u>	<u>1,103,940</u>
Net Position, End of Year	<u>\$ 1,547,641</u>	<u>\$ 1,362,297</u>

Northern Orange County Liability and Property Self Insurance Authority

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Cash received from members and others	\$ 4,835,268	\$ 4,666,577
Cash paid for claims and settlements	(219,989)	(118,856)
Cash paid for excess insurance	(4,418,753)	(4,152,468)
Cash paid to suppliers for goods and services	(174,997)	(184,252)
Cash (paid) received for the benefit of members, net	24,155	(129,641)
Net Cash Provided By Operating Activities	45,684	81,360
Cash Flows from Financing Activities		
Return of Net Position	(35,367)	(34,790)
Cash Flows from Investing Activities		
Interest income	23,341	55,342
Net Change in Cash and Cash Equivalents	33,658	101,912
Cash and Cash Equivalents, Beginning of Year	3,083,986	2,982,074
Cash and Cash Equivalents, End of Year	\$ 3,117,644	\$ 3,083,986
Reconciliation of Operating Income to Net Cash provided by Operating Activities		
Operating income	\$ 164,511	\$ 206,943
Adjustments to reconcile excess of operating income to net cash provided by operating activities		
Changes in assets and liabilities		
Accounts receivable	4,584	6,288
Prepaid expenses	(333)	(417)
Accounts payable	37,583	8,790
Unearned revenue	(111,589)	(64,537)
Amounts due to members	24,155	(129,641)
Claims liability	(86,959)	61,553
Unallocated loss adjustment expenses	13,732	(7,619)
Total adjustments	(118,827)	(125,583)
Net Cash Provided By Operating Activities	\$ 45,684	\$ 81,360

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Northern Orange County Liability & Property Self-Insurance Authority (NOCLPSIA) 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 NOCLPSIA 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, 2021, there were 13 participants in the NOCLPSIA's self-insured program. Members may withdraw from the NOCLPSIA after having completed a minimum of 36 consecutive months as a member of the NOCLPSIA. 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 NOCLPSIA, 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.

NOCLPSIA includes all funds and account groups that are controlled by or dependent on the NOCLPSIA's governing board for financial reporting purposes. NOCLPSIA 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. NOCLPSIA determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

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.

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.

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

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.

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.

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.

Unpaid Claims Liabilities

NOCLPSIA 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.

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.

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Safety Credits

At the beginning of each program year, all members can elect to contribute into their safety credit fund. They may also elect to waive this annual contribution to their safety credit fund. Safety credit funds are to be utilized in areas which would reduce the severity and/or frequency of losses.

Return of Net Position

Amounts in excess of NOCLPSIA's Capital Target are available for potential return to the Members and can be utilized at the member's discretion towards future member contributions, safety credits or they may request a refund. Return of net position shall not include any surplus funds from the past five years and the current year and are approved by the Board.

Insurance Coverage

NOCLPSIA 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 NOCLPSIA as direct insurer of the risks reinsured. NOCLPSIA does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

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.

Income Taxes

NOCLPSIA'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.

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Cash in operating account	\$ 956	\$ 400
Cash in trust account	100,000	100,000
Investments in County Treasury	2,584,324	2,563,207
Investments in State Investment Pool	<u>432,364</u>	<u>420,379</u>
Total deposits and investments	<u>\$ 3,117,644</u>	<u>\$ 3,083,986</u>

Policies and Practices

NOCLPSIA 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.

Investment in County Treasury

NOCLPSIA is considered to be a voluntary participant in an external investment pool. The fair value of NOCLPSIA's investment in the pool is reported in the accounting financial statements at amounts based upon the NOCLPSIA'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. The Cash in County Treasury has average weighted maturity of 375 days.

Investment in the State Investment Pool

NOCLPSIA 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 NOCLPSIA's investment in the pool is reported in the accompanying financial statements at amounts based upon NOCLPSIA'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. The LAIF has average weighted maturity of 291 days.

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The NOCLPSIA manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. NOCLPSIA's investments in County Treasury and Local Agency Investment Fund are not required to be rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, NOCLPSIA's deposits may not be returned. NOCLPSIA 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% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2021 and 2020, NOCLPSIA's bank balances were not exposed to custodial credit risk.

Note 3 - Receivables

Receivables at June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Member deductibles	\$ 48,443	\$ 53,027
Interest income	<u>1,624</u>	<u>4,132</u>
Total accounts receivable	<u>\$ 50,067</u>	<u>\$ 57,159</u>

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Note 4 - Accounts Payable

Accounts payable at June 30, 2021 and 2020, consist of the following:

	2021	2020
Claims payable	\$ 33,577	\$ 10,786
Vendor payables	22,639	7,847
Return of Net Position payable	161,372	196,739
Total accounts payable	\$ 217,588	\$ 215,372

Note 5 - Unearned Revenue

Unearned revenue at June 30, 2020 consisted of \$111,589 in rebate funds for one of NOCLPSIA's members to be applied to offset future member contributions. There was no unearned revenue as of June 30, 2021.

Note 6 - Due to Members

The amounts due to members consist of return of net position, rebates and safety credit funds. The amounts due to members at June 30, 2021 and 2020, are summarized below:

	2021	2020
ABC Unified School District	\$ 153,836	\$ 169,086
Buena Park School District	172,387	170,855
Centralia School District	124,642	119,457
Coastline Regional Occupational Program	3,850	13,407
College and Career Advantage	14	14
Cypress School District	121,736	120,802
Greater Anaheim Special Education Local Plan Area	5,974	5,928
La Habra City School District	12,667	10,428
Los Alamitos Unified School District	19,491	19,341
Magnolia School District	12,456	8,412
North Orange County Regional Occupational Program	61,483	57,093
Northern Orange County Self-Funded Workers' Compensation Authority	72	72
Orange County Fringe Benefits	72	72
Savanna School District	20,450	20,294
Westminster School District	134,783	104,497
Total	\$ 843,913	\$ 819,758

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Note 7 - Reconciliation of Claims Liability

As discussed in Note 1, NOCLPSIA 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 NOCLPSIA during the fiscal year ended June 30:

	2021	2020
Claims Liabilities At Beginning Of The Fiscal Year	\$ 475,140	\$ 413,587
Incurred Expenses Related To		
Insured events of the current fiscal year	214,860	258,906
Insured events of prior fiscal years	(59,039)	(70,678)
Total incurred expenses	155,821	188,228
Payments Related To		
Insured events of the current fiscal year	27,178	29,565
Insured events of prior fiscal years	215,602	97,110
Total payments	242,780	126,675
Claims Liabilities At End Of The Fiscal Year	\$ 388,181	\$ 475,140

The components of the unpaid claims and claim adjustment expenses as of June 30, 2021 and 2020, were as follows:

	2021	2020
Claims liability	\$ 388,181	\$ 475,140
Unallocated loss adjustment expenses	171,138	157,406
	559,319	632,546
Current portion	(150,000)	(200,000)
Noncurrent portion	\$ 409,319	\$ 432,546

Claims liabilities are not discounted as of June 30, 2021 and 2020.

Northern Orange County Liability and Property Self Insurance Authority

Notes to Financial Statements

June 30, 2021 and 2020

Note 8 - Net Position

Net position is composed of the following elements as of June 30, 2021 and 2020:

	2021	2020
Unrestricted		
Designated		
Capital target	\$ 520,404	\$ 602,914
Undesignated	1,027,237	759,383
Total net position	\$ 1,547,641	\$ 1,362,297

Note 9 - Participation in Public Entity Risk Pools

NOCLPSIA's member agencies are members of Southern California Regional Liability Excess Fund (SCR). Member agencies pay an annual premium to SCR for property and liability coverage. The relationship between NOCLPSIA and SCR is such that SCR is not a component unit of NOCLPSIA for financial reporting purposes.

SCR has budgeting and financial reporting requirements independent of the member units and SCR's financial statements are not presented in these financial statements; however, fund transactions between SCR and NOCLPSIA are included in these statements. Audited financial statements are available from SCR.

A. Entity	Southern California Regional Liability Excess Fund
B. Purpose	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere
C. Participants	State-wide educational entities
D. Governing Board	Consisting of elected representative of the members by region
E. Payments for the Current Year	\$ 4,294,893



Required Supplementary Information
June 30, 2021

Northern Orange County Liability and Property Self Insurance Authority

Northern Orange County Liability and Property Self Insurance Authority

Claims Development Information

June 30, 2021

The following table illustrates how NOCLPSIA'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 NOCLPSIA 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 NOCLPSIA including overhead and claims expense not allocable to individual claims.
3. This line shows NOCLPSIA'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 and Property Self Insurance Authority

Ten-Year Claims Development Information

June 30, 2021

		June 30,				
	2012	2013	2014	2015	2016	
(1) Required contribution and investment revenue						
Earned	\$ 2,816,623	\$ 3,508,186	\$ 3,443,192	\$ 2,950,399	\$ 3,195,790	
Ceded	(2,542,295)	(2,686,807)	(2,919,870)	(2,458,826)	(2,673,628)	
Net earned	<u>274,328</u>	<u>821,379</u>	<u>523,322</u>	<u>491,573</u>	<u>522,162</u>	
(2) Unallocated expenses	<u>224,429</u>	<u>238,817</u>	<u>312,833</u>	<u>218,454</u>	<u>274,159</u>	
(3) Estimated claims and expenses, end of policy year						
Incurred	215,091	207,401	288,611	139,249	205,107	
Ceded	-	-	-	-	-	
Net incurred	<u>215,091</u>	<u>207,401</u>	<u>288,611</u>	<u>139,249</u>	<u>205,107</u>	
(4) Net paid (cumulative) as of						
June 30, 2012	40,549	-	-	-	-	
June 30, 2013	175,718	32,821	-	-	-	
June 30, 2014	257,095	105,285	94,989	-	-	
June 30, 2015	287,529	214,848	173,955	59,270	-	
June 30, 2016	290,330	238,662	211,373	151,524	166,922	
June 30, 2017	290,330	240,867	212,077	221,745	170,491	
June 30, 2018	290,329	240,867	212,077	221,745	239,418	
June 30, 2019	290,329	240,867	212,077	221,745	252,384	
June 30, 2020	290,329	240,867	212,077	221,745	252,384	
June 30, 2021	<u>290,329</u>	<u>240,867</u>	<u>212,077</u>	<u>221,745</u>	<u>252,384</u>	
(5) Re-estimated ceded claims and expenses	-	-	-	-	-	
(6) Re-estimated net incurred claims and expenses						
June 30, 2012	301,471	-	-	-	-	
June 30, 2013	251,436	215,277	-	-	-	
June 30, 2014	311,635	296,705	425,441	-	-	
June 30, 2015	290,330	257,404	393,612	234,163	-	
June 30, 2016	290,330	257,404	246,476	303,571	393,147	
June 30, 2017	290,330	257,404	245,784	237,374	283,593	
June 30, 2018	290,329	240,867	212,077	221,745	281,301	
June 30, 2019	290,329	240,867	212,077	221,745	252,384	
June 30, 2020	290,329	240,867	212,077	221,745	252,384	
June 30, 2021	<u>290,329</u>	<u>240,867</u>	<u>212,077</u>	<u>221,745</u>	<u>252,384</u>	
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	<u>\$ (75,238)</u>	<u>\$ (33,466)</u>	<u>\$ 76,534</u>	<u>\$ (82,496)</u>	<u>\$ (47,277)</u>	

Northern Orange County Liability and Property Self Insurance Authority
 Ten-Year Claims Development Information
 June 30, 2021

	June 30,				
	2017	2018	2019	2020	2021
(1) Required contribution and investment revenue					
Earned	\$ 3,565,781	\$ 3,744,130	\$ 4,154,392	\$ 4,776,240	\$ 4,963,106
Ceded	<u>(3,034,662)</u>	<u>(3,218,919)</u>	<u>(3,594,023)</u>	<u>(4,152,468)</u>	<u>(4,418,753)</u>
Net earned	<u>531,119</u>	<u>525,211</u>	<u>560,369</u>	<u>623,772</u>	<u>544,353</u>
(2) Unallocated expenses	<u>100,356</u>	<u>170,267</u>	<u>195,707</u>	<u>177,187</u>	<u>203,188</u>
(3) Estimated claims and expenses, end of policy year					
Incurred	248,249	279,485	258,906	258,906	214,860
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net incurred	<u>248,249</u>	<u>279,485</u>	<u>258,906</u>	<u>258,906</u>	<u>214,860</u>
(4) Net paid (cumulative) as of					
June 30, 2012	-	-	-	-	-
June 30, 2013	-	-	-	-	-
June 30, 2014	-	-	-	-	-
June 30, 2015	-	-	-	-	-
June 30, 2016	-	-	-	-	-
June 30, 2017	33,380	-	-	-	-
June 30, 2018	85,442	58,195	-	-	-
June 30, 2019	145,565	101,110	47,802	-	-
June 30, 2020	147,458	134,699	109,430	29,565	-
June 30, 2021	<u>147,458</u>	<u>153,441</u>	<u>209,536</u>	<u>126,319</u>	<u>27,178</u>
(5) Re-estimated ceded claims and expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6) Re-estimated net incurred claims and expenses					
June 30, 2012	-	-	-	-	-
June 30, 2013	-	-	-	-	-
June 30, 2014	-	-	-	-	-
June 30, 2015	-	-	-	-	-
June 30, 2016	-	-	-	-	-
June 30, 2017	248,249	-	-	-	-
June 30, 2018	172,115	279,485	-	-	-
June 30, 2019	149,596	217,974	340,494	-	-
June 30, 2020	147,458	154,883	335,045	258,906	-
June 30, 2021	<u>147,458</u>	<u>154,536</u>	<u>261,687</u>	<u>273,572</u>	<u>214,860</u>
(7) (Increase) Decrease in estimated incurred claims and expenses from the end of the policy year	<u>\$ 100,791</u>	<u>\$ 124,949</u>	<u>\$ (2,781)</u>	<u>\$ (14,666)</u>	<u>\$ -</u>



Independent Auditor's Report
June 30, 2021

**Northern Orange County Liability and
Property Self Insurance Authority**



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*

The Board of Directors
Northern Orange County Liability and Property Self Insurance Authority
Anaheim, California

We have audited, in accordance with 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 Northern Orange County Liability and Property Self-Insurance Authority (NOCLPSIA), which comprise the statement of net position as of June 30, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Orange County Liability and Property Self-Insurance Authority's internal control over financial reporting (internal control) as a basis for designing 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 Northern Orange County Liability and Property Self-Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Orange County Liability and 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Orange County Liability and 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
November 10, 2021