



Financial Statements
June 30, 2021 and 2020

Northern Orange County Self-Funded Workers' Compensation Agency

Northern Orange County Self-Funded Workers' Compensation Agency

Anaheim, California

Board of Directors

June 30, 2021

REPRESENTATIVE	MEMBER	OFFICE
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Kathleen Thomason	Greater Anaheim Special Education Local Plan Area	Vice President
Tonia Watkins	North Orange County Regional Occupational Program	Secretary/Treasurer
Scott Martin	Centralia School District	Member
Sesar Morfin	Coastline Regional Occupational Program	Member
Cindy Fox	College and Career Advantage	Member
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Danelle Bautista	La Habra City School District	Member
Elvia Galicia	Los Alamitos Unified School District	Member
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Sandy Poteet	Buena Park School District	Member
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Northern Orange County Self-Funded Workers' Compensation Agency

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Independent Auditor's Report

The Board of Directors
Northern Orange County Self-Funded Workers' Compensation Agency
Anaheim, California

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Orange County Self-Funded Workers' Compensation Agency (NOCSFWCA) 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 NOCSFWCA 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 12 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 NOCSFWCA'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 NOCSFWCA'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 NOCSFWCA'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 Self-Funded Workers' Compensation Agency (NOCSFWCA) for the fiscal years ended June 30, 2021 and June 30, 2020. It discusses NOCSFWCA'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 NOCSFWCA's financial performance.

Introduction and Background:

NOCSFWCA is a public risk sharing pool established pursuant to a Joint Power Agreement effective October 1, 1977, to self-fund workers' compensation. Participation in NOCSFWCA gives members the advantage of pooled member contributions, sharing of claim liability risk and purchase of insurance at a lower cost. NOCSFWCA's membership consists of 12 individual member districts, from the Northern Orange County area. A Full Board of Directors comprised of one representative from each member governs NOCSFWCA. Each member has one vote. The Board elects from its members, a President, Vice President, Secretary, and Treasurer.

NOCSFWCA is able to retain a degree of control over their rate structure adding to the stability and longevity of their program. NOCSFWCA 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 program year will receive rebates or assessments. Further, other items such as administrative expenses and investment revenue can be accurately allocated to the proper program year's pooled equity or deficit.

Since its inception, NOCSFWCA has 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), NOCSFWCA has maintained a high level of performance, member satisfaction, and fiscal stewardship among organizations of its kind.

Mission Statement:

"The mission of Northern Orange County Self-Funded Workers' Compensation Agency is to protect the members financial resources exposed to workers' compensation losses. Through its collective resources the authority will provide risk management and loss control services to assist in the reduction of claims with the goal of providing a safe work environment."

Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2021 and 2020

Program Structure:

NOCSFWCA participated in SAWCX II from 1988-1989 to 1994-1995 for its excess coverage in the self-insured program years. As a member of SAWCX II, they paid an annual member contribution based upon their Self-Insured Retention (SIR) and shared in all rebates or deficits proportionate to their participation. On a biannual basis SAWCX II performs an actuarial review to analyze estimated ultimate incurred loss costs. Based upon increases in actuarial estimates, the Board of Directors has taken action to assess the current and former members of SAWCX II for deficit program years.

On July 1, 1995, NOCSFWCA took advantage of the insurance market and the lower rate structure by selecting a fully insured program that existed until June 30, 2003. In program year 2003-2004, NOCSFWCA joined as a member of the Protected Insurance Program for Schools (PIPS) under a Finite Risk Sharing program that utilizes reinsurance and continued as a member through 2020-2021.

Financial Management and Control:

NOCSFWCA 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 are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

NOCSFWCA has contracted with Keenan & Associates for administrative management responsibilities. These services include ensuring that NOCSFWCA 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 before 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 NOCSFWCA Board on a quarterly basis. A comprehensive financial management information report is provided semi-annually and is the basis for the independent financial audit.

NOCSFWCA has also contracted with Bay Actuarial Consultants to provide an independent actuarial review of the overall program. This is the basis for the Claim Liabilities reflected on the Statement of Net Position and in compliance with GASB Statement No. 10. Eide Bailly LLP, Certified Public Accountants, performs an independent audit examination of the financial statements in accordance with generally accepted auditing standards on an annual basis.

Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2021 and 2020

Basic Financial Statements:

NOCSFWCA'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, Statements of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position provides information on NOCSFWCA'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 revenue 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.

NOCSFWCA 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 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 NOCSFWCA's Capital Target Policy adopted on June 24, 2015 and reviewed annually. Over NOCSFWCA's 43 years of operation, it has declared and returned net member experience rebates of \$10,249,621.

Northern Orange County Self-Funded Workers' Compensation Agency
 Management's Discussion and Analysis
 June 30, 2021 and 2020

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.

	As of June 30,		Difference	Percentage
	2021	2020		
Current Assets				
Deposits and investments	\$ 1,991,736	\$ 1,886,892	\$ 104,844	5.56 %
Other assets	21,477	5,574	15,903	285.31
Total assets	<u>2,013,213</u>	<u>1,892,466</u>	<u>120,747</u>	<u>6.38</u>
Current Liabilities				
Accounts payable and due to members	1,196,339	1,115,560	80,779	7.24
Claim liabilities and ULAE	15,000	15,000	-	-
Total current liabilities	<u>1,211,339</u>	<u>1,130,560</u>	<u>80,779</u>	<u>7.15</u>
Noncurrent Liabilities				
Claim liabilities and ULAE	179,205	224,396	(45,191)	(20.14)
Total liabilities	<u>1,390,544</u>	<u>1,354,956</u>	<u>35,588</u>	<u>2.63</u>
Net Position				
Undesignated	154,379	16,465	137,914	837.62
Designated - capital target	468,290	521,045	(52,755)	(10.12)
Total net position	<u>\$ 622,669</u>	<u>\$ 537,510</u>	<u>\$ 85,159</u>	<u>15.84 %</u>

Northern Orange County Self-Funded Workers' Compensation Agency
Management's Discussion and Analysis
June 30, 2021 and 2020

Assets:

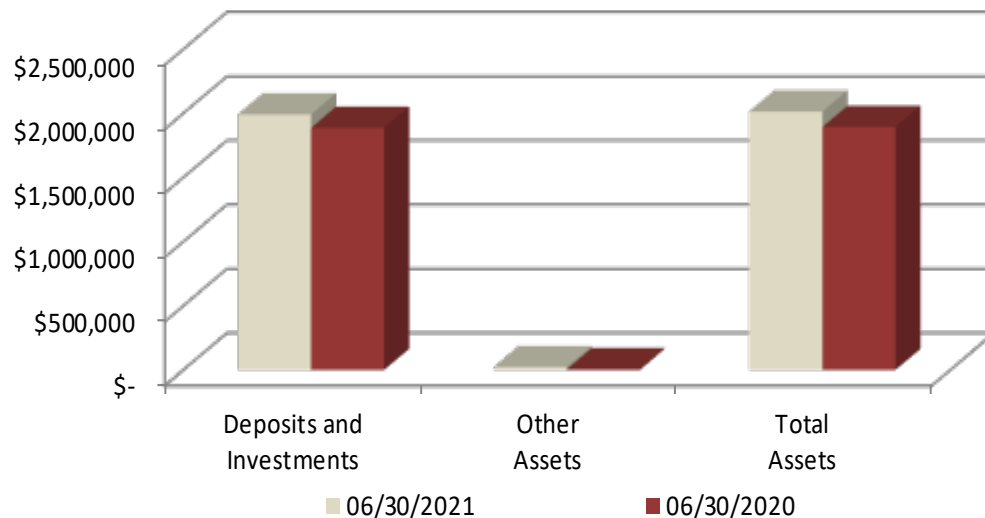
The overall assets of NOCSFWCA increased in 2020-2021 by \$120,747 or 6.38%, which is largely attributed to:

- Contribution received in advance for risk management fees of \$57,097
- A change in accounts payable activity of \$229
- Administrative expenditures below budget of \$41,170
- Net cash activity in the Due to Members and Safety Credit programs of \$55,770
- Net investment income of \$13,329

Offset by:

- A member elected to apply their 2018-2019 audited payroll credit of \$32,317 to their 2020-2021 Member Contribution.
- Claims administration for the Self-Insured Program Years 1994-1995 and prior of \$5,000
- Net Claims Paid for the Self-Insured Program Years 1994-1995 and prior of \$9,531

This increase in assets can be seen below:



The funds not necessary for the 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 (L.A.I.F.) and Union Bank general and claim checking accounts.

Northern Orange County Self-Funded Workers' Compensation Agency
 Management's Discussion and Analysis
 June 30, 2021 and 2020

Liabilities:

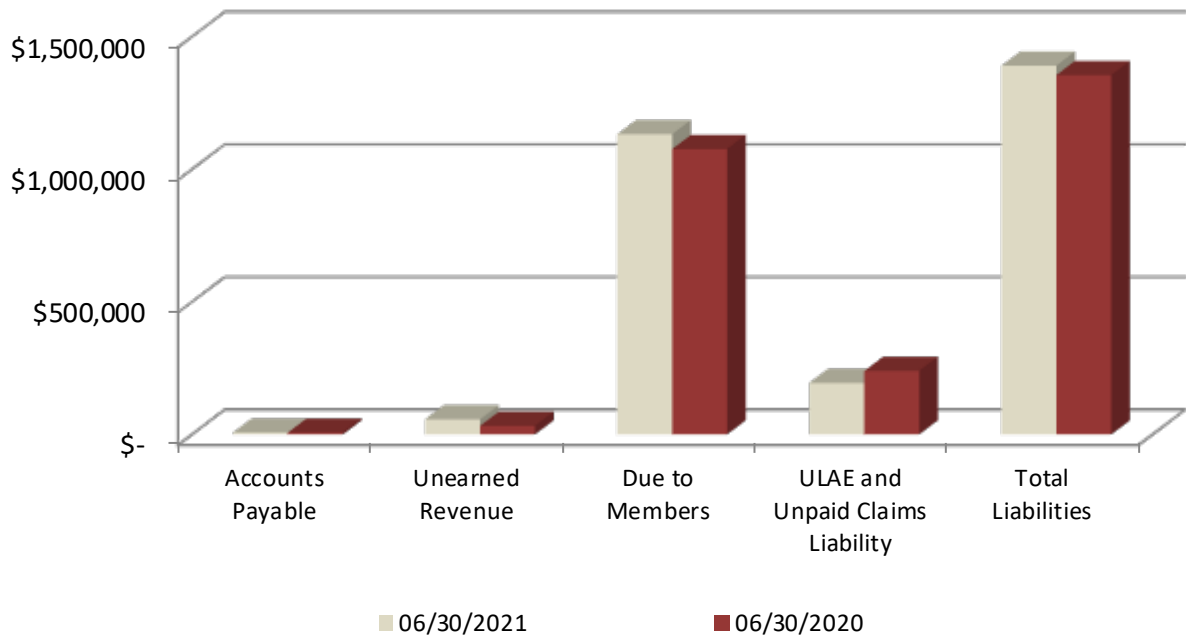
The overall liabilities of NOCSFWCA increased in 2020-2021 by \$35,588 or 2.63%, which is mainly attributed to:

- A member elected to apply their 2018-2019 audited payroll credit of \$32,317 to their 2020-2021 Member Contribution.
- A decrease in estimated ultimate incurred of \$35,660 for the Self-Insured Program Years 1994-1995 and prior, based on the actuarial study dated March 2021
- Net Claims Paid for the Self-Insured Program Years 1994-1995 and prior of \$9,531

Offset by:

- Contribution received in advance for risk management fees of \$57,097
- A change in accounts payable activity of \$229
- Net cash activity in the Due to Members and Safety Credit programs of \$55,770

This increase in liabilities can be seen below:



Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2021 and 2020

Net Position:

NOCSFWCA's Net Position of \$622,669 is above the capital target and 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. Most actuarial funding recommendations are at the 70% probability level, therefore, NOCSFWCA's financial position provides an increased probability of overall reserve adequacy. Probability level funding recommendations based upon the Bay Actuarial Consultants actuarial study dated March 2021 are:

- 80% probability level \$118,017
- 90% probability level \$318,290

In order to prevent premature release of the Net Position, NOCSFWCA has adopted a capital target policy that is reviewed annually. The capital target is set at an actuarially determined contingency margin at 90% probability level plus an additional \$150,000 as approved at the June 24, 2015 Board of Directors meeting. 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.

When rebates are declared by NOCSFWCA, the members have four choices for the use of the funds: 1) Credit next year's contribution, 2) Credit a Safety Credit Program, 3) Direct return to the member, and 4) Leave in NOCSFWCA in the member's name or in an interest-bearing account.

Northern Orange County Self-Funded Workers' Compensation Agency
Management's Discussion and Analysis
June 30, 2021 and 2020

Statement of Revenues, Expenses, and Changes in Net Position:

Revenues exceeded by expenses by \$85,159 in 2020-2021, resulting in a net increase to the Fund Net Position of 15.84% as shown in the Condensed Statement of Revenues/Expenses shown below.

	As of June 30,		Difference	Percentage
	2021	2020		
Operating Income				
Contributions	\$ 7,582,633	\$ 6,981,100	\$ 601,533	8.62 %
Safety credit program	(33,630)	(36,198)	2,568	(7.09)
Total operating income	<u>7,549,003</u>	<u>6,944,902</u>	<u>604,101</u>	<u>8.70</u>
Operating Expenses				
PIPS premium	7,199,414	6,634,432	564,982	8.52
Claims activity	(35,660)	(4,206)	(31,454)	747.84
Claims administration	5,000	5,000	-	-
Risk management fee	19,033	19,032	1	0.01
Operating costs	289,386	288,871	515	0.18
Total operating expenses	<u>7,477,173</u>	<u>6,943,129</u>	<u>534,044</u>	<u>7.69</u>
Non-Operating Income				
Investment income	13,329	40,935	(27,606)	(67.44)
Change in Net Position	85,159	42,708	42,451	99.40
Beginning Net Position	537,510	494,802	42,708	8.63
Ending Net Position	<u>\$ 622,669</u>	<u>\$ 537,510</u>	<u>\$ 85,159</u>	<u>15.84 %</u>

Operating income consists of contributions received from the members. Member contributions increased from 2019-2020, by \$601,533 or 8.62% mainly attributed to:

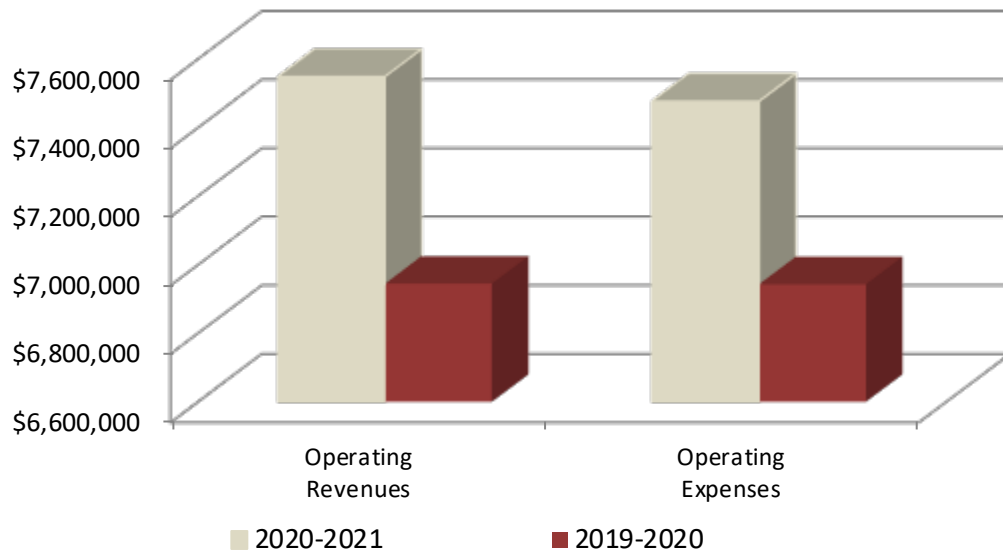
- A slight decrease of 0.75% in the estimated payroll for the 2020-2021 program year and rate increase in the PIPS program of 7.89% based upon prior claims activity,
- The estimated to actual payroll contribution increase for 2019-2020 program year of \$102,293 as reflected in 2020-2021 financials.

Offset by,

- The estimated to actual payroll contribution increase for 2018-2019 program year of \$108,406 as reflected in 2020-2021 financials.

Total operating expenses increased by 7.69% in 2020-2021 from \$6,943,129 to \$7,477,173 mainly attributed to the increase of the PIPS premium, which is consistent with the increase seen in member contributions.

Below is a graph that reflects a comparison of operating income and expense for 2020-2021 and 2019-2020:



Budgetary Highlights:

Each year the NOCSFWCA 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 a 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. NOCSFWCA is not required to make mid-year budget adjustments.

Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2021 and 2020

Below is a summary of the budget information with a comparison to actual expenses. The largest difference between budgeted to actual numbers results from claims activity.

	2020-2021		Difference	Percentage
	Adopted Budget	Actual		
Operating Income				
Member contributions	\$ 7,537,437	\$ 7,582,633	\$ 45,196	0.60 %
Safety credit program	(33,630)	(33,630)	-	-
Total operating income	<u>7,503,807</u>	<u>7,549,003</u>	<u>45,196</u>	<u>0.60</u>
Operating Expenses				
PIPS premium	7,097,121	7,199,414	102,293	1.44
Claims activity	(5,000)	(35,660)	(30,660)	613.20
Claims administration	5,000	5,000	-	0.00
Risk management fee	76,130	19,033	(57,097)	(75.00)
Operating costs	330,556	289,386	(41,170)	(12.45)
Total operating expenses	<u>7,503,807</u>	<u>7,477,173</u>	<u>(26,634)</u>	<u>(0.35)</u>
Non-Operating Income				
Investment income	35,849	13,329	(22,520)	(62.82)
Change in Net Position	35,849	85,159	49,310	137.55
Beginning Net Position	<u>537,510</u>	<u>537,510</u>	-	-
Ending Net Position	<u>\$ 573,359</u>	<u>\$ 622,669</u>	<u>\$ 49,310</u>	<u>8.60 %</u>

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

California Workers' Compensation claims experience have continued to trend lower as a result of SB 863 passed in 2012 which brought systematic efficiencies and appears to have stabilized medical costs. This outlook applies equally to large Public Entities such as PIPS or other large JPAs. COVID and subsequently "shelter-in-place" had a positive impact on the frequency of claims, the severity of costs remained constant. The difference being that programs like PIPS and other large JPAs is that their program rates are largely based on their own experience which are more stable and more predictable than smaller risks.

Northern Orange County Self-Funded Workers' Compensation Agency

Statements of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Deposits and investments	\$ 1,991,736	\$ 1,886,892
Prepaid expense	19,782	417
Receivables	1,695	5,157
	<u>2,013,213</u>	<u>1,892,466</u>
Total assets		
Liabilities		
Current liabilities		
Accounts payable	7,250	7,021
Due to members	1,131,992	1,076,222
Unearned revenue	57,097	32,317
Current portion of unpaid claims and loss adjustment expenses	15,000	15,000
	<u>1,211,339</u>	<u>1,130,560</u>
Total current liabilities		
Unpaid claims and loss adjustment expenses, non-current portion	<u>179,205</u>	<u>224,396</u>
Total liabilities	<u>1,390,544</u>	<u>1,354,956</u>
Net Position - Unrestricted	<u>\$ 622,669</u>	<u>\$ 537,510</u>

Northern Orange County Self-Funded Workers' Compensation Agency
 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	\$ 7,582,633	\$ 6,981,100
Safety credit program	(33,630)	(36,198)
Total operating income	<u>7,549,003</u>	<u>6,944,902</u>
Operating Expenses		
Excess insurance	7,199,414	6,634,432
Claims payments	9,531	732
Credit for loss reserves	(45,191)	(3,903)
Credit for ULAE	-	(1,035)
Claims administration	5,000	5,000
Administration expenses	27,572	29,558
JPA administration	93,500	93,500
Risk management	19,033	19,032
Contract services	31,023	30,120
DSIP assessment	137,291	135,693
Total operating expenses	<u>7,477,173</u>	<u>6,943,129</u>
Net Operating income	<u>71,830</u>	<u>1,773</u>
Non-Operating Revenues		
Interest, net of interest allocated directly to members of \$8,616 in 2021 and \$22,128 in 2020	<u>13,329</u>	<u>40,935</u>
Change in Net Position	85,159	42,708
Net Position, Beginning of Year	<u>537,510</u>	<u>494,802</u>
Net Position, End of Year	<u>\$ 622,669</u>	<u>\$ 537,510</u>

Northern Orange County Self-Funded Workers' Compensation Agency

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Cash received from members and others, net	\$ 7,629,553	\$ 6,877,292
Cash paid for claims and settlements	(9,552)	(1,551)
Cash paid for excess insurance	(7,199,414)	(6,634,432)
Cash paid to suppliers for goods and services	(332,534)	(293,077)
Net Cash Provided By (Used In) Operating Activities	88,053	(51,768)
Investing Activities		
Interest income	16,791	45,775
Net Change in Cash and Cash Equivalents	104,844	(5,993)
Cash and Cash Equivalents, Beginning of Year	1,886,892	1,892,885
Cash and Cash Equivalents, End of Year	\$ 1,991,736	\$ 1,886,892
Reconciliation of Operating Income to Net Cash Provided by (used in) Operating Activities		
Operating income	\$ 71,830	\$ 1,773
Adjustments to reconcile operating income to net cash provided by (used) in operating activities		
Changes in Assets and Liabilities		
Prepaid expenses	(19,365)	18,615
Accounts payable	229	392
Amounts due to members	55,770	(99,927)
Unearned revenue	24,780	32,317
Claims and unallocated expense liability	(45,191)	(4,938)
Net Cash Used In Operating Activities	\$ 88,053	\$ (51,768)

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Northern Orange County Self-Funded Workers' Compensation Agency (NOCSFWCA) was formed and became operational on October 1, 1977, when the Cypress Elementary School District, Los Alamitos Unified School District, Magnolia Elementary School District, Savanna Elementary School District, and Westminster Elementary School District joined together under the California Government Code to create a public agency. The following local educational agencies became members of NOCSFWCA on the respective dates:

Centralia Elementary School District	10/1/1977
La Habra Elementary School District	7/1/1978
Buena Park Elementary School District	7/1/1979
Greater Anaheim Special Education Local Plan Area (GASELPA)	11/1/1985
Coastline Regional Occupational Program	7/1/1987
North Orange County Regional Occupational Program	10/1/1987
College and Career Advantage (Formerly - South Coast Regional Occupations Program)	7/1/1996

The purpose of NOCSFWCA is to provide its members the necessary workers' compensation coverage as presented by the laws of the State of California.

NOCSFWCA functions as a pool for its respective members. Each member of NOCSFWCA is liable only for its prorata share, based on all premiums paid, of all debts and liabilities of NOCSFWCA.

NOCSFWCA includes all funds and account groups that are controlled by or dependent on NOCSFWCA's governing board for financial reporting purposes. NOCSFWCA 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. NOCSFWCA 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.

Budgets 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 Self-Funded Workers' Compensation Agency

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services.

Claims Liabilities

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

Member Contributions

Each member's contribution is determined based upon the number of plan participants and the contribution rate for each classification of covered participant. The rates for each member are determined based on each member's loss history, unusual exposures, and other pertinent information. If the total obligations would exceed the total assets of NOCSFWCA, the members may be assessed additional contributions. Annually the members are billed or credited depending on an increase or decrease in final payroll versus the estimate that was provided during the previous year. Due to the timing and instability of the adjustments it is considered not reasonably estimatable, and therefore, no accrual has been made for the current year.

Northern Orange County Self-Funded Workers' Compensation Agency

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 NOCSFWCA'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

NOCSFWCA uses finance risk sharing agreements to reduce its exposure to large losses. Finite risk sharing permits recovery of a portion of losses from The Protected Insurance Program for Schools Joint Powers Authority (PIPS), although it does not discharge the primary liability of NOCSFWCA as direct insurer of the risks insured. NOCSFWCA does not report excess risks as liabilities unless it is probable that those risks will not be covered by the finite risk sharing agreements.

Income Taxes

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

Note 2 - Deposits and Investments

Summary of Deposits and Investments

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

	2021	2020
Cash in banks	\$ 155	\$ 534
Cash in trust account	100,000	100,000
Investments in County Treasury	1,509,087	1,496,756
Investments in State Investment Pool	382,494	289,602
Total deposits and investments	<u>\$ 1,991,736</u>	<u>\$ 1,886,892</u>

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

Policies and Practices

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

Investment in County Treasury

NOCSFWCA is considered to be a voluntary participant in an external investment pool as NOCSFWCA is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code Section 41001*). The fair value of NOCSFWCA's investment in the pool is reported in the accounting financial statements at amounts based upon NOCSFWCA'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 County Treasury pool has an average weighted maturity of 375 days.

Investment in the State Investment Pool

NOCSFWCA 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 NOCSFWCA's investment in the pool is reported in the accompanying financial statement at amounts based upon NOCSFWCA'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 an average weighted maturity of 291 days.

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 NOCSFWCA 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.

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

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. NOCSFWCA's investments in the 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, NOCSFWCA's deposits may not be returned to it. NOCSFWCA 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 agencies. 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, NOCSFWCA'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>
Interest income receivable	<u>\$ 1,695</u>	<u>\$ 5,157</u>

Note 4 - Accounts Payable

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

	<u>2021</u>	<u>2020</u>
Accounts payable	\$ 7,250	\$ 7,000
Claims payable net of recoveries	<u>-</u>	<u>21</u>
Total accounts payable	<u>\$ 7,250</u>	<u>\$ 7,021</u>

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

Note 5 - Due to Members

The amounts due to members consist of rebates and safety credits. The amounts due to members at June 30, 2021 and 2020, are summarized below:

	2021	2020
Buena Park School District	\$ 127,085	\$ 125,901
Centralia School District	130,903	124,439
Cypress School District	128,947	127,959
Greater Anaheim Special Education Local Plan Area (GASELPA)	11,629	11,158
La Habra City School District	61,906	55,378
Los Alamitos Unified School District	163,775	162,518
Magnolia School District	124,096	111,962
North Orange County Regional Occupational Program	230,508	220,775
Savanna Elementary	28,227	22,363
Westminster School District	124,916	113,769
Total	\$ 1,131,992	\$ 1,076,222

Note 6 - Unearned Revenue

Unearned revenue at June 30, 2021 consisted of \$57,097 in rebate funds for one of NOCSFWCA's members to be applied to offset future member contributions. There unearned revenue at June 30, 2020 consisted of \$32,317 in rebate funds for one of NOCSFWCA's members to be applied to offset future member contributions.

Note 7 - Unpaid Claims Liabilities

As discussed in Note 1, NOCSFWCA establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for NOCSFWCA during the years ended June 30, 2021 and 2020:

	2021	2020
Claims liabilities at beginning of fiscal year	\$ 226,055	\$ 229,958
Incurred expenses related to Credit for insured events of prior fiscal years	(35,660)	(3,171)
Payments related to Insured events of prior fiscal years	9,531	732
Claims liabilities at end of fiscal year	\$ 180,864	\$ 226,055

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

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

	2021	2020
Claims liability	\$ 180,864	\$ 226,055
Unallocated loss adjustment expenses	13,341	13,341
	194,205	239,396
Current portion	(15,000)	(15,000)
	\$ 179,205	\$ 224,396

Claims liabilities are not discounted at 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	\$ 468,290	\$ 521,045
Undesignated	154,379	16,465
Total net position	\$ 622,669	\$ 537,510

Note 9 - Participation in Public Entity Risk Pools

NOCSFWCA participates in two joint powers authorities (JPA's) as described below. The relationship between NOCSFWCA and the JPAs is that the JPAs are not component units of NOCSFWCA for financial reporting purposes.

Schools Alliance for Workers' Compensation Excess Self-Funded (SAWCX II)

SAWCX II arranges for and provides for the joint group purchase of workers' compensation excess protection for its members. SAWCX II is governed by a board consisting of a representative from each member. The board controls the operations of SAWCX II, including approval of an operating budget. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in SAWCX II.

No payments were made to SAWCX II during the 2020-2021 program year.

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2021 and 2020

The Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS)

PIPS arranges for and provides for the joint group purchase of workers' compensation reinsurance for its members. PIPS is governed by an executive board consisting of nine members, five are K-12, and four are community colleges. This board controls the operations of PIPS including approval of an operating budget. Each member pays a premium commensurate with their experience modification within the pool and shares surpluses and deficits proportionate to their participation in PIPS.

Payments for the current year

\$ 7,199,414



Independent Auditor's Report
June 30, 2021

**Northern Orange County Self-Funded
Workers' Compensation Agency**



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 Self-Funded Workers' Compensation Agency
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 Self-Funded Workers' Compensation Agency (NOCSFWCA), which comprise the statement of net position as of June 30, 2021, and the related statements 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 NOCSFWCA'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 NOCSFWCA's internal control. Accordingly, we do not express an opinion on the effectiveness of NOCSFWCA'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 NOCSFWCA '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 cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed name of the firm.

Rancho Cucamonga, California
November 10, 2021