



Financial Statements  
June 30, 2022 and 2021

# Western Orange County Self-Funded Workers' Compensation Agency

# Western Orange County Self-Funded Workers' Compensation Agency

Costa Mesa, California

Board of Directors

June 30, 2022

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## **Representative**

Mr. Jeff Dixon

Mr. Rick Champion

Mr. Gabriel Hsu

Mr. Tim Golden

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Brea Olinda Unified School District

Orange County Department of Education

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President

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Secretary-Treasurer

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# Western Orange County Self-Funded Workers' Compensation Agency

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June 30, 2022 and 2021

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## Independent Auditor's Report

The Board of Directors  
Western Orange County Self-Funded Workers' Compensation Agency  
Costa Mesa, California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA), which comprise the statements of net position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of WOCS-FWCA, as of June 30, 2022 and 2021, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WOCS-FWCA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the WOCS-FWCA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 WOCS-FWCA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WOCS-FWCA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, claims development information, and ten-year claims development information be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental

Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Premiums Earned and Results of Operations by Year Since Inception but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2023 on our consideration of WOCS-FWCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WOCS-FWCA'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 WOCS-FWCA's internal control over financial reporting and compliance.



Rancho Cucamonga, California  
January 5, 2023

# *Western Orange County Self-Funded Workers' Compensation Agency*

## **BOARD OF DIRECTORS**

President  
Jeff Dixon  
Laguna Beach Unified SD  
(949) 497-7700 x5222

Vice President  
Rick Champion  
Brea Olinda Unified SD  
(714) 990-7827

Secretary-Treasurer  
Gabriel Hsu  
Orange County DOE  
(714) 966-4061

MEMBER  
Tim Golden  
Ocean View SD  
(714) 847-2551 x1426

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Since 1979, Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA), a self-insurance pool, has provided coverage to local educational agencies in California. WOCS-FWCA operates programs for workers' compensation. In addition to its programs, WOCS-FWCA provides claims administration and loss control training to its members.

WOCS-FWCA is governed by a four-member Board of Directors comprised of representatives from Brea Olinda Unified School District, Laguna Beach Unified School District, Ocean View School District, and Orange County Department of Education. From its members, the Board of Directors elects a President, Vice President, and Secretary-Treasurer.

The Secretary-Treasurer is responsible for the administration of policies as set forth by the pool's organizational documents, bylaws, and the Board of Directors.

## **DESCRIPTION OF BASIC FINANCIAL STATEMENTS**

Individual program accounting is maintained in-house and is provided as supplemental information to the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The Statements of Net Position provides information about the combined financial position of WOCS-FWCA as of June 30, 2022 and 2021. The Statements of Revenues, Expenses, and Changes in Net Position reports the operations of WOCS-FWCA for the years ended June 30, 2022 and 2021. The Statements of Cash Flows are presented on the direct method to reflect the operations of WOCS-FWCA for the years ended June 30, 2022 and 2021, based strictly on the inflow and outflow of cash.

The footnotes provide information on unique accounting policies of WOCS-FWCA such as development of estimates of incurred but not reported liabilities and the provision for unallocated loss adjustment expenses. There were no significant accounting changes during the fiscal year

Western Orange County Self-Funded Workers' Compensation Agency  
Management's Discussion and Analysis  
June 30, 2022 and 2021

**CONDENSED FINANCIAL INFORMATION**

**Statements of Net Position  
For the Years Ended June 30, 2022 and 2021**

	2022	2021
Assets		
Current assets	\$ 22,282,685	\$ 21,518,225
Liabilities		
Current liabilities	3,326,017	2,420,826
Unpaid claims and assessments	8,493,206	10,549,885
Total liabilities	11,819,223	12,970,711
Net Position	\$ 10,463,462	\$ 8,547,514

**Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2022 and 2021**

	2022	2021
Operating Revenue		
Member contributions	\$ 4,320,874	\$ 4,122,791
Other income	1,343	2,350
Total operating revenue	4,322,217	4,125,141
Operating Expenses		
Claims paid, net of recoveries	2,453,584	1,686,962
Provision (credit) for claims liability	(1,092,873)	1,063,317
Excess insurance premium	302,294	276,529
Contract services/administrative expenses	377,238	379,079
Safety credit program	117,585	124,449
Total operating expenses	2,157,828	3,530,336
Nonoperating Income (Expense)		
Interest income	103,706	152,975
Net decrease in fair market value of investments	(352,147)	-
Total nonoperating income (expense)	(248,441)	152,975
Change in Net Position	1,915,948	747,780
Total Net Position, Beginning of Year	8,547,514	7,799,734
Total Net Position, End of Year	\$ 10,463,462	\$ 8,547,514



Western Orange County Self-Funded Workers' Compensation Agency  
 Management's Discussion and Analysis  
 June 30, 2022 and 2021

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

While the assets of WOCS-FWCA decreased by approximately \$764,460 from June 30, 2021 to June 30, 2022, net position decreased by \$1,915,948 for the same period.

The decrease in current assets of \$764,460 from June 30, 2021 to June 30, 2022, is due to a decrease in deposits and investments

Total liabilities decreased by approximately \$1,151,488 from June 30, 2021 to June 30, 2022. The decrease in liabilities was due to a decrease in claims liabilities.

Member contributions for the workers' compensation program increased by \$198,083 for the year ended June 30, 2022, primarily due to an increase in payroll contributions and also the use of the expected confidence level.

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

**Workers' Compensation Program  
 For the Year Ended June 30, 2022**

	Original Budget	Final Budget	Budget Variance	Actual	Budget/ Actual Variance
<b>Revenue</b>					
Member contributions	\$ 4,268,951	\$ 4,268,951	0%	\$ 4,320,874	1%
Investment income	215,000	215,000	0%	(248,441)	(216%)
Other income	-	-	0%	1,343	-
	<u>4,483,951</u>	<u>4,483,951</u>	0%	<u>4,073,776</u>	(9%)
<b>Expenses</b>					
Claims paid, net of recoveries	2,250,000	2,250,000	0%	2,453,584	(9%)
Provision (credit) for claims liability	-	-	0%	(1,092,873)	-
Claims administration	284,000	284,000	0%	261,648	8%
Excess insurance premium	311,000	311,000	0%	302,294	3%
SELF assessment*	188,770	188,770	0%	-	100%
Other administrative costs	141,500	141,500	0%	115,590	18%
Safety credit program	128,069	128,069	0%	117,585	8%
	<u>3,303,339</u>	<u>3,303,339</u>	0%	<u>2,157,828</u>	35%
Net Change in Net Position	<u>\$ 1,180,612</u>	<u>\$ 1,180,612</u>	0%	<u>\$ 1,915,948</u>	

The difference between the actual versus final budget was primarily due to the budgeted amount for provision payment of claims was over budgeted.

\*SELF assessment payments are recorded as a reduction of the liability.

Western Orange County Self-Funded Workers' Compensation Agency  
 Management's Discussion and Analysis  
 June 30, 2022 and 2021

**Workers' Compensation Program  
 For the Year Ended June 30, 2021**

	Original Budget	Final Budget	Budget Variance	Actual	Budget/ Actual Variance
<b>Revenue</b>					
Member contributions	\$ 4,148,309	\$ 4,148,309	0%	\$ 4,122,791	(1%)
Investment income	400,000	400,000	0%	152,975	(62%)
Other income	-	-	0%	2,350	-
<b>Total revenue</b>	<b>4,548,309</b>	<b>4,548,309</b>	<b>0%</b>	<b>4,278,116</b>	<b>(6%)</b>
<b>Expenses</b>					
Claims paid, net of recoveries	2,500,000	2,500,000	0%	1,686,962	33%
Provision (credit) for claims liability	-	-	0%	1,063,317	-
Claims administration	260,000	260,000	0%	278,838	(7%)
Excess insurance premium	300,000	300,000	0%	276,529	8%
SELF assessment*	188,770	188,770	0%	-	100%
Other administrative costs	153,000	153,000	0%	100,241	34%
Safety credit program	124,449	124,449	0%	124,449	0%
<b>Total expenditures</b>	<b>3,526,219</b>	<b>3,526,219</b>	<b>0%</b>	<b>3,530,336</b>	<b>0%</b>
<b>Net Change in Net Position</b>	<b>\$ 1,022,090</b>	<b>\$ 1,022,090</b>	<b>0%</b>	<b>\$ 747,780</b>	

\*SELF assessment payments are recorded as a reduction of the liability.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the WOCS-FWCA finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Western Orange County Self-Funded Workers' Compensation Agency, Attention: Coordinator of Risk Management, 200 Kalmus Drive, Costa Mesa, California, 92626.

Western Orange County Self-Funded Workers' Compensation Agency  
 Statements of Net Position  
 June 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Deposits and investments	\$ 22,130,206	\$ 21,448,489
Receivable	152,479	69,736
Total assets	22,282,685	21,518,225
Liabilities		
Current liabilities		
Accounts payable	392,211	262,040
Current portion of SELF assessment	188,806	188,786
Current portion of unpaid claims and claim adjustment expenses	2,745,000	1,970,000
Total current liabilities	3,326,017	2,420,826
Non-current portion of SELF assessment	-	188,806
Unpaid claims and claim adjustment expenses, non-current portion	8,493,206	10,361,079
Total liabilities	11,819,223	12,970,711
Net Position - Unrestricted	\$ 10,463,462	\$ 8,547,514

Western Orange County Self-Funded Workers' Compensation Agency  
 Statements of Revenues, Expenses, and Changes in the Net Position  
 Years Ended June 30, 2022 and 2021

	2022	2021
Operating Income		
Member contributions	\$ 4,320,874	\$ 4,122,791
Other income	1,343	2,350
Total operating income	4,322,217	4,125,141
Operating Expenses		
Excess insurance premium	302,294	276,529
Claims paid, net of recoveries of \$42,746 in 2022 and \$104,384 in 2021	2,453,584	1,686,962
Provision (credit) for claims liability	(1,092,873)	1,063,317
Claims administration	261,648	278,838
Other administrative costs	45,353	40,017
Safety credit program	117,585	124,449
State fee	70,237	60,224
Total operating expenses	2,157,828	3,530,336
Operating Income	2,164,389	594,805
Non-Operating Income (Expense)		
Investment income, net of fees of \$12,018 in 2022 and \$11,683 in 2021	103,706	152,975
Net decrease in fair market value of investments	(352,147)	-
Total non-operating income (expense)	(248,441)	152,975
Change in Net Position	1,915,948	747,780
Net Position, Beginning of Year	8,547,514	7,799,734
Net Position, End of Year	\$ 10,463,462	\$ 8,547,514

## Western Orange County Self-Funded Workers' Compensation Agency

### Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Cash received from members and others	\$ 4,315,276	\$ 4,209,461
Cash paid for claims and settlements	(2,411,999)	(1,554,182)
Cash paid for excess insurance premium	(302,294)	(276,529)
Cash paid to SELF for assessments	(188,786)	(188,786)
Cash paid to suppliers for goods and services	(494,415)	(205,230)
Net Cash Provided By Operating Activities	917,782	1,984,734
Investing Activities		
Net gain (loss) on investment	(236,065)	163,179
Net Change in Cash and Cash Equivalents	681,717	2,147,913
Cash and Cash Equivalents, Beginning of Year	21,448,489	19,300,576
Cash and Cash Equivalents, End of Year	\$ 22,130,206	\$ 21,448,489
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,164,389	\$ 594,805
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in assets and liabilities		
Receivables	(95,119)	(730)
Prepaid expense	-	276,529
Accounts payable	130,171	239,599
Amount SELF assessment liability	(188,786)	(188,786)
Claims liability	(1,092,873)	1,063,317
Total adjustments	(1,246,607)	1,389,929
Net Cash Provided By Operating Activities	\$ 917,782	\$ 1,984,734

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

**Financial Reporting Entity**

The Western Orange County Self-Funded Workers' Compensation Agency was formed and became operational on July 1, 1979, when the Brea Olinda Unified School District, Huntington Beach City School District, Laguna Beach Unified School District, and Ocean View School District joined together under the California Government Code to create a public agency. The Orange County Department of Education became a member of WOCS-FWCA on July 1, 1980. Effective July 1, 2011, Huntington Beach City School District withdrew as a member of WOCS-FWCA. The purpose of WOCS-FWCA is to provide its members the necessary workers' compensation coverage as presented by the laws of the State of California.

WOCS-FWCA functions as a pool for its respective members. Each member of WOCS-FWCA shall be liable for its pro-rata share of all debts and liabilities of WOCS-FWCA and its pro-rata share of all debts and liabilities for workers' compensation claims against WOCS-FWCA arising out of facts occurring while a member of WOCS-FWCA. A member's pro-rata share shall be determined based upon that member's premium in proportion to the total premiums paid by all participating members in WOCS-FWCA.

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

In the event of the dissolution of WOCS-FWCA, 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.

WOCS-FWCA includes all funds and account groups that are controlled by or dependent on WOCS-FWCA's governing board for financial reporting purposes. WOCS-FWCA has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. WOCS-FWCA 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. 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.

### **Receivables**

Receivables generally includes investment earnings from deposits with the county treasury, member contributions and insurance recoveries. Management has analyzed these accounts and believes all amounts are fully collectible.

### **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.

### **Statement of Cash Flows**

For purposes of the Statement of Cash Flows, WOCS-FWCA considers deposits with the County Treasury and cash used to pay claims in the trust revolving account to be cash equivalents.

### **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.

### **Member Contributions**

Each member's contribution is determined based upon each member's annual payroll multiplied by the approved contribution rate and experience modification factor. The rates for each member are determined based on each member's loss history, unusual exposures, and other pertinent information. 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 and the adjustment is included in accounts receivable or accounts payable.

### **Safety Credits**

Annually the Board authorizes a safety credit fund to be established for each member. Safety credit funds are to be utilized in areas which would reduce the severity and/or frequency of losses. Safety credit funds must be utilized prior to the end of each fiscal year.

### **Return of Net Position/Equity Distribution**

Amounts in excess of WOCS-FWCA's Capital Target are available for potential return to the Members and can be utilized at the member's discretion towards future member contributions 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. Capital Targets are set and approved by the Board.

### **Claims Liabilities**

WOCS-FWCA 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.

### **Excess Insurance**

WOCS-FWCA uses excess insurance agreements to reduce its exposure to large losses. Excess insurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of WOCS-FWCA as direct insurer of the risks insured. WOCS-FWCA does not report excess insurance risks as liabilities unless it is probable that those risks will not be covered by excess insurance carriers.

### **Income Taxes**

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



# Western Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2022 and 2021

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## Note 2 - Deposits and Investments

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Orange County Treasury Investment Pool	\$ 21,730,206	\$ 21,048,489
Trust Revolving Account	<u>400,000</u>	<u>400,000</u>
Total deposits and investments	<u>\$ 22,130,206</u>	<u>\$ 21,448,489</u>

### Policies and Practices

WOCS-FWCA 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

WOCS-FWCA is considered to be an involuntary participant in an external investment pool as WOCS-FWCA is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of WOCS-FWCA's investment in the pool is reported in the accounting financial statements at amounts based upon WOCS-FWCA'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.

# Western Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2022 and 2021

## General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

## 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. WOCS-FWCA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. WOCS-FWCA manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool and 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. WOCS-FWCA maintains an investment of \$21,730,206 with the Orange County Treasury Investment Pool that has an average weighted maturity of 287 days.

### **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 a rating by a nationally recognized statistical rating organization. WOCS-FWCA's investment in the Orange County Treasury Investment Pool has been rated Aaa by Moody's Investor Service.

### **Custodial Credit Risk – Deposits**

This is the risk that in the event of a bank failure, WOCS-FWCA's deposits may not be returned to it. WOCS-FWCA 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, 2022 and 2021, WOCS-FWCA's bank balance of \$101,268 and \$47,259, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of WOCS-FWCA.

### **Note 3 - Fair Value Measurement**

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

- Level 1 - Quoted prices in active markets for identical assets that WOCS-FWCA has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

# Western Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2022 and 2021

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

As of June 30, 2022, the WOCS-FWCA's investments of \$21,730,206 in the Orange County Treasury Investment Pool are uncategorized.

## Note 4 - Receivables

Receivables at June 30, 2022 and 2021, consisted of the following:

	2022	2021
Member contributions	\$ 140,101	\$ 59,532
Interest income	12,378	10,204
Total receivables	\$ 152,479	\$ 69,736

## Note 5 - Accounts Payable

Accounts payable at June 30, 2022 and 2021, consisted of the following:

	2022	2021
Trust account reimbursement	\$ 281,805	\$ 176,738
County administration fee	424	252
Member contributions	88,178	85,050
Other vendor payable	21,804	-
Total accounts payable	\$ 392,211	\$ 262,040

# Western Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2022 and 2021

## Note 6 - Unpaid Claims Liabilities

As discussed in Note 1, WOCS-FWCA 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 WOCS-FWCA during the years ended June 30, 2022 and 2021:

	2022	2021
Claims Liabilities at Beginning of Fiscal Year	\$ 11,331,079	\$ 10,267,762
Incurred Expenses Related to		
Insured events of the current fiscal year	3,237,952	3,218,332
Insured events of prior fiscal years	(1,877,241)	(468,053)
Total incurred expenses	1,360,711	2,750,279
Payments Related to		
Insured events of the current fiscal year	534,178	308,020
Insured events of prior fiscal years	1,919,406	1,378,942
Total payments	2,453,584	1,686,962
Claims Liabilities at End of Fiscal Year	\$ 10,238,206	\$ 11,331,079

As a result of changes in estimates of insured events in prior years, the provision for incurred expense reserves decreased by approximately \$1,877,241 for year ending June 30, 2022 and decreased by \$468,053 for year ending June 30, 2021. The change in incurred expenses was primarily attributed to new information regarding claim development that became known during subsequent periods.

Claims liabilities are not discounted.

The components of the unpaid claims and claim adjustment expenses as of June 30, 2022 and 2021, were as follows:

	2022	2021
Claims Liability	\$ 10,238,206	\$ 11,331,079
Unallocated Loss Adjustment Expenses	1,000,000	1,000,000
Current Portion	11,238,206 (2,745,000)	12,331,079 (1,970,000)
Non-Current Portion	\$ 8,493,206	\$ 10,361,079

Western Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2022 and 2021

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**Note 7 - Participation in Public Entity Risk Pool**

WOCS-FWCA is a member of Schools Excess Liability Fund (SELF) public entity risk pool. The relationship between WOCS-FWCA and SELF is such that SELF is not a component unit of WOCS-FWCA for financial reporting purposes.

SELF has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between SELF and WOCS-FWCA are included in these statements.

A. Entity	Schools Excess Liability Fund (SELF)	
B. Purpose	Arranges for excess workers' compensation and liability insurance	
C. Participants	Various public educational agencies throughout California	
D. Governing board	Representatives from each member district	
E. Payments made in the current year		<u><u>\$ 188,786</u></u>

Due to deficits incurred primarily in fiscal years 1989-1990 through 2004-2005, a deficit recoupment plan has been established whereby members have been assessed additional contributions. Repayment requirements for WOCS-FWCA currently are scheduled at \$188,786 per year through 2022-2023. The reconciliation of the SELF assessment for 2021-2022 is as follows:

Estimated balance from prior year		\$ 377,592	
Paid during the current year		<u>(188,786)</u>	
		188,806	
Less: Current portion		<u>(188,806)</u>	
Non-current portion		<u><u>\$ -</u></u>	



Required Supplementary Information  
June 30, 2022

# Western Orange County Self-Funded Workers' Compensation Agency

## Western Orange County Self-Funded Workers' Compensation Agency

Claims Development Information

June 30, 2022

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The following table illustrates how WOCS-FWCA's earned revenue (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by WOCS-FWCA as of the end of each of the past years. The rows of the table are defined as follows:

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

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



Western Orange County Self-Funded Workers' Compensation Agency  
Ten-Year Claims Development Information  
June 30, 2022

	June 30,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1. Required contribution and investment revenues										
Earned	\$ 3,630,232	\$ 3,685,470	\$ 3,933,378	\$ 4,447,650	\$ 3,676,965	\$ 3,772,914	\$ 3,846,694	\$ 4,201,343	\$ 4,278,116	\$ 4,425,923
Excess	325,219	314,073	305,176	295,306	273,968	291,105	276,186	265,252	276,529	302,294
Net earned	3,305,013	3,371,397	3,628,202	4,152,344	3,402,997	3,481,809	3,570,508	3,936,091	4,001,587	4,123,629
2. Unallocated expenses	579,853	579,767	422,106	454,874	459,352	471,650	465,686	455,365	503,528	494,823
3. Estimated claims and expenses, end of policy year										
Incurred	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833	2,920,948	2,771,254	2,968,350	3,218,332	3,237,952
Excess	-	-	-	-	-	-	-	-	-	-
Net incurred	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833	2,920,948	2,771,254	2,968,350	3,218,332	3,237,952
4. Paid (cumulative) as of										
End of policy year	407,431	378,459	332,878	357,161	629,752	449,300	570,673	545,082	308,020	534,178
One year later	1,013,184	886,046	798,204	1,015,497	1,447,792	818,353	1,275,654	1,068,174	971,447	-
Two years later	1,624,868	1,193,060	1,156,234	1,353,886	1,910,334	1,124,534	1,644,819	1,452,200	-	-
Three years later	1,801,364	1,393,480	1,401,740	1,563,151	2,179,629	1,274,981	1,951,862	-	-	-
Four years later	1,972,510	1,549,703	1,425,375	1,596,247	2,288,121	1,361,762	-	-	-	-
Five years later	1,990,201	1,729,360	1,454,795	1,665,033	2,406,465	-	-	-	-	-
Six years later	2,041,242	1,806,622	1,454,929	1,692,607	-	-	-	-	-	-
Seven years later	2,048,445	1,886,292	1,462,129	-	-	-	-	-	-	-
Eight years later	2,053,858	1,994,920	-	-	-	-	-	-	-	-
Nine years later	2,059,480	-	-	-	-	-	-	-	-	-
5. Re-estimated excess claims and expenses	63,474	2,128	99,306	3,489	3,774	16,809	28,751	6,329	464	-
6. Re-estimated net incurred claims and expenses										
End of policy year	2,227,540	2,378,881	2,561,933	2,549,348	2,272,833	2,920,948	2,771,254	2,968,350	3,218,332	3,237,952
One year later	2,436,399	2,653,860	2,405,421	2,885,629	3,815,423	2,855,727	3,824,271	3,203,675	2,451,561	-
Two years later	2,825,384	2,671,379	2,381,189	3,046,640	3,729,433	2,313,974	3,732,621	2,906,071	-	-
Three years later	2,882,115	2,342,242	2,121,606	2,421,940	3,631,529	2,244,256	3,408,966	-	-	-
Four years later	2,740,796	2,255,475	1,963,902	2,362,351	3,385,062	2,093,489	-	-	-	-
Five years later	2,645,638	2,250,638	1,772,496	2,431,970	3,000,818	-	-	-	-	-
Six years later	2,511,613	2,332,046	1,680,501	2,338,154	-	-	-	-	-	-
Seven years later	2,418,744	2,356,956	1,617,683	-	-	-	-	-	-	-
Eight years later	2,303,425	2,359,256	-	-	-	-	-	-	-	-
Nine years later	2,225,949	-	-	-	-	-	-	-	-	-
7. (Increase) decrease in estimated incurred claims and expenses from end of policy year	\$ (1,591)	\$ (19,625)	\$ (944,250)	\$ (211,194)	\$ 727,985	\$ 827,459	\$ 637,712	\$ (62,279)	\$ (766,771)	\$ -



Other Information  
June 30, 2022

# Western Orange County Self-Funded Workers' Compensation Agency

Western Orange County Self-Funded Workers' Compensation Agency

Schedule of Premiums Earned

Year ended June 30, 2022

Each member of WOCS-FWCA makes its contribution of premiums based on its actual payroll, times the latest Workers' Compensation Inspection Rating Bureau rate (\$1.69 per \$100 of payroll), times an experience modification factor, times a weight factor, for the respective school district. The experience modification factor and the weight factor are determined by the board.

The following schedule illustrates the calculation of the actual premiums for each member of WOCS-FWCA for the current year:

School District	Estimated Payroll from July 1 to June 30	Actual Payroll from July 1 to June 30	Rate [1]	EMF [2]	Computed Premium	Premiums Received at June 30, 2022	Premiums Due at June 30, 2022
Brea Olinda	\$ 42,764,831	\$ 49,133,083	1.69	0.526	\$ 436,764	\$ 380,154	\$ 56,610
Laguna Beach	35,679,721	38,608,402	1.69	0.727	474,354	438,372	35,982
Ocean View	58,878,000	61,900,744	1.69	0.930	972,894	925,385	47,509
Orange County Department of Education	<u>115,642,934</u>	<u>111,604,499</u>	1.69	1.292	<u>2,436,862</u>	<u>2,525,040</u>	<u>(88,178)</u>
	<u>\$ 252,965,486</u>	<u>\$ 261,246,728</u>			<u>\$ 4,320,874</u>	<u>\$ 4,268,951</u>	<u>\$ 51,923</u>

[1] Manual rate per \$100 of payroll

[2] Experience modification factor

Western Orange County Self-Funded Workers' Compensation Agency  
Results of Operations by Year Since Inception  
Year ended June 30, 2022

The following schedule illustrates the results of operations by year since inception. Contributions, interest income, and other costs are reflected in the year earned. Incurred claim costs are reflected in the year coverage is provided.

June 30,	Contributions and other income	Interest Income	Claims Paid	Claims Liability	Total Incurred Costs	Other Costs	Ending Balance
1980	\$ 508,307	\$ 10,673	\$ 598,890	\$ -	\$ 598,890	\$ 76,594	\$ (156,504)
1981	721,329	81,472	471,615	-	471,615	88,404	242,782
1982	827,095	158,671	481,132	-	481,132	65,558	439,076
1983	821,110	205,842	1,434,269	-	1,434,269	90,904	(498,221)
1984	936,295	196,410	848,776	-	848,776	86,725	197,204
1985	1,169,466	264,552	870,104	-	870,104	94,065	469,849
1986	2,107,146	274,558	1,499,700	-	1,499,700	93,111	788,893
1987	2,046,320	351,435	1,053,894	-	1,053,894	106,858	1,237,003
1988	1,991,549	424,114	963,244	-	963,244	135,852	1,316,567
1989	1,721,834	551,580	1,934,756	-	1,934,756	128,012	210,646
1990	1,617,230	862,220	2,008,673	-	2,008,673	164,385	306,392
1991	1,553,744	754,252	1,316,300	-	1,316,300	195,396	796,300
1992	1,384,616	783,585	1,848,369	-	1,848,369	504,856	(185,024)
1993	1,067,370	804,805	1,982,083	-	1,982,083	429,266	(539,174)
1994	1,326,972	725,939	1,257,231	-	1,257,231	428,462	367,218
1995	1,264,277	218,950	1,530,108	-	1,530,108	1,506,817 [1]	(1,553,698)
1996	1,419,969	455,703	1,604,272	-	1,604,272	607,959 [2]	(336,559)
1997	1,430,127	463,989	2,449,376	-	2,449,376	371,266	(926,526)
1998	1,917,472	497,336	1,362,135	-	1,362,135	211,914 [3]	840,759
1999	2,016,442	486,586	2,716,533	-	2,716,533	369,694 [4]	(583,199)
2000	2,001,067	576,780	2,628,179	126,920	2,755,099	446,038 [5]	(623,290)
2001	1,849,865	614,212	4,103,943	44,022	4,147,965	217,992	(1,901,880)
2002	2,444,940	272,845	2,333,089	-	2,333,089	476,819	(92,123)
2003	3,462,707	137,001	1,815,723	-	1,815,723	681,411	1,102,574
2004	3,412,981	106,842	3,653,096	27,959	3,681,055	2,354,881 [6]	(2,516,113)
2005	3,595,019	214,268	1,820,221	33,285	1,853,506	1,276,043	679,738
2006	3,721,635	413,018	1,691,539	78,288	1,769,827	1,964,769 [7]	400,057
2007	4,171,816	582,576	2,739,939	-	2,739,939	1,434,418 [8]	580,035
2008	4,336,667	515,043	1,705,819	76,545	1,782,364	1,731,314 [9]	1,338,032
2009	4,463,541	277,497	1,700,391	-	1,700,391	1,589,115 [10]	1,451,532

Western Orange County Self-Funded Workers' Compensation Agency  
Results of Operations by Year Since Inception  
Year ended June 30, 2022

June 30,	Contributions and other income	Interest Income	Claims Paid	Claims Liability	Total Incurred Costs	Other Costs	Ending Balance
2010	\$ 4,396,969	\$ 175,017	\$ 1,502,578	\$ -	\$ 1,502,578	\$ 621,308 [11]	\$ 2,448,100
2011	4,015,122	94,487	2,601,576	265,029	2,866,605	1,064,939 [12]	178,065
2012	3,206,205	78,074	2,027,436	98,760	2,126,196	272,155 [13]	885,928
2013	3,577,967	51,899	1,996,006	140,333	2,136,339	1,012,456 [14]	481,071
2013	-	-	(100,616) [15]	-	(100,616)	-	100,616
2014	3,639,434	45,960	1,992,792	374,973	2,367,765	891,968	425,661
2015	3,872,229	60,919	1,362,823	132,503	1,495,326	728,513	1,709,309
2016	4,328,374	114,159	1,689,118	539,602	2,228,720	752,802	1,461,011
2017	3,521,250	155,444	2,402,691	595,177	2,997,868	1,324,867	(646,041)
2018	3,535,455	237,459	1,344,953	664,030	2,008,983	761,225	1,002,706
2019	3,446,205	400,489	1,923,111	1,330,466	3,253,577	741,872	(148,755)
2020	3,832,203	369,140	1,445,872	1,386,134	2,832,006	2,748,933 [16]	(1,379,596)
2021	4,125,141	152,975	970,983	1,513,933	2,484,916	628,981	1,164,219
2022	4,322,217	(248,441)	534,178	2,810,247	3,344,425	800,529	(71,178)
<b>Total</b>	<b>\$ 111,127,679</b>	<b>\$ 13,970,335</b>	<b>\$ 74,116,900</b>	<b>\$ 10,238,206</b>	<b>\$ 84,355,106</b>	<b>\$ 30,279,446</b>	<b>\$ 10,463,462</b>

[1] Unallocated expenses include a bankruptcy loss of \$903,966

[2] Unallocated expenses include a bankruptcy recovery of \$16,872

[3] Unallocated expenses include a bankruptcy recovery of \$241,564

[4] Unallocated expenses include a bankruptcy recovery of \$212,543

[5] Unallocated expenses include a bankruptcy recovery of \$193,234

[6] Unallocated expenses include SELF assessment of \$1,510,370

[7] Unallocated expenses include SELF assessment of \$906,207

[8] Unallocated expenses include SELF assessment of \$317,144

[9] Unallocated expenses include SELF assessment of \$112,447

[10] Unallocated expenses include SELF assessment of \$517,599

[11] Unallocated expenses include SELF assessment credit of \$118,367 and legal fee reimbursements of \$110,000

[12] Unallocated expenses include SELF assessment of \$215,802

[13] Unallocated expenses include SELF assessment credit of \$503,847

[14] Unallocated expenses include SELF assessment of \$191,771

[15] During 2012-2013 the third party claims administrator adjusted the loss run for prior years claims

[16] For the FY 2019-2020, the Other Costs include \$2,028,316 of Equity Distribution.



Independent Auditor's Report  
June 30, 2022

**Western 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  
Western Orange County Self-Funded Workers' Compensation Agency  
Costa Mesa, 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 statement of the Western Orange County Self-Funded Workers' Compensation Agency (WOCS-FWCA), which comprise the statement of net position as of June 30, 2022, 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 January 5, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered WOCS-FWCA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WOCS-FWCA's internal control. Accordingly, we do not express an opinion on the effectiveness of WOCS-FWCA'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying *schedule of financial statement findings* as item 2022-001 that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether WOCS-FWCA'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 statement. 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*.

## **WOCS-FWCA's Response to the Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on WOCS-FWCA's response to the findings identified in our audit and described in the accompanying *schedule of financial statement findings*. WOCS-FWCA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response

## **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 WOCS-FWCA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WOCS-FWCA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California  
January 5, 2023





Schedule of Findings  
June 30, 2022

# Western Orange County Self-Funded Workers' Compensation Agency

Western Orange County Self-Funded Workers' Compensation Agency

Financial Statement Findings

June 30, 2022 and 2021

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The following finding represents a material weakness related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

**2022-001      30000**

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should include a review of all adjusting entries and reclassifying entries used in the preparation of the WOCS-FWCA's financial statements. The WOCS-FWCA should ensure that all applicable accounting principles are adhered to when preparing the financial statements.

Condition

An internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. During the course of our engagement, we identified a significant misstatement of a balance within the WOCS-FWCA's 2021-2022 unaudited financial statements. The fair market value of cash in county was not recorded, resulting in an overstatement of \$352,147 of cash in county.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through inquiry with the WOCS-FWCA personnel and through a review of available records related to the balances reported on the WOCS-FWCA's 2021-2022 unaudited financial statements.

Effect

The effect of the error resulted in misstatement that was not detected or prevented by the WOCS-FWCA's internal accounting control and review process. As reported on the 2021-2022 unaudited financial statements, the WOCS-FWCA's net position was overstated by \$352,147.

Cause

The cause of the condition identified appears to be due to inadequate review processes related to the preparation of the WOCS-FWCA's year-end financial statements, which includes the related adjusting and reclassifying journal entries in preparation of the government-wide financial statements.

Repeat Finding

No.

Recommendation

Management should review financial account balances to ensure that balances have been correctly reported. Balances should be traced to supporting records to verify the accuracy and completeness of reported information. A thorough review of the WOCS-FWCA's financial statements, including all adjusting entries and reclassifying entries should take place before the financial statements are finalized by the WOCS-FWCA's business department.

Corrective Action Plan and Views of Responsible Officials

Each year, on June 30<sup>th</sup>, the JPA will review and calculate the fair market value its investments. In the subsequent year, we will reverse the entry and book the new amount that is calculated for that year.