



Financial Statements
June 30, 2023 and 2022

Northern Orange County Self-Funded Workers' Compensation Agency

Northern Orange County Self-Funded Workers' Compensation Agency

Anaheim, California

Board of Directors

June 30, 2023

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Melanie Inskeep	College and Career Advantage	Member
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Danelle Bautista	La Habra City 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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Northern Orange County Self-Funded Workers' Compensation Agency (NOCSFWCA), which comprise the statements of net position as of June 30, 2023 and 2022, 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 Northern Orange County Self-Funded Workers' Compensation Agency as of June 30, 2023 and 2022, and the results of its operations and cash flows thereof for the years 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 the 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 NOCSFWCA and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe 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 NOCSFWCA'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 judgement 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 including 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 NOCSFWCA'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about NOCSFWCA'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 were identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2023 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
November 8, 2023



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, 2023 and June 30, 2022. 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, a Secretary/Treasurer, or a Secretary and a 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."

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 2022-2023.

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.

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.

Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2023 and 2022

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 2022-2023 and 2021-2022 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2022-2023 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 44 years of operation, it has declared and returned net member experience rebates of \$10,249,621.

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 2021-2022 to the 2022-2023 program year.

	As of June 30,		Difference	Percentage
	2023	2022		
Current Assets				
Deposits and investments	\$ 2,232,124	\$ 2,168,961	\$ 63,163	2.91 %
Other assets	7,283	4,306	2,977	69.14
Total assets	<u>2,239,407</u>	<u>2,173,267</u>	<u>66,140</u>	<u>3.04</u>
Current Liabilities				
Accounts payable and due to members	1,374,866	1,351,379	23,487	1.74
Claim liabilities and ULAE	12,500	20,000	(7,500)	(37.50)
Total current liabilities	<u>1,387,366</u>	<u>1,371,379</u>	<u>15,987</u>	<u>1.17</u>
Noncurrent Liabilities				
Claim liabilities and ULAE	228,966	197,324	31,642	16.04
Total liabilities	<u>1,616,332</u>	<u>1,568,703</u>	<u>47,629</u>	<u>3.04</u>
Net Position				
Undesignated	139,521	129,399	10,122	7.82
Designated - capital target	483,554	475,165	8,389	1.77
Total net position	<u>\$ 623,075</u>	<u>\$ 604,564</u>	<u>\$ 18,511</u>	<u>3.06 %</u>

Assets:

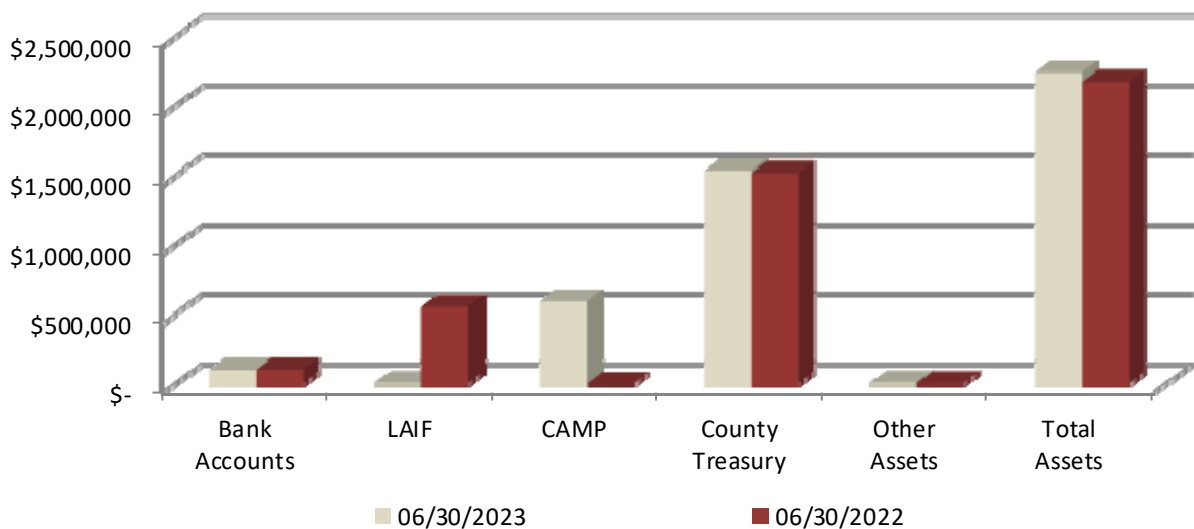
The overall assets of NOCSFWCA increased in 2022-2023 by \$66,140 or 3.04%, which is largely attributed to:

- Net cash activity in Accounts Payable, and the Due to Members and Safety Credit programs of \$86,390,
- Net Investment Income earned, with fair value adjustment, of \$45,326,
- Administrative expenditures below budget of \$8,847.

Offset by:

- 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 \$6,520,
- A decrease in Unearned Revenue of \$62,903.

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 California Asset Management Program (CAMP), the State of California Local Agency Investment Fund (L.A.I.F.), and U.S. Bank general and claim checking accounts.

Liabilities:

The overall liabilities of NOCSFWCA increased in 2022-2023 by \$47,629 or 3.04%, which is mainly attributed to:

- Net cash activity in Accounts Payable, and the Due to Members and Safety Credit programs of \$86,390,
- A net increase in estimated ultimate incurred of \$28,000 for the Self-Insured Program Years 1994-1995 and prior, based on the actuarial study dated March 2023,
- An increase in the Unallocated Loss Adjustment (ULAE) for the Self-Insured Program Years 1994-1995 and prior of \$2,662.

Northern Orange County Self-Funded Workers' Compensation Agency

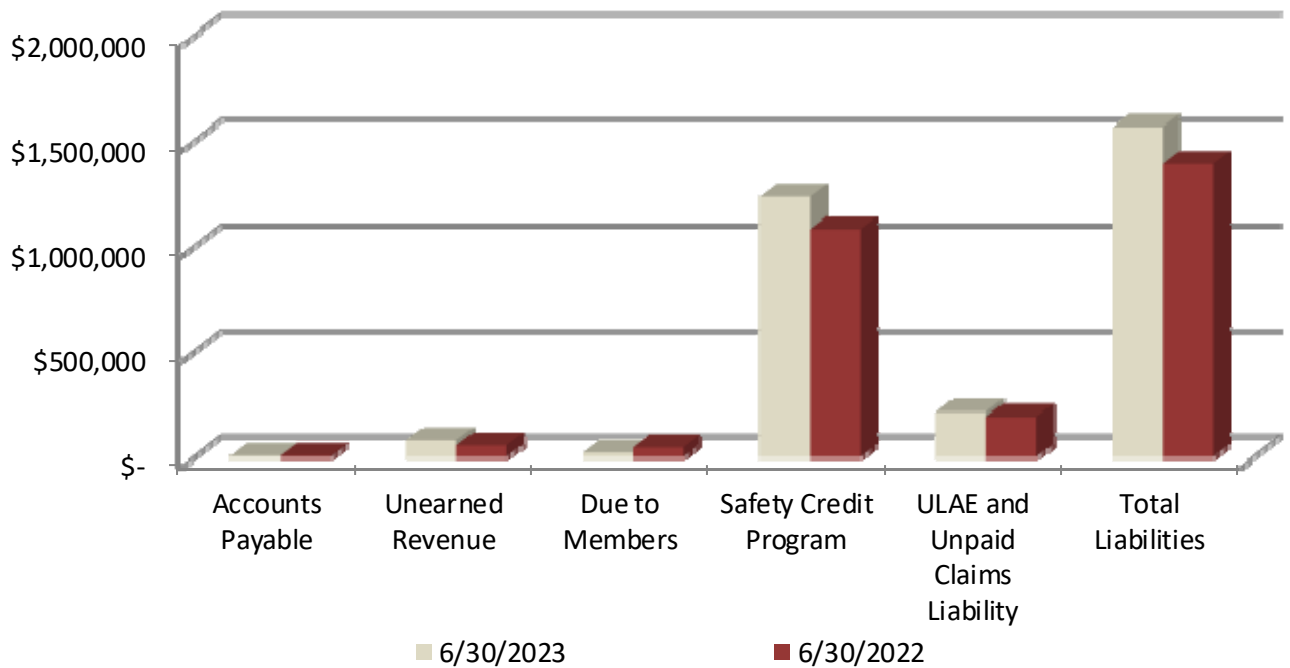
Management's Discussion and Analysis

June 30, 2023 and 2022

Offset by:

- A decrease in Unearned Revenue of \$62,903,
- Net Claims Paid for the Self-Insured Program Years 1994-1995 and prior of \$6,250.

This increase in liabilities can be seen below:



Net Position:

NOCSFWCA's Net Position of \$623,075 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 2023 are:

- 80% probability level \$ 142,652
- 90% probability level \$ 333,554

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 and reviewed annually. Once the fund balance is calculated, the sum of those funds is reduced by the capital target/contingency margin and the balance is identified for return to members upon approval by the Board of Directors.

Northern Orange County Self-Funded Workers' Compensation Agency

Management's Discussion and Analysis

June 30, 2023 and 2022

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.

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

Expenses exceeded revenues by \$26,815 and total non-operating revenues amounted to \$45,326 in 2022-2023, resulting in a net increase to the Fund Net Position of 3.06% as shown in the Condensed Statement of Revenues/Expenses shown below.

	As of June 30,		Difference	Percentage
	2023	2022		
Operating Revenues				
Contributions	\$ 8,491,369	\$ 7,488,047	\$ 1,003,322	13.40 %
Safety credit program	(30,210)	(36,786)	6,576	(17.88)
Total operating revenues	8,461,159	7,451,261	1,009,898	13.55
Operating Expenses				
PIPS premium	8,131,620	7,123,081	1,008,539	14.16
Claims activity	30,662	23,392	7,270	31.08
Claims administration	5,000	5,100	(100)	(1.96)
Risk management fee	19,033	19,032	1	0.01
Operating costs	301,659	307,384	(5,725)	(1.86)
Total operating expenses	8,487,974	7,477,989	1,009,985	13.51
Non-Operating Revenues (Expenses)				
Investment income	60,644	8,623	52,021	603.28
Change in FMV	(15,318)	-	(15,318)	-
Total non-operating revenues (expenses)	45,326	8,623	36,703	80.98
Change in Net Position	18,511	(18,105)	36,616	(202.24)
Beginning Net Position	604,564	622,669	(18,105)	(2.91)
Ending Net Position	\$ 623,075	\$ 604,564	\$ 18,511	3.06 %

Operating Revenue consists of contributions received from the members. Member contributions increased from 2021-2022, by \$1,009,898 or 13.55% mainly attributed to:

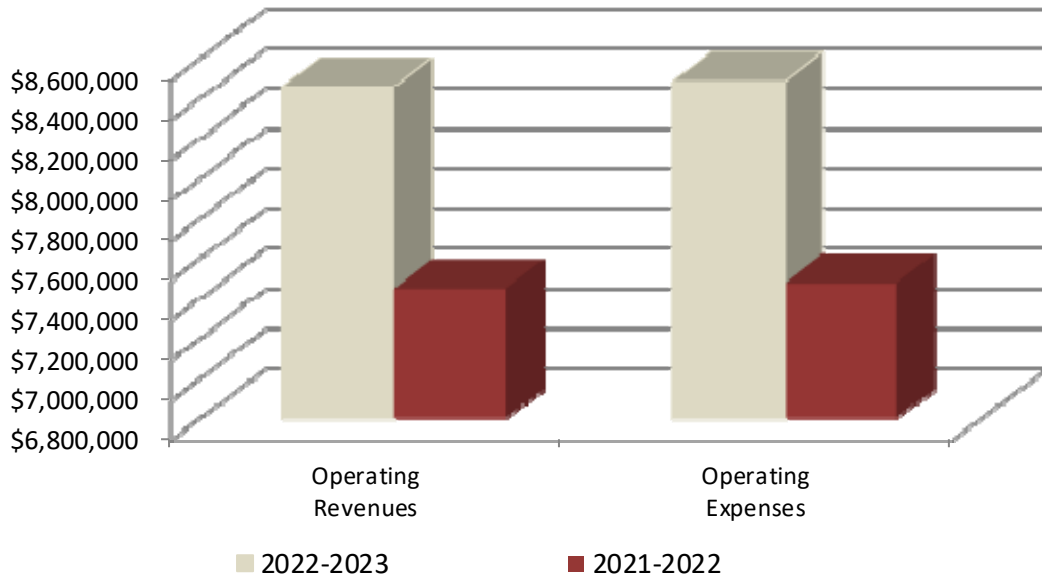
- An increase of 3.96% from the estimated payroll for 2021-2022 to the estimated payroll for the 2022-2023 program year and a net rate increase in the PIPS program of 1.99% based upon prior claims activity,
- The estimated to actual payroll contribution increase for 2021-2022 program year of \$621,404 as reflected in 2022-2023 financials.

Offset by,

- The estimated to actual payroll contribution increase for 2020-2021 program year of \$38,981 as reflected in 2021-2022 financials.

Total operating expenses increased by 13.51% in 2022-2023 from \$7,477,989 to \$8,487,974 mainly attributed to the increase of the PIPS premium, which is consistent with the increase seen in member contributions. This was offset by a decrease in the Department of Self-Insurance Plans (DSIP) Assessment of \$10,243.

Below is a graph that reflects a comparison of operating income and expense for 2022-2023 and 2021-2022:



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, 2023 and 2022

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.

	2022-2023			
	Adopted Budget	Actual	Difference	Percentage
Operating Revenues				
Member contributions	\$ 7,869,965	\$ 8,491,369	\$ 621,404	7.90 %
Safety credit program	(30,210)	(30,210)	-	-
Total operating revenues	<u>7,839,755</u>	<u>8,461,159</u>	<u>621,404</u>	<u>7.93</u>
Operating Expenses				
PIPS premium	7,510,216	8,131,620	621,404	8.27
Claims activity	(5,000)	30,662	35,662	(713.24)
Claims administration	5,000	5,000	-	0.00
Risk management fee	19,033	19,033	-	0.00
Operating costs	310,506	301,659	(8,847)	(2.85)
Total operating expenses	<u>7,839,755</u>	<u>8,487,974</u>	<u>648,219</u>	<u>8.27</u>
Non-Operating Revenue (Expenses)				
Investment income	8,543	60,644	52,101	609.87
Change in FMV	-	(15,318)	(15,318)	-
Total non-operating revenues (expenses)	<u>8,543</u>	<u>45,326</u>	<u>36,783</u>	<u>430.56</u>
Change in Net Position	8,543	18,511	9,968	116.68
Beginning Net Position	<u>604,564</u>	<u>604,564</u>	-	-
Ending Net Position	<u>\$ 613,107</u>	<u>\$ 623,075</u>	<u>\$ 9,968</u>	<u>1.63 %</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. The difference being that program 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. COVID-19 and subsequently "shelter-in-place" had a marked positive impact on claims activity beginning March of 2020 and continuing through June of 2021. Beginning July of 2021, PIPS has seen a return to normalcy in claims activity with all schools opened for full-time, in-person instruction.

Northern Orange County Self-Funded Workers' Compensation Agency

Statements of Net Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Deposits and investments	\$ 2,232,124	\$ 2,168,961
Prepaid expense	1,000	1,000
Receivables	6,283	3,306
	2,239,407	2,173,267
Total assets	2,239,407	2,173,267
Liabilities		
Current liabilities		
Accounts payable	28,394	7,250
Due to members	1,327,440	1,262,194
Unearned revenue	19,032	81,935
Current portion of unpaid claims and loss adjustment expenses	12,500	20,000
	1,387,366	1,371,379
Total current liabilities	1,387,366	1,371,379
Non-current liabilities		
Unpaid claims and loss adjustment expenses, non-current portion	228,966	197,324
	228,966	197,324
Total liabilities	1,616,332	1,568,703
Net Position - Unrestricted	\$ 623,075	\$ 604,564

Northern Orange County Self-Funded Workers' Compensation Agency
 Statements of Revenues, Expenses, and Changes in the Net Position
 Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenue		
Contributions	\$ 8,491,369	\$ 7,488,047
Safety credit program	(30,210)	(36,786)
Total operating revenue	8,461,159	7,451,261
Operating Expenses		
Excess insurance	8,131,620	7,123,081
Claims payments	6,520	273
Provision for loss reserves	21,480	26,372
Provision (Credit) for ULAE	2,662	(3,253)
Claims administration	5,000	5,000
Administration expenses	33,253	28,835
JPA administration	96,305	96,305
Risk management	19,033	19,032
Contract services	31,023	31,023
DSIP assessment	141,078	151,321
Total operating expenses	8,487,974	7,477,989
Net operating loss	(26,815)	(26,728)
Non-Operating Revenue (Expense)		
Change in fair market value of investments	(15,318)	-
Interest, net of interest allocated directly to members of \$32,245 in 2023 and \$5,679 in 2022	60,644	8,623
Net non-operating revenue (expense)	45,326	8,623
Change in Net Position	18,511	(18,105)
Net Position, Beginning of Year	604,564	622,669
Net Position, End of Year	\$ 623,075	\$ 604,564

Northern Orange County Self-Funded Workers' Compensation Agency

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from members and others, net	\$ 8,463,502	\$ 7,606,301
Cash paid for claims and settlements	(6,520)	(273)
Cash paid for excess insurance	(8,131,620)	(7,123,081)
Cash paid to suppliers for goods and services	(304,548)	(312,734)
Net Cash Provided By Operating Activities	20,814	170,213
Investing Activities		
Interest income	42,349	7,012
Net Change in Cash and Cash Equivalents	63,163	177,225
Cash and Cash Equivalents, Beginning of Year	2,168,961	1,991,736
Cash and Cash Equivalents, End of Year	\$ 2,232,124	\$ 2,168,961
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (26,815)	\$ (26,728)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Changes in Assets and Liabilities		
Prepaid expenses	-	18,782
Accounts payable	21,144	-
Amounts due to members	65,246	130,202
Unearned revenue	(62,903)	24,838
Claims and unallocated expense liability	24,142	23,119
Net Cash Provided by Operating Activities	\$ 20,814	\$ 170,213

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.

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, the State Investment Pool Local Agency Investment Fund (LAIF), and California Asset Management Program (CAMP) 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, 2023 and 2022

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, 2023 and 2022, consist of the following:

	2023	2022
Cash in banks	\$ 455	\$ 928
Cash in trust account	100,000	100,000
Investments in County Treasury	1,535,342	1,516,329
Investments in State Investment Pool	5,557	551,704
Investments in California Asset Management Program (CAMP)	590,770	-
Total deposits and investments	<u>\$ 2,232,124</u>	<u>\$ 2,168,961</u>

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 Orange 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 Orange County Treasurer, which is recorded on the amortized cost basis. The Orange County Treasury pool has an average weighted maturity of 225 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 260 days.

Investment in CAMP

California Asset Management Program (CAMP) is a California Joint Powers Authority established in 1989 to provide California public agencies with professional investment services. Investments offered through the Cash Reserve Portfolio (CAMP Pool) are permitted for all local agencies under California Government Code Section 53601(p). The CAMP Pool investments are transacted using the net asset value (NAV) per share as of the close of business each business day by dividing the net position of the CAMP Pool by the number of outstanding shares. The CAMP Pool's objective is to maintain a NAV of \$1.00 per share, however, there is no assurance that this objective will be achieved. The exact price for share transactions will be determined based on the NAV next calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV. The CAMP Pool has an average weighted maturity of 26 days.

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2023 and 2022

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.

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 County Treasury and Local Agency Investment Fund are not required to be rated. NOCSFWCA's investment in the CAMP Pool is rated AAA, by Standard and Poor's.

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, 2023 and 2022, NOCSFWCA's bank balances were not exposed to custodial credit risk.

Note 3 - Receivables

Receivables at June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Interest income receivable	<u>\$ 6,283</u>	<u>\$ 3,306</u>

Note 4 - Accounts Payable

Accounts payable at June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Accounts payable	<u>\$ 28,394</u>	<u>\$ 7,250</u>

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2023 and 2022

Note 5 - Due to Members

The amounts due to members consist of rebates and safety credits. The amounts due to members at June 30, 2023 and 2022, are summarized below:

	2023	2022
Buena Park School District	\$ 154,232	\$ 144,866
Centralia School District	120,779	112,078
Coastline Regional Occupational Program	1,752	1,709
Cypress School District	140,433	136,985
Greater Anaheim Special Education Local Plan Area (GASELPA)	15,165	14,793
La Habra City School District	79,540	77,162
Los Alamitos Unified School District	228,953	223,332
Magnolia School District	133,508	128,391
North Orange County Regional Occupational Program	257,293	233,207
Savanna Elementary	55,946	51,777
Westminster School District	139,839	137,894
Total	\$ 1,327,440	\$ 1,262,194

Note 6 - Unearned Revenue

Unearned revenue at June 30, 2023 consisted of \$19,032 in rebate funds for one of NOCSFWCA's members to be applied to offset future member contributions. There unearned revenue at June 30, 2022 consisted of \$81,935 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, 2023 and 2022:

	2023	2022
Unpaid Claims Expenses Claims liabilities at beginning of fiscal year	\$ 207,236	\$ 180,864
Incurred Claims Expenses Related to Credit for insured events of prior fiscal years	28,000	26,645
Payments Related to Claims expenses attributable to Insured events of prior fiscal years	6,520	273
Claims liabilities at end of fiscal year	\$ 228,716	\$ 207,236

Northern Orange County Self-Funded Workers' Compensation Agency

Notes to Financial Statements

June 30, 2023 and 2022

The component units of the unpaid claims and claim adjustment expenses as of June 30, 2023 and 2022, were as follows:

	2023	2022
Claims liability	\$ 228,716	\$ 207,236
Unallocated loss adjustment expenses	12,750	10,088
	241,466	217,324
Current portion	(12,500)	(20,000)
Noncurrent portion	\$ 228,966	\$ 197,324

Claims liabilities are not discounted at June 30, 2023 and 2022.

Note 8 - Net Position

Net position is composed of the following elements as of June 30, 2023 and 2022:

	2023	2022
Unrestricted		
Designated - capital target	\$ 483,554	\$ 475,165
Undesignated	139,521	129,399
Total net position	\$ 623,075	\$ 604,564

Note 9 - Participation in Public Entity Risk Pools

NOCSFWCA participates in the following JPA as described below. The relationship between NOCSFWCA and the JPA is such that the JPA is not a component unit of NOCSFWCA for financial reporting purposes.

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	\$ 8,131,620
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Independent Auditor's Report
June 30, 2023

**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*

The Board of Directors
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 (*Government Auditing Standards*), the financial statements of Northern Orange County Self-Funded Workers' Compensation Agency (NOCSFWCA), which comprise the statement of net position as of June 30, 2023, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2023.

Report on 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 opinion 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 NOCSFWCA'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.

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

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

Rancho Cucamonga, California
November 8, 2023