

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

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REPORT ON AUDITED  
FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY INFORMATION

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YEAR ENDED JUNE 30, 2016

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October 28, 2016

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Local Agency Workers' Compensation Excess  
Joint Powers Authority  
Sacramento, California

We have audited the accompanying financial statements of Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise LAWCX's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the financial statements of LAWCX for the year ended June 30, 2015, and in our report dated October 28, 2015, we expressed an unmodified opinion on those financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LAWCX's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAWCX's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of LAWCX as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and claims development information As listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of LAWCX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is 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 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 LAWCX's internal control over financial reporting and compliance.

*Sampson, Sampson & Patterson, LLP*

# LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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The management of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) is pleased to present the following discussion and analysis of the operating results, financial condition, and liquidity of LAWCX for the fiscal year ended June 30, 2016. This discussion should be read in conjunction with the financial statements and notes to the financial statements included with this report.

### **General Program Highlights**

LAWCX was formed on July 1, 1992, as a state-wide joint powers authority to self-insure and pool excess workers' compensation losses. The Program was established exclusively for California self-insured joint powers authorities, individual public entities, and special districts. The LAWCX program provides services necessary and appropriate for the establishment, operation, and maintenance of a joint program of excess workers' compensation coverage for its member agencies.

As of June 30, 2016, LAWCX had 34 members including 23 municipalities, 10 joint powers authorities and 1 special district. LAWCX offers self-insured retentions ranging from \$150,000 to \$1,000,000 or a member may attach directly to the purchased excess insurance. LAWCX maintains the following program layers: 1) member self-insured retention to \$2.0 million; and 2) \$2.0 million to \$5.0 million, also referred to as the mid-layer. The funding of both layers is evaluated annually by the Board and contributions are based on actuarially determined rates. LAWCX purchases excess coverage through the California State Association of Counties Excess Insurance Authority (CSAC EIA).

LAWCX was re-accredited with excellence by the California Association of Joint Powers Authorities (CAJPA), effective June 28, 2014, through June 28, 2017. CAJPA's accreditation status is only granted to JPAs meeting the professional standards established by CAJPA in the areas of governance, finance, claims control, safety and risk control, excess coverage, and risk management.

### **Financial Highlights for the Fiscal Year Ended June 30, 2016**

- Total revenues, both operating and non-operating, increased \$3.0 million or 25% over the prior year to \$15.1 million driven by favorable investment returns, increased funding rates, and resuming funding in the mid-layer pool.
- Total expenses decreased 23% over the prior year to \$16.1 million. The decrease is due to more stable development on claims incurred in the \$150,000 and \$250,000 pools which offset rising claim costs in the mid-layer pool and an increase in excess insurance costs.
- Total assets were \$82.2 million at June 30, 2016, an increase of \$6.2 million over the prior year due to favorable investment returns, the collection of 2015/16 loss fund contributions, and lower claims payments.
- Total liabilities increased \$7.2 million to \$73.1 million at June 30, 2016. The increase was driven by the recognition of rising claim costs in the mid-layer pool.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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**Description of the Basic Financial Statements**

LAWCX's financial statements are prepared in conformity with generally accepted accounting principles and include certain amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows along with accompanying Notes to Financial Statements.

The **Statement of Net Position** presents information on LAWCX's assets and liabilities, the difference between the two representing net position, also known as pool equity.

The **Statement of Revenues, Expenses and Changes in Net Position** present information showing total revenues versus total expenses and how LAWCX's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., member assessments collected over time, increase in claim liability, etc.).

The **Statement of Cash Flows** presents the changes in the Authority's cash and cash equivalents during the fiscal year. This statement is prepared using the direct method of cash flow. The Authority's routine activities appear in the operating activities while sales and purchases of investments are part of investing activities.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of LAWCX's operations and significant accounting policies as well as clarify unique financial information.

LAWCX's accounting system is organized so that each program year, and the \$2M to \$5M layer can be accounted for and evaluated independently. The assets, liabilities, revenues and expenses are reported on a full-accrual basis. There were no significant accounting changes during the year.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

**Analysis of Overall Financial Position and Results of Operations**

*Assets, Liabilities and Net Position*

<b>Condensed Statements of Net Position</b>				
	2016	2015	\$ Change	Percentage Change
Current Assets	\$20,705,538	\$12,577,338	\$8,128,200	65%
Noncurrent Assets	61,486,517	63,408,272	(1,921,755)	-3%
<b>Total Assets</b>	<b>82,192,055</b>	<b>75,985,610</b>	<b>6,206,445</b>	<b>8%</b>
Current Liabilities	6,758,494	5,673,946	1,084,548	19%
Noncurrent Liabilities	66,333,419	60,186,342	6,147,077	10%
<b>Total Liabilities</b>	<b>73,091,913</b>	<b>65,860,288</b>	<b>7,231,625</b>	<b>11%</b>
<b>Net Position</b>	<b>\$9,100,142</b>	<b>\$10,125,322</b>	<b>(\$1,025,180)</b>	<b>-10%</b>

***Pool Assets***

Total assets increased \$6.2 million over the prior year which was driven by favorable investment returns which are reinvested in the portfolio and an increase in loss fund contributions retained to cover future losses in both layers of coverage. Approximately \$10.8 million was collected in loss fund contributions which were offset by payment of claims of \$6.4 million. In addition, investment income received was approximately \$900,000 and the market value of LAWCX's investment portfolio increased by \$712,000.

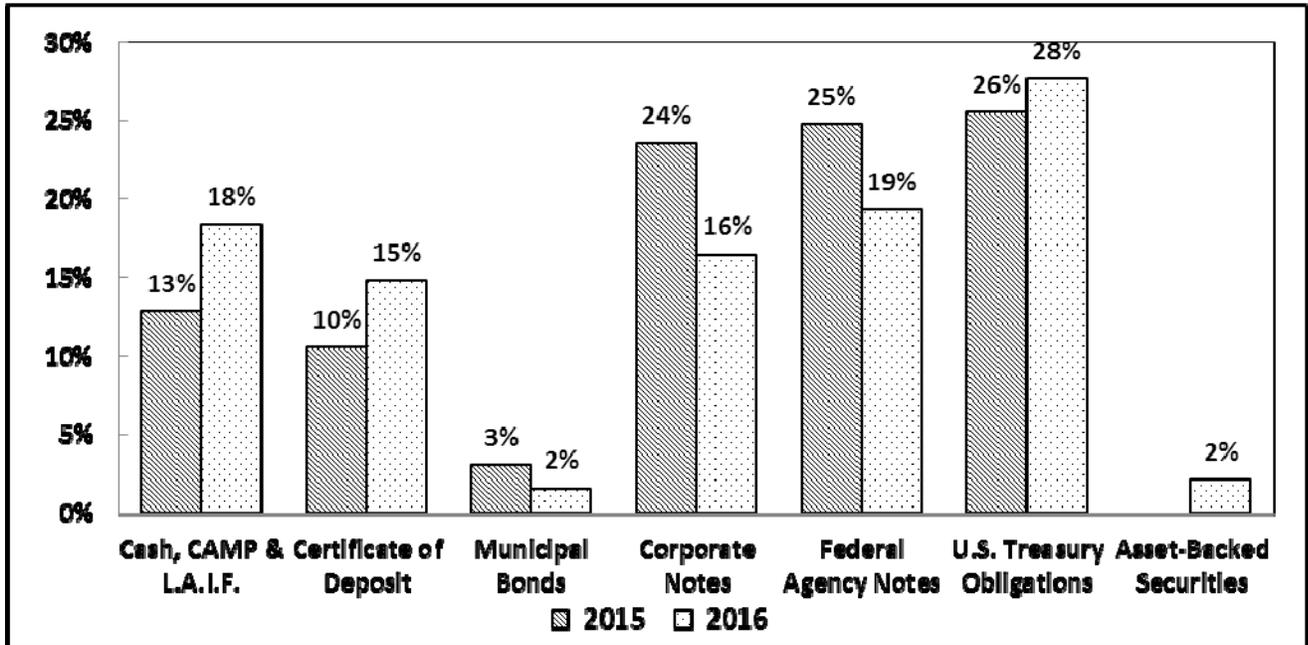
The majority of LAWCX's investments are managed by PFM Asset Management LLC (PFM) and held in a custodial account with U.S. Bank. The managed portfolio consists of fixed income securities in accordance with LAWCX's investment policy and the California Government Code. Cash is held in the California Asset Management Program Trust (CAMP), a joint powers authority managed by PFM. CAMP is similar to a money market account and is used as a pass-through for the purchases and sales of LAWCX's investments. Cash is also held in the Local Agency Investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office. The following graphs depict the make-up of LAWCX's cash and investments at June 30, 2016, and 2015.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Cash and Investments  
As of June 30, 2016 and 2015



At June 30, 2016 the fair value of LAWXC's investment portfolio was \$693,734 more than the book value. At June 30, 2015 the fair value of LAWXC's investments were \$18,140 more than the book value which translates into an unrealized gain of \$711,874 for the fiscal year. This market value adjustment is reflected as an increase in income recognized by LAWXC for the year ended June 30, 2016, as required by GASB Statement No. 31.

The ability of LAWXC's excess funds to earn investment income has a direct effect on the program rates, as this income is used to discount future liabilities. When investments fall short of projections, additional funding may be required to meet actuarial estimates. LAWXC takes these interest rate conditions into consideration when developing annual deposit premium contributions. For the fiscal years ended June 30, 2016 and 2015, deposit premiums were calculated using a 3% discount rate.

**Pool Liabilities**

Total liabilities increased \$7.2 million over the prior year, and consisted almost entirely of the liability for unpaid claims. The unpaid claims liability increased due to recognition of current year estimated claims of \$8.5 million, and increased development in the mid-layer pool, but was offset by reductions to the estimates of ultimate loss in the \$150,000 and \$250,000 pools and payments of existing liabilities in those pools. The net decrease to the liability associated of prior year claims decreased by \$1.2 million.

The portion of claims considered to be currently payable (in less than one year) is actuarially determined. The current portion of claims payable at June 30, 2016, and 2015, is \$6.7 million and \$5.6 million, respectively.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

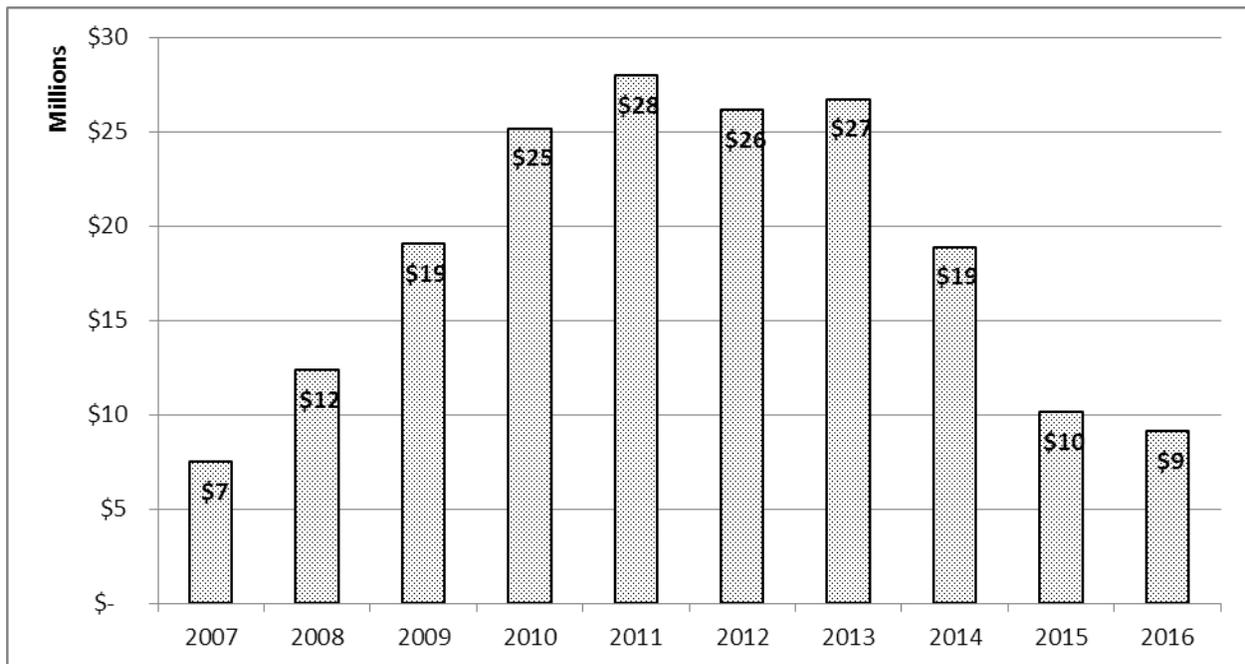
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

*Net Position*

The increases in claims costs discussed above and emergence of claims in the \$2.0 to \$5.0 million mid-layer have caused decreases in the net position over the past three fiscal years. In addition, beginning with the 2013/14 fiscal year, the Board approved a reduction to the interest rate assumption used to state the unpaid claims liability at net present value. Doing so increased the unpaid claim liability on the statement of net position, which resulted in a corresponding reduction to net position. The following chart illustrates the historical net position for LAWCX.

Historical Net Position  
As of June 30, 2007 through 2016



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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

*Revenues and Expenses*

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	2016	2015	\$ Change	Percentage Change
Operating Revenues	\$13,373,040	\$11,267,010	\$2,106,030	19%
Expenses	16,125,284	20,846,724	(4,721,440)	-23%
Operating Income	(2,752,244)	(9,579,714)	6,827,470	71%
Investment Income	1,727,064	822,231	904,833	110%
Net Non-Operating Income	1,727,064	822,231	904,833	110%
Changes in Net Position	(1,025,180)	(8,757,483)	7,732,303	88%
Beginning Net Position	10,125,322	18,882,805	(8,757,483)	-46%
Ending Net Position	\$9,100,142	\$10,125,322	(\$1,025,180)	-10%

*Revenues*

Operating revenues consist of deposit contributions received from members. Member contributions were \$13.4 million for the current fiscal year, a \$2.1 million or 19% increase in operating revenue over the prior year. The increase in contributions was primarily driven by increased funding rates in the layer of coverage from the member self-insured retention to \$2.0 million, and resuming funding the mid-layer pool which had not required contributions since 2010.

*Expenses*

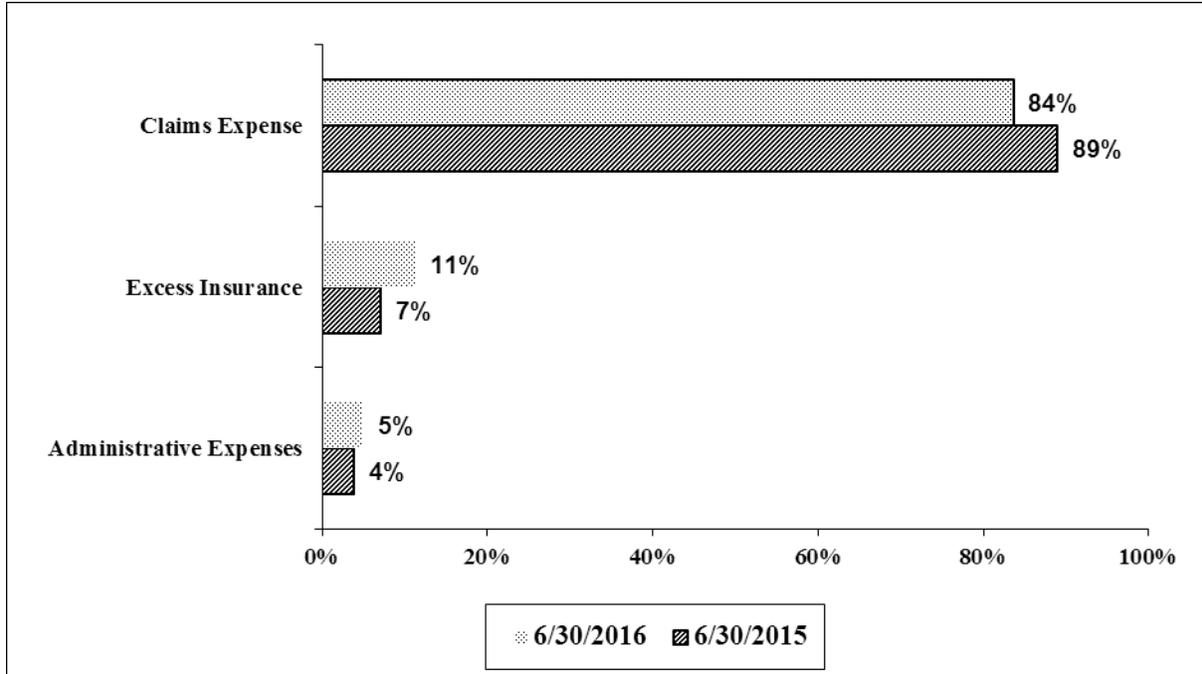
Operating expenses decreased \$4.7 million or 23%, from \$20.8 million in 2015 to \$16.1 million in 2016. The decrease is attributable to the claims development that was more favorable than in the prior year which saw significant increases to the estimates of ultimate loss. The following chart shows a comparison of the distribution of expenses, which was generally stable as compared to the prior year. Excess insurance costs increased due to increases in rates charged by CSAC-EIA and increased exposure.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

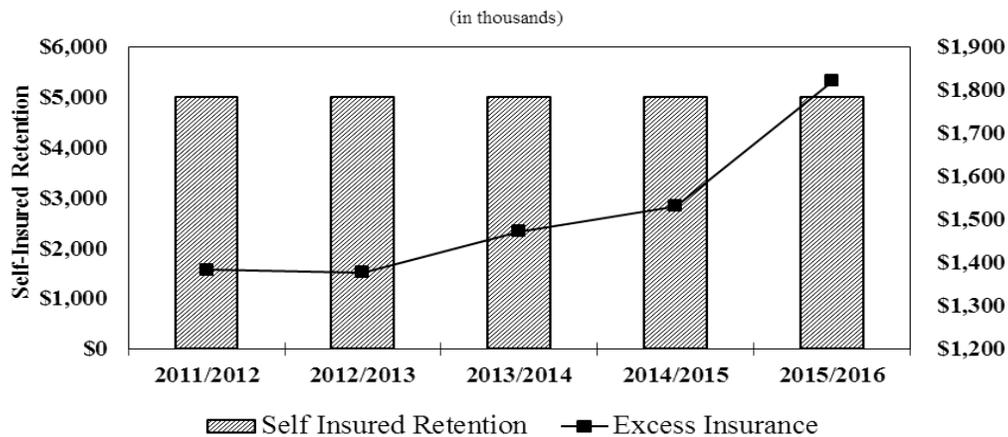
Expenses Comparison  
For the Years Ended June 30, 2016 and 2015



**Insurance Expense**

LAWCX purchases excess workers' compensation coverage in excess of its selected self-insured retention through CSAC EIA. LAWCX's retention was \$5.0 million for the fiscal years ended June 30, 2016 and 2015. The cost of this coverage increased approximately \$291,000 over the prior year which was driven by increases in payroll and the rate charged by CSAC EIA. The chart below depicts LAWCX's historical excess insurance premiums over the past five fiscal years. The self-insured retention has remained at \$5 million during this time. A portion of the increase in the 2015/16 was due to payment of additional contribution due to a contribution audit of the 2014/15 fiscal year.

Excess Insurance Expense History  
For Fiscal Years Ended June 30, 2012 through 2016



LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

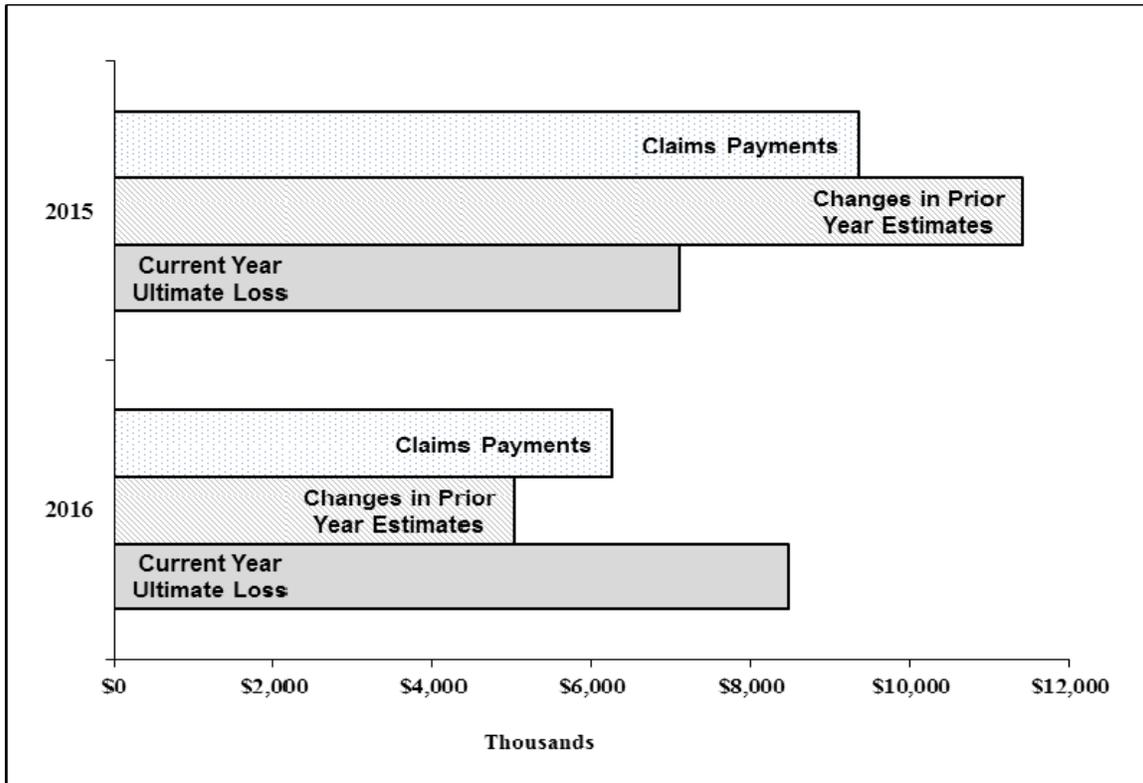
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

**Provision for Insured Events**

As discussed earlier in the report, the estimated ultimate cost of claims increased for claims incurred in the many prior program years due to continued upward development in the cost of these claims, and multiple claims have emerged in the layer of coverage from \$2.0 to \$5.0 million. This activity can be seen in the chart below which shows the two components of claims expense. The first is the recognition of the estimated cost of current year claims of \$8.5 million, and the second is the decrease in estimated costs of prior year claim costs of \$5 million. The latter was determined using the annual re-estimation of claim costs estimates, and was driven by continued claim development on known claims and the emergence of new claims.

Claims Activity  
For the Fiscal Years Ended June 30, 2016 and 2015



**General Administrative Expenses**

General administrative expenses decreased \$1,000 or 1% from \$802,000 to \$801,000 over the prior year. The decrease is primarily due to scheduled increases in contractual services such as general management, actuarial and financial auditing services, offset by the biennial decrease in scope of the claims audit. General administrative expenses represented 5% and 4% respectively of the total expenses incurred by LAWCX during the fiscal years ended June 30, 2016, and 2015.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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**Description of Facts or Conditions that are Expected to have a Significant Effect on Financial Position or Results of Operations**

*Workers' Compensation*

The impact of Senate Bill 863, a major reform that was passed at the end of 2012, continues to be monitored. The Department of Industrial Relations has concluded that the impacts have generally been emerging consistent with initial Workers' Compensation Insurance Rating Bureau projections with potentially greater than projected savings in medical costs offset in part by less than projected savings in reduced frictional costs. The adoption of the provider fee schedule in January 2014 was one factor in these savings. It was recently noted that there was a major shift in where the medical dollars flow. So as intended, primary care providers now get a bigger share of the covered fees and specialists get less. Lien reform so far has exceeded expectation, though there are legal challenges related to those reforms. Lastly, independent medical review (IMR) has been challenging. The system has been flooded with tens of thousands more IMRs than anticipated and this has led to longer processing times and greater frictional costs than anticipated. Aside from IMR, of concern is new research that tracks average California workers' compensation medical loss, indemnity benefit, and medical cost containment (MCC) payments. The results document more developed data on older claims showing paid medical losses and indemnity leveling out or declining, and less developed data on newer claims indicating that average amounts paid in the early stages of a claim are on the rise.

*Investments*

Interest rates trended slowly higher during 2015 in response to positive economic data in the U. S. Rates then increased sharply following the Federal Open Market Committee's (FOMC) October 28, 2015 meeting, as the tone of the FOMC's statement and an inflow of modestly strong economic data left investors believing a December rate hike was inevitable. The FOMC did, in fact, raise the target rate one quarter percent, to a new range of 0.25%-0.50%, at its December 16, 2015 meeting, and left the impression that additional hikes were likely coming. Yields continued their upward trend through the end of 2015 but quickly reversed and moved significantly lower as 2016 began, as fears of a global economic slowdown and plummeting oil prices pushed investors into the safety of U.S. Treasuries and other U.S. dollar-based fixed-income securities. Rates then fell further in June, after the FOMC kept rates unchanged during the quarter, issuing a dovish tone, and the United Kingdom elected, surprisingly, to leave the European Union.

U.S. GDP grew at moderate pace in fiscal year 2015/2016. Economic growth continued to be fueled by consumer spending, while investment and net exports remained a drag. The labor market remained strong, and employers added an average of 204,000 net new jobs per month over the year ended June 30, 2016 and the unemployment rate fell to 4.9%. Inflation continued to run below the Federal Reserve's 2% target, however inflationary pressures picked up recently as energy prices stabilized, home prices rose, and wages showed modest improvements. The personal consumption expenditure (PCE) price index, the Fed's most favored metric of inflation, rose 1.6% year-over-year ended June 30, 2016.

# LOCAL AGENCY WORKERS' COMPENSATION EXCESS JOINT POWERS AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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Global commodity price declines deepened early in 2016 as the supply demand imbalance remained in focus. Domestic crude oil fell to less than \$30 a barrel in February, before staging a comeback and rebounding above \$50 a barrel. The Chinese economy continued to slow, stoking concern that weakness in the world's second-largest economy may negatively impact global growth, especially in emerging market countries—those dependent on commodity exports. In an effort to stir growth, the European Central Bank expanded their asset purchase program and the Bank of Japan entered into the era of negative rates, both continuing on paths of monetary easing. Weaker economic conditions and strong demand from central banks pushed many global sovereign bond yields into negative territory.

Looking forward, it appears growth in the U.S. will be positive, but only around 2%, and growth in Europe and Japan will likely be lower than that. With that economic backdrop, the markets expect longer-term yields to be “lower for longer.” In addition, the Brexit vote in the U.K., the U.S. presidential election, and global political unrest represent significant sources of potential market volatility.

The Authority's portfolio remains in compliance with the California Government Code and the Authority's Investment Policy. The primary objective in the management of the Authority's funds is safety. PFM Asset Management LLC (PFMAM), the investment advisor, strives to protect the portfolio's principal by maintaining a diversified portfolio of U.S. Treasury, Federal Agency, and high-quality corporate and bank obligations. Maintaining sufficient liquidity is also a priority, and all cash needs of the Authority continue to be met.

During the 2015/2016 fiscal year, PFMAM continued to allocate a majority of the portfolio to Treasury, Agency, and corporate obligations. Treasuries and agencies provide the portfolio the highest amount of safety and liquidity. PFMAM utilized sectors outside of government securities, including corporate notes, negotiable CDs, and asset-backed securities, to diversify the portfolio and in an effort to increase the portfolio's return and earnings. Given the high degree of uncertainty in interest rate expectations, PFMAM maintained the portfolio's duration position near-neutral to benchmark. This strategy benefited the portfolio as interest rates moved lower during the quarter.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
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STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>ASSETS</u>	
	June 30,	
	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$14,833,633	\$ 9,477,166
Investments	5,523,854	2,077,518
Receivables:		
Member		600,000
Excess insurance	84,683	37,057
Interest	260,928	221,197
Prepaid expenses	<u>2,440</u>	<u>164,400</u>
Total Current Assets	20,705,538	12,577,338
Noncurrent Assets:		
Investments	60,494,792	62,501,828
Receivables:		
Excess insurance	<u>991,725</u>	<u>906,444</u>
Total Noncurrent Assets	<u>61,486,517</u>	<u>63,408,272</u>
Total Assets	<u>\$82,192,055</u>	<u>\$75,985,610</u>

LIABILITIES AND NET POSITION

LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 25,494	\$ 27,946
Current portion of claims liabilities	<u>6,733,000</u>	<u>5,646,000</u>
Total Current Liabilities	6,758,494	5,673,946
Noncurrent liabilities:		
Claims liabilities	<u>66,333,419</u>	<u>60,186,342</u>
Total Liabilities	73,091,913	65,860,288
Net Position	<u>9,100,142</u>	<u>10,125,322</u>
Total Liabilities and Net Position	<u>\$82,192,055</u>	<u>\$75,985,610</u>

See independent auditor's report and notes to financial statements.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
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STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Deposit premiums	\$13,373,040	\$11,214,405
Payroll audit premium adjustment		49,105
Miscellaneous		<u>3,500</u>
Total Operating Revenues	<u>13,373,040</u>	<u>11,267,010</u>
OPERATING EXPENSES:		
Claims	6,268,794	9,357,150
Change in unpaid claims	7,234,077	9,156,742
Excess insurance	1,821,699	1,530,714
General and administration	<u>800,714</u>	<u>802,118</u>
Total Operating Expenses	<u>16,125,284</u>	<u>20,846,724</u>
Net Operating Loss	(2,752,244)	(9,579,714)
NON-OPERATING REVENUES:		
Investment income	<u>1,727,064</u>	<u>822,231</u>
CHANGES IN NET POSITION	(1,025,180)	(8,757,483)
NET POSITION, BEGINNING OF YEAR	<u>10,125,322</u>	<u>18,882,805</u>
NET POSITION, END OF YEAR	<u>\$ 9,100,142</u>	<u>\$10,125,322</u>

See independent auditor's report and notes to financial statements.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
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STATEMENT OF CASH FLOWS

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from members	\$ 13,973,040	\$ 11,867,010
Cash paid for claims	(6,401,701)	(9,417,426)
Cash paid for excess insurance	(1,821,699)	(1,530,714)
Cash paid for general and administration	<u>(641,206)</u>	<u>(800,461)</u>
Net cash provided by operating activities	5,108,434	118,409
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	915,181	749,044
Purchase of investment securities	(43,640,137)	(63,815,321)
Proceeds from sales and maturities of securities	<u>42,972,989</u>	<u>62,800,590</u>
Net cash provided (used) by investing activities	<u>248,033</u>	<u>(265,687)</u>
Net increase (decrease) in cash and cash equivalents	5,356,467	(147,278)
Cash and cash equivalents, beginning of year	<u>9,477,166</u>	<u>9,624,444</u>
Cash and cash equivalents, end of year	<u>\$ 14,833,633</u>	<u>\$ 9,477,166</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net operating loss	\$ (2,752,244)	\$ (9,579,714)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Member receivables	600,000	600,000
Excess insurance receivables	(132,907)	(60,276)
Prepaid expenses	161,960	(9,168)
Accounts payable	(2,452)	10,825
Claims liabilities	<u>7,234,077</u>	<u>9,156,742</u>
Net cash provided by operating activities	<u>\$ 5,108,434</u>	<u>\$ 118,409</u>

See independent auditor's report and notes to financial statements.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - ORGANIZATION:

The Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) is a California Joint Powers Authority and was established by a Joint Powers Agreement on July 1, 1992 in accordance with Title I, Division 7, Chapter 5, Article I, Section 6500 of the California Government Code. LAWCX was established to provide a workers' compensation excess insurance program to its public agency members through risk sharing and purchased insurance, and to provide a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding programs of excess workers' compensation coverage.

The Authority is governed by a Board of Directors which is comprised of appointed representatives from its member agencies. The Board approves the actuarially determined member contributions necessary to cover each member's share of expected pooled program losses, program insurance and administrative costs.

At the Board's discretion, additional member contributions may be assessed if the original contributions of a particular program year are insufficient to meet existing obligations. Likewise, the Board can return any or all of the program years' excess assets to the members provided that the reserves of the pooled program as a whole have an actuarially determined confidence level of at least ninety percent after return of such assets.

LAWCX offers its members a \$150,000, \$250,000, \$350,000, \$500,000, or \$1,000,000 retained limit, or a member can attach directly to the excess insurance. LAWCX members share losses from their retained limit up to \$5 million and employer's liability coverage with limits up to \$5 million each occurrence. LAWCX participates in the California State Association of Counties Excess Insurance Authority for excess workers' compensation coverage in excess of \$5 million up to statutory limits. During the 2015/16 program year, thirty-four members participated in the program.

Admission/Withdrawal of Members

The Board of Directors has the authority to approve new members after review by an Underwriting Committee. Each new member is required to participate in the workers' compensation excess program for a minimum of three full program years. Members may withdraw from LAWCX by notifying the Board of Directors in writing on or before December 31<sup>st</sup> preceding the date of withdrawal or within thirty days of any substantial change made to the programs of the Authority, whichever is later. The withdrawal of a member does not terminate that member's responsibility to pay their share of assessments or other financial obligations incurred during its active membership, nor does the member have any immediate right to excess funds.

Upon dissolution of LAWCX, program year deficits or surpluses are subject to assessment or distributions based on each member's contribution compared to total contributions for each program year.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Accounting Method

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded in the accounting period in which the liability is incurred. Since LAWCX discounts claims liabilities, anticipated investment income is considered in determining if a premium deficiency exists.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

As a governmental agency, LAWCX is exempt from both federal income taxes and California state franchise taxes.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include all highly liquid short-term investments with an original maturity of three months or less.

Receivables

Receivables at June 30, 2016 consist primarily of prior years' member assessments, amounts due from excess insurance, and interest earnings. All year-end receivable amounts are considered to be fully collectible.

Excess Insurance

LAWCX purchases specific excess insurance from commercial carriers to reduce its exposure to large losses. The specific excess insurance provides coverage for losses related to individual occurrences above the corresponding policy year's specified self-insured retention (SIR) and is limited to that policy year's specific excess coverage limit.

The JPA does not report any liabilities that are the responsibility of the excess insurance carrier.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Classification of Revenues

LAWCX has classified its revenue as either operating or non-operating revenue. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement 34. Revenues and expense are classified according to the following criteria:

**Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as insurance premiums, assessments for insured events and administration fees.

**Non-operating revenues:** Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources described in GASB Statement 34 such as investment earnings.

Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the prior year financial statements, from which this data was derived.

NOTE 3 - CASH AND INVESTMENTS:

Cash and investments held by LAWCX are reflected in the accompanying statement of net position at June 30, 2016 as follows:

Cash and cash equivalents	\$14,833,633
Investments - current	5,523,854
Investments - noncurrent	<u>60,494,792</u>
Total	<u>\$80,852,279</u>

Cash and investments held by the Authority at June 30, 2016 consisted of the following:

Deposits	\$ 87,558
Investments	<u>80,764,721</u>
Total	<u>\$80,852,279</u>

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Investments Authorized by the California Government Code and LAWCX's Investment Policy

The table below identifies the investment types that are authorized for LAWCX by the California Government Code and LAWCX's investment policy. The table also identifies certain provisions of the California Government Code that addresses interest rate risk and concentration of credit risk.

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	20%	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Repurchase Agreements	Yes	1 year	None	5%
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	Yes	5 years	30%	5%
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	5 years	None	None
Mortgage Pass-Through Securities	Yes	5 years	5%	5%
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	None	None	None
JPA Pools (other investment pools)	Yes	None	None	None
Supranational Debt	Yes	5 years	10%	5%

\*Based on state law requirements or investment policy requirements, whichever is more restrictive.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Disclosures Relating to 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. One of the ways that LAWCX manages its exposure to interest rate risk is through the purchase of 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.

Information about the sensitivity of the fair values of LAWCX's investments to market interest rate fluctuations is provided by the following table that shows the distribution of LAWCX's investments by maturity:

	Fair Value	Remaining Maturity (in months)		
		12 Months Or Less	13 to 24 Months	25 to 60 Months
Federal Agency Securities	\$15,595,037	\$	\$ 302,431	\$15,292,606
U.S. Treasury Notes	22,296,617			22,296,617
State Investment Pool	14,528,074	14,528,074		
Money Market Fund	218,001	218,001		
Municipal Bonds	1,234,963		1,234,963	
Corporate Notes	13,262,893		8,859,041	4,403,852
Negotiable Certificates of Deposits	11,930,249	5,523,854	6,406,395	
Mortgage Pass-Through Securities	<u>1,698,887</u>			<u>1,698,887</u>
Total	<u>\$80,764,721</u>	<u>\$20,269,929</u>	<u>\$16,802,830</u>	<u>\$43,691,962</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

LAWCX's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments	Fair Value at Year End
Callable Corporate Notes	\$1,503,083

These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair value of these securities highly sensitive to changes in interest rates.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Disclosures Relating to Credit Risk

Generally, 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. Presented below is the actual Standard and Poors rating as of year end for each investment type.

Investment Type	Total	Exempt from Disclosure	Ratings as of Year End				
			AAA/A-1	AA	A	AAAm	NR
Federal Agency Securities	\$15,595,037	\$	\$	\$15,595,037	\$	\$	\$
U.S. Treasury Notes	22,296,617			22,296,617			
State Investment Pool	14,528,074	14,528,074					
Money Market Fund	218,001					218,001	
Municipal Bonds	1,234,963		882,166				352,797
Corporate Notes	13,262,893		250,997	10,466,612	2,545,284		
Negotiable Certificates of Deposits	11,930,249		8,387,556	3,542,693			
Mortgage Pass-Through Securities	<u>1,698,887</u>		<u>195,892</u>				<u>1,502,995</u>
Total	<u>\$80,764,721</u>	<u>\$14,528,074</u>	<u>\$9,716,611</u>	<u>\$51,900,959</u>	<u>\$2,545,284</u>	<u>\$218,001</u>	<u>\$1,855,792</u>

Concentration of Credit Risk

The investment policy of LAWCX places limits on the amount that may be invested in any one issuer. The limits are applied at the time the investment decision is made. These limits are summarized as follows:

	Limit per Issuer	Limit per Asset Class
Municipal Bonds	5%	20%
Corporate Notes	5%	30%
Negotiable Certificates of Deposits	5%	30%
Mortgage Pass-through Securities	5%	5%

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total LAWCX investments are as follows:

Issuer	Investment Type	Reported Amount
FHLMC	Federal Agency Securities	\$5,728,451
FNMA	Federal Agency Securities	9,866,586

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and LAWXCX's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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 LAWXCX's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, none of LAWXCX's deposits with financial institutions were held in uncollateralized accounts. In addition, none of LAWXCX'S investments were subject to custodial credit risk as of June 30, 2016. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or a government investment pool (such as LAIF).

Managed Investment Pools

LAWXCX is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of LAWXCX's investment in this pool is reported in the accompanying financial statements at amounts based upon LAWXCX'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 are recorded on the amortized cost basis.

As of June 30, 2016, LAWXCX's investment in the California Asset Management Program (CAMP) pool was \$218,001. A board of six trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which may be withdrawn, is determined on an amortized cost basis.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

Fair Value Measurements

LAWCX categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

LAWCX has the following recurring fair value measurements as of June 30, 2016:

Assets at Fair Value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt Securities:				
Federal Agency Securities	\$	\$15,595,037	\$	\$15,595,037
U.S. Treasury Notes		22,296,617		22,296,617
Municipal Bonds		1,234,963		1,234,963
Corporate Notes		13,262,893		13,262,893
Negotiable Certificates of Deposits		11,930,249		11,930,249
Mortgage Pass-Through Securities		1,698,887		1,698,887

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

NOTE 4 - UNPAID CLAIMS:

LAWCX has established a reserve for unpaid claims, based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred, but not reported. The incurred, but not reported claims have been estimated by management based upon an actuarial study performed by LAWCX's consulting actuary at the expected confidence level and are discounted at 2.75% for 2015/2016 and 3.0% for 2014/2015. The claims reserves have been estimated by the claims administrators based upon prior experience with similar claims. Because actual costs depend on such factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Accordingly, the reserve for claims is recomputed annually to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to the reserves are charged to income or expense in the period in which they are made. The face value (undiscounted) amount of the liabilities for unpaid claims at June 30, 2016 and 2015 was \$93,768,996 and \$86,479,834, respectively.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

The following represents changes in the total discounted reserves for unpaid claims of LAWCX during the past two years:

	<u>2015/2016</u>	<u>2014/2015</u>
Unpaid claims and claims adjustment expenses at beginning of fiscal year	\$65,832,342	\$56,675,600
Insured claims and claim adjustment expenses:		
Provisions for insured events of the current fiscal year	8,476,143	7,105,062
Increase in provision for insured events of prior fiscal years	<u>5,026,728</u>	<u>11,408,830</u>
Total incurred claims and claim adjustment expenses	<u>13,502,871</u>	<u>18,513,892</u>
Payments/Recoveries:		
Claims and claim adjustment expenses attributable to insured events of the prior fiscal years	<u>6,268,794</u>	<u>9,357,150</u>
Total payments	<u>6,268,794</u>	<u>9,357,150</u>
Total unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$73,066,419</u>	<u>\$65,832,342</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

Reported claims	\$36,355,065	\$31,034,193
Claims incurred but not reported	35,764,586	33,903,117
Liability for unallocated loss adjustment expense	<u>946,768</u>	<u>895,032</u>
Total claims liability	<u>\$73,066,419</u>	<u>\$65,832,342</u>

NOTE 5 - GENERAL AND ADMINISTRATIVE EXPENSES:

The following is a list of the general and administrative expenses incurred for the year ended June 30, 2016.

Administrative fees	\$568,400
Travel and conference	18,651
Financial audit	8,775
Actuary fee	11,360
Claims audit	68,800
Insurance	9,407
Risk control	92,800
Legal services	11,785
Training	6,940
Other	<u>3,796</u>
Total	<u>\$800,714</u>

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

(Continued)

NOTE 6 - UNALLOCATED LOSS ADJUSTMENT EXPENSES:

Unallocated claims adjustment expenses are costs related to the settlement and processing of claims but are not traceable to a specific claim. LAWCX's actuary has estimated the accrual based on past experience. The amount of the estimated liability at June 30, 2016 and 2015 was \$946,768 and \$895,032, respectively.

NOTE 7 - JOINT VENTURE:

LAWCX participates in the California State Association of Counties Excess Insurance Authority (CSAC-EIA) for excess workers' compensation coverage. The relationship between LAWCX and CSAC-EIA is such that CSAC-EIA is not a component unit of LAWCX for financial reporting purposes.

CSAC-EIA arranges for and provides excess workers' compensation coverage for its members. Deductibles vary by member and coverage is provided up to statutory limits.

CSAC-EIA is governed by a Board of Directors comprised of one representative from each of the fifty-five County members and seven elected representatives from the other public entities. The Board controls the operations of the joint powers authority, including selection of management and approval of operating budgets, independent of any influence by the member agencies by their representation on the Board. Each member agency pays a premium commensurate with the level of coverage requested and shares surplus and deficits proportionate to their participation in the joint powers authority.

Condensed financial information for CSAC-EIA for the year ended June 30, 2015 (the most recent year available) is as follows:

Total assets and deferred outflows of resources	<u>\$642,949,175</u>
Total liabilities and deferred inflows of resources	\$530,542,530
Net Position	<u>112,406,645</u>
	<u>\$642,949,175</u>
Revenues	\$621,242,391
Expenses	<u>619,703,360</u>
Changes in Net Position	<u>\$ 1,539,031</u>

NOTE 8 - NET POSITION:

In March, 2006, the Board approved increasing its SIR from \$2 million to \$5 million creating a \$3 million excess of \$2 million self-insured equity pool to cover all future program years effective July 1, 2006. At June 30, 2016, the net position of the \$2 million to \$5 million pool was \$(4,451,363).

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2016

The following table illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Program since inception. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue amounts of premiums ceded and reported premiums (net of reinsurance) and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Programs including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called program year).
- (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each program year.
- (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each program year.
- (6) This section of rows shows how each program year's net amount of losses increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.)
- (7) This line compares the latest reestimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature program years. The columns of the table show data for successive program years.

LOCAL AGENCY WORKERS' COMPENSATION EXCESS  
JOINT POWERS AUTHORITY

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2016

	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>	<u>2015/2016</u>
1. Required contribution and investment revenue:										
Earned	\$11,801,272	\$11,747,581	\$10,336,569	\$ 8,792,066	\$ 9,004,681	\$ 8,664,917	\$ 8,986,719	\$10,107,377	\$11,502,659	\$12,845,338
Ceded	<u>(1,866,960)</u>	<u>(1,952,156)</u>	<u>(1,548,470)</u>	<u>(1,396,320)</u>	<u>(1,330,065)</u>	<u>(1,383,391)</u>	<u>(1,290,162)</u>	<u>(1,472,014)</u>	<u>(1,659,993)</u>	<u>(1,692,420)</u>
Net earned	9,934,312	9,795,425	8,788,099	7,395,746	7,674,616	7,281,526	7,696,557	8,635,363	9,842,666	11,152,918
2. Unallocated expenses	683,593	708,511	712,889	778,525	721,567	707,233	712,678	771,280	802,119	800,714
3. Estimated claims and expenses, end of program year:										
Incurred	4,433,277	5,565,482	4,400,933	4,213,899	4,417,147	4,547,576	4,376,951	6,493,963	6,421,062	6,421,062
Ceded										
Net incurred	<u>4,433,277</u>	<u>5,565,482</u>	<u>4,400,933</u>	<u>4,213,899</u>	<u>4,417,147</u>	<u>4,547,576</u>	<u>4,376,951</u>	<u>6,493,963</u>	<u>6,421,062</u>	<u>6,421,062</u>
4. Net paid (cumulative) as of:										
End of program year										
One year later		25,871	67,318	363,709				1,937,658	78,769	
Two years later		103,152	154,369	568,663		46,554	129,950	3,223,408		
Three years later	21,174	269,604	563,481	927,936	86,732	1,399,708	854,271			
Four years later	148,367	675,387	696,696	2,268,042	959,245	1,557,675				
Five years later	431,400	842,087	882,775	3,821,997	1,118,892					
Six years later	659,876	1,311,087	1,819,823	4,425,931						
Seven years later	953,594	1,746,531	2,017,271							
Eight years later	1,230,151	1,960,482								
Nine years later	2,009,508									
5. Reestimated ceded claims and expenses										
6. Reestimated net incurred claims and expenses:										
End of program year	4,433,277	5,565,482	4,400,933	4,213,899	4,417,147	4,547,576	4,376,951	6,493,963	6,421,062	7,619,223
One year later	4,204,716	5,070,332	3,959,887	4,323,912	4,420,345	4,216,630	4,535,444	6,890,124	7,020,139	
Two years later	3,427,188	4,008,584	3,471,912	4,661,165	4,707,129	4,376,635	4,997,763	5,985,592		
Three years later	2,613,914	3,741,763	3,834,034	5,316,156	5,641,814	5,684,059	5,022,969			
Four years later	2,631,113	4,397,934	3,668,851	8,039,795	6,280,155	5,575,350				
Five years later	3,163,210	4,292,673	3,847,371	9,275,378	5,433,122					
Six years later	3,460,626	5,225,977	4,800,220	9,170,564						
Seven years later	3,930,709	5,929,306	4,917,320							
Eight years later	4,737,112	6,214,993								
Nine years later	4,904,574									
7. Increase (decrease) in estimated net incurred claims and expenses from end of program year	<u>\$ 471,297</u>	<u>\$ 649,511</u>	<u>\$ 516,387</u>	<u>\$ 4,956,665</u>	<u>\$ 1,015,975</u>	<u>\$ 1,027,774</u>	<u>\$ 646,018</u>	<u>\$ (508,371)</u>	<u>\$ 599,077</u>	<u>\$ _____</u>

OTHER INDEPENDENT AUDITOR'S REPORT



October 28, 2016

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

Board of Directors  
Local Agency Workers' Compensation Excess  
Joint Powers Authority  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise LAWCX's basic financial statements, and have issued our report thereon dated October 28, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LAWCX's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAWCX's internal control. Accordingly, we do not express an opinion on the effectiveness of LAWCX'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 LAWCX's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether LAWCX's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LAWCX's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWCX's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sampson, Sampson & Patterson, LLP*