



November 24, 2014

Orange County Auditor/Controller's Office
Jan Grimes
12 Civic Center Plaza, Room 200
P.O. Box 567
Santa Ana, California 92702

Dear Ms. Grimes:

Enclosed is one bound copy of the annual financial report for the Southern Orange County Property/Liability Joint Powers Authority for the year ended June 30, 2014.

Very truly yours,

Lynelle I. Jarschke
of VAVRINEK, TRINE, DAY & CO., LLP

LIJ/sab

Enclosure

AUDITOR-CONTROLLER
NOV 26 2014

**SOUTHERN ORANGE COUNTY
PROPERTY/LIABILITY JOINT POWERS
AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

AUDITOR-CONTROLLED

NOV 26 2014



SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY

JOINT POWERS AUTHORITY

JUNE 30, 2014

BOARD OF DIRECTORS

REPRESENTATIVE

OFFICE HELD

MEMBER

Mr. Jeff Trader	President	Newport Mesa Unified School District
Ms. Ann Kantor	Vice President	Orange County Department of Education
Ms. Barbara Ott	Secretary-Treasurer	Brea-Olinda Unified School District
Mr. David Giordano	Member	Brea-Olinda Unified School District
Ms. Roni Ellis	Member	Ocean View School District
Mr. Paul Reed	Member	Newport Mesa Unified School District
Ms. Sandy Hall	Member	Orange County Department of Education

ADMINISTRATION

Mr. Russ O'Donnell	JPA Manager
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**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Southern Orange County Property/Liability
Joint Powers Authority
Brea, California

Report on the Financial Statements

We have audited the accompanying financial statements of Southern Orange County Property/Liability Joint Powers Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 opinions 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 State Controller's *Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southern Orange County Property/Liability Joint Powers Authority as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and claims development information on pages 20 and 21 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern Orange County Property/Liability Joint Powers Authority's basic financial statements. The accompanying schedule of member premiums is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of member premiums is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the Southern Orange County Property/Liability Joint Powers Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Southern Orange County Property/Liability Joint Powers Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 24, 2014



Southern Orange County Property/Liability JPA

BOARD OF DIRECTORS

President

Jeff Trader
Newport-Mesa USD
(714) 424-5003

Vice President

Ann Kantor
Orange County DOE
(714) 966-4059

Secretary-Treasurer

Barbara Ott
Brea Olinda USD
(714) 990-7827

Roni Ellis
Ocean View SD
(714) 847-2551

MEMBERS

Pam Bridges
Ocean View SD
(714) 847-2551

David Giordano
Brea Olinda USD
(714) 990-7827

Paul Reed
Newport-Mesa USD
(714) 424-5001

Sandy Hall
Orange County DOE
(714) 966-4020

ADMINISTRATION

Russ O'Donnell
JPA Administrator
Alliance of Schools for
Cooperative Insurance
Programs
(562) 404-8029

JPA Assistant Administrator
Martha Espinoza
Alliance of Schools for
Cooperative Insurance
Programs
(562) 404-8029

Joan Weeks
Claims Administrator
CORVEL
(562) 404-8372

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Southern Orange County Property/Liability Joint Power Authority (SOCPLJPA) is a public school consortium formed pursuant to *Government Code 965 et seq.* Created in July 1981, SOCPLJPA was formed for the purpose of pooling property and liability losses and ancillary coverage and for purchasing excess insurance and risk management products and service on a collective basis. Currently the pool is administered and purchases excess insurance coverage through the Alliance of Schools for Cooperative Insurance Programs (ASCIP), which also provides risk management and program administration services for the pool. The pool currently is comprised of four members, having a combined average daily attendance of 46,792 and total insured values in the amount of \$926 million.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

SOCPLJPA's financial statements are prepared in conformity with generally accepted accounting principles. Statement of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows are included along with Notes to Financial Statements to clarify accounting policies and financial information. The Statement of Net Position provides information on all SOCPLJPA's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of SOCPLJPA is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position provides information on total revenues, total expenses, and how SOCPLJPA's net position changed during the most recent fiscal year. The Statement of Cash Flows is presented on the direct method to reflect the operations of SOCPLJPA based on the inflow and outflow of cash.

Vavrinek, Trine, Day & Co., LLP Certified Public Accountants has performed an independent audit of SOCPLJPA's financial statements in accordance with generally accepted auditing standards. The opinion of their audit is included in this report. Rivelle Consulting Services provides an independent actuarial review of the property/liability program, which confirms the adequacy and reasonableness of the outstanding claims liabilities recorded at the end of each year.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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

June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Dollar Variance</u>
Revenue:					
Premium deposits by members	\$ 2,526,395	\$ 2,526,395	0%	\$ 2,526,395	\$ -
Excess insurance	(2,112,592)	(2,112,592)	0%	(2,112,592)	-
District deductibles	80,000	80,000	0%	97,368	17,368
Interest income	8,000	8,000	0%	13,429	5,429
Total Revenue	501,803	501,803	0%	524,600	22,797
Expenditures:					
Self-insurance	300,000	300,000	0%	387,843	(87,843)
Administrative services	66,250	66,250	0%	66,250	-
Other operating expense	32,500	32,500	0%	11,669	20,831
Premium rebate	-	-	0%	313,965	(313,965)
Total Expenditures	398,750	398,750	0%	779,727	(380,977)
Net Increase (Decrease) in Net Position	\$ 103,053	\$ 103,053	0%	\$ (255,127)	\$ (358,180)

- ❖ There were no variances between the original budget and the final budget since SOCPLJPA did not have any budget revisions during the year.
- ❖ District deductibles were higher than what was budgeted mainly due to higher claims payments.
- ❖ The increase from budgeted to actual interest income is due to a higher rate of return than was anticipated at the beginning of the year.
- ❖ The actual self-insurance expense was higher than budget mainly due to the increase in provision for loss reserves.
- ❖ Premium rebates were not budgeted, but the Board of Directors declared a total rebate of \$313,965.
- ❖ Overall, there were no major variances in administrative expenses from budget to actual.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Dollar Variance</u>
Revenue:					
Premium deposits by members	\$ 2,510,118	\$ 2,510,118	0%	\$ 2,506,929	\$ (3,189)
Excess insurance	(2,072,491)	(2,072,491)	0%	(2,069,328)	3,163
District deductibles	70,000	70,000	0%	93,281	23,281
Interest income	9,600	9,600	0%	13,119	3,519
Total Revenue	517,227	517,227	0%	544,001	26,774
Expenditures:					
Self-insurance	300,000	300,000	0%	282,483	17,517
Administrative services	66,250	66,250	0%	66,250	-
Other operating expense	32,500	32,500	0%	10,113	22,387
Premium rebate	-	-	0%	214,904	(214,904)
Total Expenditures	398,750	398,750	0%	573,750	(175,000)
Net Increase (Decrease) in Net Position	\$ 118,477	\$ 118,477	0%	\$ (29,749)	\$ (148,226)

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

SOCPLJPA's total assets decreased \$162,957 from \$1,936,667 at June 30, 2013, to \$1,773,710 at June 30, 2014. The decrease was mainly due to the decrease in cash deposits with the county treasury at the end of the year.

Prior to fiscal year 2003-2004, SOCPLJPA has always deposited all its monies with the county treasury. In 2003-2004, the Board of Directors revised SOCPLJPA's investment policy allowing the JPA to invest excess funds with the ASCIP, a public entity risk pool that is authorized to make investments that are legally permissible under the Government Code, Section 53601. At the end of fiscal year 2013-2014, SOCPLJPA had a total investment of \$1,617,469 with ASCIP.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Total liabilities increased by \$92,170 from \$339,259 as of June 30, 2013, to \$431,429 as of June 30, 2014. This increase was primarily due to the increase in outstanding claims liabilities. As of June 30, 2014, SOCPLJPA had an outstanding claims liability of \$397,393, increased by \$134,594 from the prior year. According to the actuary, the increase in outstanding claims liability was primarily due to the increase in case reserves in the liability line of coverage. The outstanding claims liability of \$397,393 does not include any provision for Unallocated Loss Adjustment Expense (ULAE). Prior to fiscal year 2004-2005, SOCPLJPA had established a provision for ULAE of \$3,000 to pay for claims administration fees associated with claims incurred by SOCPLJPA before SOCPLJPA joined ASCIP. As of June 30, 2014, no provision for ULAE has been established since SOCPLJPA does not have any more open claims prior to joining ASCIP in 1995-1996.

Member contributions increased by \$19,466 from the prior year to \$2,526,395, mainly due to an increase in excess insurance premiums paid to ASCIP and Schools Excess Liability Fund (SELF) as a result of the increase in rates.

The increase of \$201,890 in total expenditures from \$480,469 in 2012-2013 to \$682,359 in 2013-2014 was largely due to the increase in provision for loss reserves and premium rebate. Annually, the Board of Directors evaluates the SOCPLJPA's undesignated fund equity and approves a premium rebate to its members when appropriate. In 2013-2014, the Board declared a total of \$313,965 in premium rebate. Other administrative expenses were held constant from the prior year.

Net position decreased by \$255,127 to an ending balance of \$1,342,281 at June 30, 2014. In summary, the increase in provision for loss reserves and a premium rebate contributed to the decrease in net position.

STATEMENT OF NET POSITION

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets	\$ 1,773,710	\$ 1,936,667
LIABILITIES		
Current liabilities	191,036	312,460
Unpaid claims and claims adjustment expense, non-current	240,393	26,799
Total Liabilities	<u>431,429</u>	<u>339,259</u>
NET POSITION		
Net position, undesignated	<u>1,342,281</u>	<u>1,597,408</u>
Total Net Position	<u>\$ 1,342,281</u>	<u>\$ 1,597,408</u>

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Member contributions	\$ 2,526,395	\$ 2,506,929
Excess insurance premiums	(2,112,592)	(2,069,328)
Total Operating Revenues	<u>413,803</u>	<u>437,601</u>
Operating Expenses:		
Provision for claims and claim adjustment expense	290,475	189,202
Contract services/administrative expenses	77,919	76,363
Premium rebate	313,965	214,904
Total Operating Expenses	<u>682,359</u>	<u>480,469</u>
Non-Operating Revenues:		
Interest income	<u>13,429</u>	<u>13,119</u>
Change in Net Position	(255,127)	(29,749)
Total Net Position, Beginning of Year	<u>1,597,408</u>	<u>1,627,157</u>
Total Net Position, End of Year	<u>\$ 1,342,281</u>	<u>\$ 1,597,408</u>

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of SOCPLJPA's finances and to show SOCPLJPA's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Ms. Barbara Ott, Secretary-Treasurer, at Brea-Olinda Unified School District, Number One Civic Center Circle, P.O. Box 300, Brea, California 92821-300, or e-mail at bott@bousd.k12.ca.us.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Current Assets

Deposits and investments	\$ 1,752,131
Receivables	<u>21,579</u>
Total Assets	<u>1,773,710</u>

LIABILITIES

Current Liabilities

Accounts payable	34,036
Current portion of unpaid claims and claim adjustment expenses	<u>157,000</u>
Total Current Liabilities	<u>191,036</u>
Unpaid claims and claim adjustment expenses, non-current portion	<u>240,393</u>
Total Liabilities	<u>431,429</u>

NET POSITION

\$ 1,342,281

The accompanying notes are an integral part of these financial statements.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
JUNE 30, 2014**

OPERATING REVENUES

Contributions	\$ 2,526,395
Excess insurance	(2,112,592)
Total Operating Revenues	<u>413,803</u>

OPERATING EXPENSES

Claims paid, net of member deductibles of \$97,368	155,881
Provision for loss reserves	<u>134,594</u>
	290,475
JPA administration	66,250
Other operating expenses	11,669
Premium dividend	<u>313,965</u>
Total Operating Expenses	<u>682,359</u>

Operating Loss (268,556)

NON-OPERATING REVENUES

Interest, net of fees of \$493	1,555
Investment earnings, ASCIP	<u>11,874</u>
Total Non-Operating Revenues	<u>13,429</u>

CHANGE IN NET POSITION (255,127)

NET POSITION, BEGINNING OF YEAR 1,597,408

NET POSITION, END OF YEAR \$ 1,342,281

The accompanying notes are an integral part of these financial statements.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**STATEMENT OF CASH FLOWS
JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from members and others	\$ 2,526,395
Cash paid for claims and settlements	(149,998)
Cash paid for excess insurance	(2,112,592)
Cash paid to suppliers for goods and services	(77,935)
Cash paid to members	(361,878)
Net Cash Used in Operating Activities	<u>(176,008)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>13,440</u>
Net Cash Provided by Investing Activities	<u>13,440</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(162,568)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,914,699</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,752,131</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	<u>\$ (268,556)</u>
Adjustments to reconcile operating loss to net cash used in operating activities	
Changes in assets and liabilities:	
Decrease in receivables	378
Decrease in accounts payable	(42,424)
Increase in claims liabilities	134,594
Total Adjustments	<u>92,548</u>
Net Cash Used in Operating Activities	<u>\$ (176,008)</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description

The Southern Orange County Property/Liability Joint Powers Authority (formerly Southern Orange County Property/Liability Self-Insurance Authority) was formed on July 1, 1981, under a joint powers agreement between participating local educational agencies located within Orange County, pursuant to Title 1, Division 7, Chapter 5, Article 1 (Section 6500 et seq.) of the *California Government Code*. The purpose of Southern Orange County Property/Liability Joint Powers Authority (the Authority) is to provide a more viable and economical insurance program to its members than individual members might otherwise be able to obtain operating on their own. During the fiscal year ended June 30, 2014, there were four participants in the Authority self-insured program. Members may withdraw from the Authority after having completed a minimum of 36 consecutive months as a member of the Authority. A member may withdraw from its status as a member at the end of any fiscal year by notifying the Board of Directors in writing no later than December 31st of the fiscal year at the end of which the withdrawal is to be effective, pursuant to the terms and conditions of the governing bylaws. Irvine Unified School District withdrew as an active JPA participant effective July 1, 1991; however, on June 28, 1998, they affirmed their decision to remain as a terminated member of the JPA for the purpose of retroactive coverage continuation and participation in a revenue/(assessment) stream based on periodic equity/(assessment) distributions by the Board of Directors. The Orange Unified School District withdrew on July 1, 1995. The Capistrano-Laguna Beach Regional Occupation Program and Saddleback Valley Unified School District withdrew on July 1, 1996.

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

In the event of the dissolution of the Authority, the participating school districts would receive a pro-rata share of any fund equity or be liable for a pro-rata share of any debts and liabilities based upon the premiums and claims of such school districts.

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

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

B. Basis of Accounting

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with governmental accounting principles generally accepted in the United States of America. 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.

Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989, when preparing the financial statements.

C. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Authority considers deposits with the county treasurer and investments with Alliance of Schools for Cooperative Insurance Programs (ASCIP) to be cash equivalents.

D. Accounts Receivable

Accounts receivable generally includes investment earnings from deposits with the County Treasury and member deductibles. Management has analyzed these accounts and believes all amounts are fully collectible.

E. Unpaid Liabilities for Claims

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation, and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. A liability for unallocated loss adjustment expenses has not been provided for as the Authority's claims administration contract provides for the cost of administering the loss development, except for non-active members.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

F. Excess Insurance

The Authority uses excess insurance agreements to reduce its exposure to large losses on all types of insured events. Excess insurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the Authority as direct insurer of the risks insured. The Authority does not report excess insured risks as liabilities unless it is probable that those risks will not be covered by excess insurers.

G. Income Taxes

The Authority'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.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

Investments	
Investment in County Treasury	\$ 134,662
Investment in ASCIP	1,617,469
Total Deposits and Investments	<u>\$ 1,752,131</u>

B. Policies and Practices

The Authority 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.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

C. Investment in County Treasury

The Authority is considered to be a voluntary participant in an external investment pool. The fair value of the Authority's investment in the pool is reported in the accounting financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

D. Investment in ASCIP

The Authority has deposited certain amounts with Alliance of Schools for Cooperative Insurance Programs (ASCIP). ASCIP is regulated by *California Government Code* Sections 16430, 53601 and 53635 (as is the Authority). The fair value of the Authority's investment in the pool is reported in the accompanying financial statement at amounts based upon the Authority's pro-rata share of the fair value provided by ASCIP for the entire ASCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is the carrying value, based upon historical cost. There is no formal written agreement between the Authority and ASCIP for this investment arrangement.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the Authority's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End Unrated
County Pool	\$ 134,468	*	\$ 134,468
ASCIP	1,617,469	*	1,617,469
Total	\$ 1,751,937		\$ 1,751,937

* Not required to be rated.

F. Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. At June 30, 2014, there were no investments in any one issuer that represented five percent or more of total investments.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

G. General Authorizations

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

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

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

H. 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 Authority 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.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the Authority's investment by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Days to Maturity</u>
County Pool	\$ 134,468	519
ASCIP	1,617,469	July 1, 2014
Total	<u>\$ 1,751,937</u>	

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, are as follows:

Member deductibles	
Newport Mesa Unified School District	\$ 20,458
Orange County Department of Education	1,000
Investment earnings	121
Total	<u>\$ 21,579</u>

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, are as follows:

Claims payable	\$ 34,016
Trade accounts	20
Total	<u>\$ 34,036</u>

NOTE 5 - CLAIMS LIABILITY

The Authority establishes claims liability based on estimates of the ultimate cost of claims (including estimated expenses for investigating and settling claims) that have been reported but not settled, and of claims that have been incurred but not reported. The Authority uses insurance agreements to reduce its exposure to large losses on property and liability coverage. The insurance agreement discharges the primary liability of the Authority as direct insurer of the risks insured above certain specified retentions.

The liability recorded for incurred losses of \$397,393 is based on information obtained from an independent actuarial report. The supporting information provided by the Authority relies on the continuance of certain historical trends and forecasts of future activities and conditions. Although management believes that the claims payable for losses and loss expenses at June 30, 2014, is adequate, the ultimate settlement of claims and related expenses may vary from the liability recorded.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - RECONCILIATION OF CLAIMS LIABILITY

As discussed in Note 5, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related legal expenses. The following represents changes in those aggregate liabilities for the Authority during the fiscal years ended June 30:

	<u>2014</u>	<u>2013</u>
Claims liabilities at beginning of fiscal year	\$ 262,799	\$ 310,363
Incurred expenses related to:		
Insured events of the current fiscal year	256,768	214,727
Insured events of prior fiscal years	33,707	(25,525)
Total Incurred Expenses	<u>290,475</u>	<u>189,202</u>
Payments related to:		
Insured events of the current fiscal year	6,142	110,870
Insured events of prior fiscal years	149,739	125,896
Total Payments	<u>155,881</u>	<u>236,766</u>
Claims liabilities at end of fiscal year	<u>\$ 397,393</u>	<u>\$ 262,799</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Claims liability	\$ 397,393	\$ 262,799
Current portion	(157,000)	(236,000)
Non-current portion	<u>\$ 240,393</u>	<u>\$ 26,799</u>

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The Authority's member agencies are members of Alliance of Schools for Cooperative Insurance Programs (ASCIP) and Schools Excess Liability Fund (SELF) public entity risk pools. Member agencies pay an annual premium to ASCIP and SELF for property and liability coverage. The relationships between the Authority and ASCIP and SELF are such that ASCIP and SELF are not component units of the Authority for financial reporting purposes.

ASCIP and SELF have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between ASCIP and SELF and the Authority are included in these statements.

A. <u>Entity</u>	ASCIP	SELF	ReLiEF
B. <u>Purpose</u>	Provides property and liability insurance	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere	Arranges and provides excess insurance coverage for liability and property claims beyond that which is claimed elsewhere
C. <u>Participants</u>	Statewide educational entities	Statewide educational entities	Statewide educational entities
D. <u>Governing Board</u>	Elected representatives from categories based upon members' ADA	Consisting of elected representative of the members by region	Consisting of one member from each participating agency or JPA
E. <u>Payments During the Year</u>	<u>\$ 1,940,492</u>	<u>\$ 172,100 *</u>	<u>None</u>

* Actually paid to ASCIP who remitted to SELF

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REQUIRED SUPPLEMENTARY INFORMATION

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**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014**

The following table illustrates how the Authority's earned revenue (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the past years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Authority including overhead and claims expense not allocable to individual claims. (3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014**

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	June 30,		
	2005	2006	2007
(1) Required contribution and investment revenue:			
Earned	\$ 1,905,917	\$ 2,119,262	\$ 2,181,165
Ceded	(1,395,807)	(1,551,126)	(1,627,017)
Net earned	<u>510,110</u>	<u>568,136</u>	<u>554,148</u>
(2) Unallocated expenses:	<u>67,601</u>	<u>74,734</u>	<u>78,384</u>
(3) Estimated claims and expenses, end of policy year:			
Incurred	308,508	229,256	356,538
Ceded	-	-	-
Net incurred	<u>308,508</u>	<u>229,256</u>	<u>356,538</u>
(4) Net paid (cumulative) as of:			
June 30, 2004			
June 30, 2005	37,467		
June 30, 2006	145,052	23,112	
June 30, 2007	235,453	156,640	105,093
June 30, 2008	248,801	202,723	180,997
June 30, 2009	322,140	306,604	296,892
June 30, 2010	248,801	216,929	218,180
June 30, 2011	248,801	216,929	218,180
June 30, 2012	248,801	216,929	218,180
June 30, 2013	248,801	216,929	218,180
June 30, 2014	248,801	216,929	218,180
(5) Re-estimated ceded claims and expenses:	-	-	-
(6) Re-estimated net incurred claims and expenses:			
June 30, 2004			
June 30, 2005	308,508		
June 30, 2006	257,554	229,256	
June 30, 2007	266,750	255,953	356,538
June 30, 2008	255,202	232,484	280,997
June 30, 2009	324,473	306,604	296,892
June 30, 2010	248,801	216,929	218,180
June 30, 2011	248,801	216,929	218,180
June 30, 2012	248,801	216,929	218,180
June 30, 2013	248,801	216,929	218,180
June 30, 2014	248,801	216,929	218,180
(7) (Increase) decrease in estimated incurred claims and expenses from the end of the policy year:	<u>\$ 59,707</u>	<u>\$ 12,327</u>	<u>\$ 138,358</u>

2008	2009	2010	2011	2012	2013	2014
\$ 2,480,943	\$ 2,361,430	\$ 2,465,593	\$ 2,523,060	\$ 2,494,883	\$ 2,520,048	\$ 2,539,824
(1,713,975)	(1,852,202)	(1,982,893)	(2,062,443)	(2,034,706)	(2,069,328)	(2,112,592)
766,968	509,228	482,700	460,617	460,177	450,720	427,232
74,081	73,653	74,654	74,773	75,136	76,363	77,919
254,014	381,686	293,883	336,136	210,081	214,727	256,768
-	-	-	-	-	-	-
254,014	381,686	293,883	336,136	210,081	214,727	256,768
63,855						
170,074	119,428					
128,665	196,755	71,011				
128,893	200,067	141,027	127,684			
128,893	199,457	214,698	224,774	50,088		
128,893	225,804	227,391	270,695	111,816	110,870	
128,893	225,804	227,391	304,064	187,788	160,600	6,142
-	-	-	-	-	-	-
254,014						
239,698	381,686					
146,746	218,708	293,883				
178,152	156,263	220,268	336,136			
128,893	224,618	238,818	325,862	210,081		
128,893	225,804	227,391	337,752	198,056	214,727	
128,893	225,804	227,391	306,588	208,871	283,758	256,768
\$ 125,121	\$ 155,882	\$ 66,492	\$ 29,548	\$ 1,210	\$ (69,031)	\$ -

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SUPPLEMENTARY INFORMATION

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**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**MEMBER PREMIUMS
JUNE 30, 2014**

	<u>SOCP/LJPA Premium</u>	<u>ASCIP Premium</u>	<u>SELF Premium</u>	<u>Booster Premium</u>	<u>Total</u>
Brea-Olinda Unified School District	\$ 66,406	\$ 243,634	\$ 19,559	\$ 1,652	\$ 331,251
Newport Mesa Unified School District	176,549	953,249	73,391	4,794	1,207,983
Ocean View School District	92,990	402,521	30,310	-	525,821
Orange County Department of Education	77,858	334,642	48,840	-	461,340
	<u>\$ 413,803</u>	<u>\$ 1,934,046</u>	<u>\$ 172,100</u>	<u>\$ 6,446</u>	<u>\$ 2,526,395</u>

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INDEPENDENT AUDITOR'S REPORTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Southern Orange County Property/Liability
Joint Powers Authority
Brea, 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 Southern Orange County Property/Liability Joint Powers Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Southern Orange County Property/Liability Joint Powers Authority's basic financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Orange County Property/Liability Joint Powers Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Orange County Property/Liability Joint Powers Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Orange County Property/Liability Joint Powers Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 Southern Orange County Property/Liability Joint Powers Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrieh, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 24, 2014

SCHEDULE OF FINDINGS

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**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no findings related to the financial statements that are required to be reported in accordance with *Governmental Auditing Standards*.

**SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY
JOINT POWERS AUTHORITY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no audit findings reported in the prior year's schedule of financial statement findings.