SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY JOINT POWERS AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY

JOINT POWERS AUTHORITY

JUNE 30, 2017

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. Joseph Webb	Member	Ocean View School District

ADMINISTRATION

Mr. Russell O'Donnell	JPA Administrator

SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY JOINT POWERS AUTHORITY

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FINANCIAL SECTION

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, 2017, 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.

10681 Foothill Blvd., Suite 300 Rancho Cucamonga, CA 91730 Tel: 909.466.4410 www.vtdcpa.com Fax: 909.466.4431

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, 2017, 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 18 and 19 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 31, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southern Orange County Property/Liability Joint Powers Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Orange County Property/Liability Joint Powers Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 31, 2017

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. 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. Effective July 1, 2015, the pool discontinued to offer coverage to its members.

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.

16550 Bloomfield Avenue, Cerritos, CA 90703, Telephone (562) 404-8029 Fax (562) 404-8038

ANALYSIS OF SIGNIFICANT VARIATION BETWEEN ORIGINAL AND FINAL BUDGET AMOUNTS

June 30, 2017

	Original Budget	Final Budget	Budget Variance	Actual	Dollar Variance
Revenue:					
District deductibles	$ 15,000	$ 15,000	0%	$ 59,985	$ 44,985
Interest income	15,600	15,600	0%	17,873	2,273
Total Revenue	**30,600**	**30,600**	**0%**	**77,858**	**47,258**
Expenditures:					
Self-insurance	100,000	100,000	0%	(63,570)	163,570
Administrative services	60,000	60,000	0%	55,250	(4,750)
Other operating expense	24,000	24,000	0%	7,526	16,474
Premium rebate	-	-	0%	206,478	(206,478)
Total Expenditures	**184,000**	**184,000**	**0%**	**205,684**	**(21,684)**
Net increase (decrease) in net position	**$ (153,400)**	**$ (153,400)**	**0%**	**$ (127,826)**	**$ 25,574**

- 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 lower than budget mainly due to the decrease in provision for loss reserves and decrease in number of claims as the JPA discontinued to offer coverage effective July 1, 2015.
- During FY 2016-17, the Board declared a rebate of $206,478 that was not budgeted.
- Overall, there were no major variances in administrative expenses from budget to actual.

June 30, 2016

	Original Budget	Final Budget	Budget Variance	Actual	Dollar Variance
Revenue:					
District deductibles	$ 110,000	$ 110,000	0%	$ 15,701	$ (94,299)
Interest income	15,000	15,000	0%	20,921	5,921
Other income	-	-	0%	1,359	1,359
Total Revenue	**125,000**	**125,000**	**0%**	**37,981**	**(87,019)**
Expenditures:					
Self-insurance	300,000	300,000	0%	18,571	281,429
Administrative services	66,250	66,250	0%	66,250	-
Other operating expense	22,000	22,000	0%	8,571	13,429
Premium rebate	-	-	0%	411,519	(411,519)
Total Expenditures	**388,250**	**388,250**	**0%**	**504,911**	**(116,661)**
Net Increase (Decrease) in Net Position	**$ (263,250)**	**$ (263,250)**	**0%**	**$ (466,930)**	**$ (203,680)**

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

SOCPLJPA's total assets decreased $267,216 from $1,391,365 at June 30, 2016, to $1,124,149 at June 30, 2017. The decrease was mainly due to the distribution of fund equity during the fiscal year.

Prior to fiscal year 2003-04, SOCPLJPA has always deposited all its monies with the county treasury. In 2003-04, 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 *California Government Code*, Section 53601. At the end of fiscal year 2016-17, SOCPLJPA had a total investment of $1,053,613 with ASCIP.

Total liabilities decreased by $139,390 from $228,795 as of June 30, 2016, to $89,405 as of June 30, 2017. This decrease was primarily due to the decrease in outstanding claim liabilities as SOCPLJPA discontinued offering coverage to its members effective July 1, 2015. As of June 30, 2017, SOCPLJPA had total outstanding claim liabilities of $89,405, decreased by $138,934 from the prior year. According to the actuary, the decrease in outstanding claim liabilities was primarily due to the decrease in case reserves and projected ultimate losses. The outstanding claim liabilities of $89,405 does not include any provision for Unallocated Loss Adjustment Expense (ULAE). Prior to fiscal year 2004-05, 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, 2017, no provision for ULAE has been established since SOCPLJPA does not have any more open claims prior to joining ASCIP in 1995-96.

In 2016-17, SOCPLJPA had no member contributions since the JPA discontinued offering coverage to its members effective July 1, 2015 as mentioned above.

The decrease of $343,511 in total expenditures from $489,210 in 2015-16 to $145,699 in 2016-17 was mainly due to the decrease in outstanding claim liabilities and a smaller premium rebate compared to the previous fiscal year. Annually, the Board of Directors evaluates the SOCPLJPA's undesignated fund equity and approves a premium rebate to its members when appropriate. In 2015-16, after careful consideration, the Board made a decision to declare $206,478 in premium rebate. Other administrative expenses were held constant from the prior year.

Net position decreased by $127,826 to an ending balance of $1,034,744 at June 30, 2017. The decrease in net position was again mainly due to the decrease in outstanding claim liabilities.

STATEMENT OF NET POSITION

	2017	2016
ASSETS		
Current assets	$ 1,124,149	$ 1,391,365
Total Assets	1,124,149	1,391,365
LIABILITIES		
Current liabilities	89,405	228,795
Total Liabilities	89,405	228,795
NET POSITION		
Net position, undesignated	1,034,744	1,162,570
Total Net Position	$ 1,034,744	$ 1,162,570

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2017	2016
Operating Revenues:		
Other income	$ -	$ 1,359
Total Operating Revenues	-	1,359
Operating Expenses:		
(Credit) Provision for claims and claims paid	(123,555)	2,870
Contract services/administrative expenses	62,776	74,821
Premium rebate	206,478	411,519
Total Operating Expenses	145,699	489,210
Non-Operating Revenues:		
Interest income	17,873	20,921
Other non-operating income	-	-
Total Non-Operating Revenues	17,873	20,921
Change in Net Position	(127,826)	(466,930)
Total Net Position, Beginning of Year	1,162,570	1,629,500
Total Net Position, End of Year	$ 1,034,744	$ 1,162,570

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, 2017

ASSETS	
Current Assets	
Deposits and investments	$ 1,124,081
Interest Receivable	68
Total Assets	1,124,149
LIABILITIES	
Current Liabilities	
Current portion of unpaid claims and claim adjustment expenses	89,405
Total Liabilities	89,405
NET POSITION - UNRESTRICTED	$ 1,034,744

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, 2017

OPERATING EXPENSES	
Claims paid, net of member deductibles of $59,985	$ 15,379
Credit for unpaid claims liability	(138,934)
JPA administration	55,250
Other operating expenses	7,526
Total Operating Expenses	(60,779)
Operating Income	60,779
NON-OPERATING REVENUES (EXPENSES)	
Interest	1,026
Investment earnings, ASCIP	16,847
Distributions	(206,478)
Total Non-Operating Revenues (Expenses)	(188,605)
CHANGE IN NET POSITION	(127,826)
NET POSITION, BEGINNING OF YEAR	1,162,570
NET POSITION, END OF YEAR	$ 1,034,744

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid for claims and settlements	$	(11,610)
Cash paid to suppliers for goods and services		(63,232)
Net Cash Used in Operating Activities		(74,842)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		17,942
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions		(206,478)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(263,378)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		1,387,459
CASH AND CASH EQUIVALENTS, END OF YEAR	$	1,124,081
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income	$	60,779
Adjustments to reconcile operating loss to net cash used in operating activities		
Changes in Assets and Liabilities:		
Decrease in receivables		3,769
Decrease in accounts payable		(456)
Decrease in claims liabilities		(138,934)
Total Adjustments		(135,621)
Net Cash Used in Operating Activities	$	(74,842)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. <u>General Description</u>

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, 2017, 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.

On February 5, 2015, the members of the Authority approved the termination of the Authority effective June 30, 2015, subject to the Authority continuing thereafter for the purpose of disposing of all obligations, distribution of assets, and such functions as necessary to conclude the affairs of the Authority. Each member will receive pro-rata share of any fund equity or will be liable for a pro-rata share of any debts and liabilities based upon the premiums and claims of the members.

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.

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.

F. 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.

G. 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, 2017, consist of the following:

Orange County Investment Pool	$ 70,469
ASCIP Risk Management Deposit Fund	1,053,612
Total Deposits and Investments	$ 1,124,081

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.

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
Orange County Investment Pool	$ 70,469	*	$ 70,469
ASCIP Risk Management Deposit Fund	1,053,612	*	1,053,612
Total	$ 1,124,081		$ 1,124,081

* 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, 2017, there were no investments in any one issuer that represented five percent or more of total investments.

G. 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:

Investment Type	Fair Value	Average Days to Maturity
Orange County Investment Pool	$ 70,469	325
ASCIP Risk Management Deposit Fund	1,053,612	July 1, 2017
Total	$ 1,124,081	

NOTE 3 - FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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

Uncategorized - Investments in the Orange County Investment Pool and ASCIP Risk Management Deposit Fund are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The Authority's fair value measurements are as follows at June 30, 2017:

Investment Type	Reported Amount	Uncategorized
Orange County Investment Pool	$ 70,469	$ 70,469
ASCIP Risk Management Deposit Fund	1,053,612	1,053,612
Total	$ 1,124,081	$ 1,124,081

NOTE 4 - 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 $89,405 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, 2017, is adequate, the ultimate settlement of claims and related expenses may vary from the liability recorded.

NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY

As discussed in Note 4, 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:

	2017	2016
Claims liabilities at beginning of fiscal year	$ 228,339	$ 295,036
Incurred expenses related to:		
Insured events of prior fiscal years	(123,555)	2,870
Total Incurred Expenses	(123,555)	2,870
Payments related to:		
Insured events of prior fiscal years	15,379	69,567
Total Payments	15,379	69,567
Claims liabilities at end of fiscal year	$ 89,405	$ 228,339

The components of the unpaid claims and claim adjustment expenses as of June 30, 2017 and 2016, were as follows:

	2017	2016
Claims liability	$ 89,405	$ 228,339
Current portion	(89,405)	(228,339)
Non-current portion	$ -	$ -

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY JOINT POWERS AUTHORITY

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2017

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 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 result from new information received on known claims, re-evaluation 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, 2017

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	2008	2009	2010
(1) Required contribution and investment revenue:			
Earned	$ 2,480,943	$ 2,361,430	$ 2,465,593
Ceded	(1,713,975)	(1,852,202)	(1,982,893)
Net earned	766,968	509,228	482,700
(2) Unallocated expenses:	74,081	73,653	74,654
(3) Estimated claims and expenses, end of policy year:			
Incurred	254,014	381,686	293,883
Ceded	-	-	-
Net incurred	254,014	381,686	293,883
(4) Net paid (cumulative) as of:			
June 30, 2008	63,855		
June 30, 2009	170,074	119,428	
June 30, 2010	128,665	196,755	71,011
June 30, 2011	128,893	200,067	141,027
June 30, 2012	128,893	199,457	214,698
June 30, 2013	128,893	225,804	227,391
June 30, 2014	128,893	225,804	227,391
June 30, 2015	128,893	225,804	227,391
June 30, 2016	128,893	249,804	225,891
June 30, 2017	128,893	249,804	227,391
(5) Re-estimated ceded claims and expenses:	-	-	-
(6) Re-estimated net incurred claims and expenses:			
June 30, 2008	254,014		
June 30, 2009	239,698	381,686	
June 30, 2010	146,746	218,708	293,883
June 30, 2011	178,152	156,263	220,268
June 30, 2012	128,893	224,618	238,818
June 30, 2013	128,893	225,804	227,391
June 30, 2014	128,893	225,804	227,391
June 30, 2015	128,893	225,804	227,391
June 30, 2016	128,893	249,804	225,891
June 30, 2017	128,893	249,804	227,391
(7) (Increase) decrease in estimated incurred claims and expenses from the end of the policy year:	$ 125,121	$ 131,882	$ 66,492

2011	2012	2013	2014	2015
$ 2,523,060	$ 2,494,883	$ 2,520,048	$ 2,539,824	$ 2,501,653
(2,062,443)	(2,034,706)	(2,069,328)	(2,112,592)	(2,046,685)
460,617	460,177	450,720	427,232	454,968
74,773	75,136	76,363	77,919	76,059
336,136	210,081	214,727	256,768	364,606
-	-	-	-	-
336,136	210,081	214,727	256,768	364,606
127,684				
224,774	50,088			
270,695	111,816	110,870		
304,064	187,788	160,600	6,142	
304,064	196,403	244,387	65,216	140,416
274,577	196,403	220,387	118,017	161,292
304,064	196,403	220,387	122,692	172,005
-	-	-	-	-
336,136				
325,862	210,081			
337,752	198,056	214,727		
306,588	208,871	283,758	256,768	
304,064	196,403	244,387	136,062	364,606
274,577	196,403	220,387	154,135	353,511
304,064	196,303	220,387	153,362	230,739
$ 32,072	$ 13,778	$ (5,660)	$ 103,406	$ 133,867

INDEPENDENT AUDITOR'S REPORTS

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, 2017, 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 October 31, 2017.

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.

10681 Foothill Blvd., Suite 300 Rancho Cucamonga, CA 91730 Tel: 909.466.4410 www.vtdcpa.com Fax: 909.466.4431

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 31, 2017

SCHEDULE OF FINDINGS

SOUTHERN ORANGE COUNTY PROPERTY/LIABILITY JOINT POWERS AUTHORITY

SCHEDULE OF FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017

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