



Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

September 19, 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 Orange County Fringe Benefits 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

**ORANGE COUNTY FRINGE BENEFITS
JOINT POWERS AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014



ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY

(A Joint Powers Authority)

JUNE 30, 2014

PARTICIPATING MEMBERS

<u>MEMBER</u>	<u>REPRESENTATIVE</u>	<u>OFFICE</u>
Buena Park School District	Greg Magnuson	President
Brea Olinda Unified School District	Barbara Ott	Vice President
Fountain Valley School District	Cathie Abdel	Secretary
North Orange County Regional Occupational Program	Howard Burkett	Treasurer
Huntington Beach City School District	Jon Archibald	Member
La Habra City School District	Carol Argomaniz	Member
North Orange County Community College District	Terry Chambers	Member



**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Fringe Benefits
Joint Powers Authority
Bucna Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Fringe Benefits 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 the Orange County Fringe Benefits 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 9 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014, on our consideration of the Orange County Fringe Benefits 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 the Orange County Fringe Benefits Joint Powers Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 9, 2014

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

The following report reflects on the financial condition of as of Orange County Fringe Benefits Joint Powers Authority (OCFBJPA) and for the fiscal years ended June 30, 2013 and June 30, 2014. It is provided in order to enhance the information in the independent financial audit and the financial management information report and should be reviewed with those reports.

Introduction and Background

Orange County Fringe Benefits Joint Powers Authority (OCFBJPA) was established under a Joint Exercise of Power Agreement effective January 1, 1987 to provide school district members with the capability of self-funding medical, dental, and vision benefits that are stable and cost effective. OCFBJPA includes 7 school districts, in Orange County and covers more than 3,350 employees and their dependents.

With a strong commitment to self-funding and controlling costs, OCFBJPA has offered a stable rate structure over its years of operation. In program year 2003-2004 OCFBJPA experienced a change to its program structure and became primarily a Dental and Vision JPA.

Services and Programs

After October 31, 2003, the OCFBJPA program has essentially become a Dental and Vision JPA due to the withdrawal of members from the medical programs. There are currently two members remaining in the vision program and six in the dental program, with no remaining medical members. OCFBJPA participates in the California Dental Coalition and the Vision Service Plan (VSP) Coalition, which due to their increased size and purchasing power, provides the benefit of a reduced administration fee from Delta Dental and VSP. Delta Dental and VSP pay and administer the claims. Keenan & Associates as the dental and vision consultant oversees the eligibility and billing process.

Membership

OCFBJPA's membership includes seven members from Orange County for dental and vision insurance programs. Membership includes five School Districts, one Community College District, and one Regional Occupational Programs (ROP).

Financial Management and Control

OCFBJPA is responsible in establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

OCFBJPA has contracted with Keenan & Associates for administrative management responsibilities, which include ensuring that OCFBJPA meets its commitment to its members, for operational efficiency and organizational integrity, for implementing policies established by the Board of Directors, as set forth in organizational documents and bylaws. Service Enhancement Technologies (SETECH) a Division of Keenan & Associates provides financial management and reporting to the Board. Budgetary control is provided by verification of budgeted amounts prior to expenditures and analysis of all account totals compared to budgeted amounts. Detailed financial statements include budget-to-actual comparisons. A comprehensive financial management information report is provided quarterly and is the basis for the independent financial audit.

Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, have performed an independent audit examination of the financial statements in accordance with generally accepted auditing standards.

In compliance with AB1200 OCFBJPA contracts with an independent actuarial firm every three years to evaluate the adequacy of their reserves. The last AB1200 study was performed by Total Compensation Systems (TCS). This study confirms the adequacy and reasonableness of the liabilities recorded as outstanding Incurred But Not Paid (IBNP) and Unallocated Loss Adjustment Expense (ULAE) costs for all program years.

Description of the Basic Financial Statements

OCFBJPA's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. Statement of Net Position, Statements of Revenues, Expenditures & Changes in Net Position, and the Statements of Cash Flows are included.

The Statement of Net Position provides information on OCFBJPA's program assets and liabilities, with the difference reported as Designated/Undesignated Net Position as of June 30, 2013 and 2014. The Statement of Revenues, Expenditures and Changes in Net Position presents information showing total revenues versus total expenditures for fiscal years 2012-2013 and 2013-2014 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal years 2012-2013 and 2013-2014 in cash and cash equivalents.

OCFBJPA operates on a program and fiscal year from July 1st through June 30th and calculates the financial position of each program year on the basis that each year stands on its own. Specifically, that means that the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenditures of each claim year are accounted for in the year they are incurred.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

Analysis of Overall Financial Position and Results of Operations

Condensed Financial Information Statement of Net Position

Below is a summary of the Statement of Net Position showing total assets versus total liabilities with a percentage of change from the 2012-2013 to the 2013-2014 program year.

	<u>Balances of June 30,</u>		<u>Variance</u>	<u>Percentage</u>
	<u>2013</u>	<u>2014</u>		
Current Assets				
Deposits and Investments	\$ 1,109,525	\$ 1,581,746	\$ 472,221	42.56 %
Accounts/Interest receivable	1,205	733	(472)	(39.17)
Total Assets	<u>1,110,730</u>	<u>1,582,479</u>	<u>471,749</u>	<u>42.47 %</u>
Current Liabilities				
Accounts payable and unearned revenue	\$ 163,565	\$ 164,800	\$ 1,235	0.76 %
Claim liabilities	222,068	209,624	(12,444)	(5.60)
Total Liabilities	<u>385,633</u>	<u>374,424</u>	<u>(11,209)</u>	<u>(2.91)</u>
Total Net Position	<u>725,097</u>	<u>1,208,055</u>	<u>482,958</u>	<u>66.61 %</u>
Total Liabilities and Net Position	<u>\$ 1,110,730</u>	<u>\$ 1,582,479</u>	<u>\$ 471,749</u>	<u>63.70 %</u>

Assets

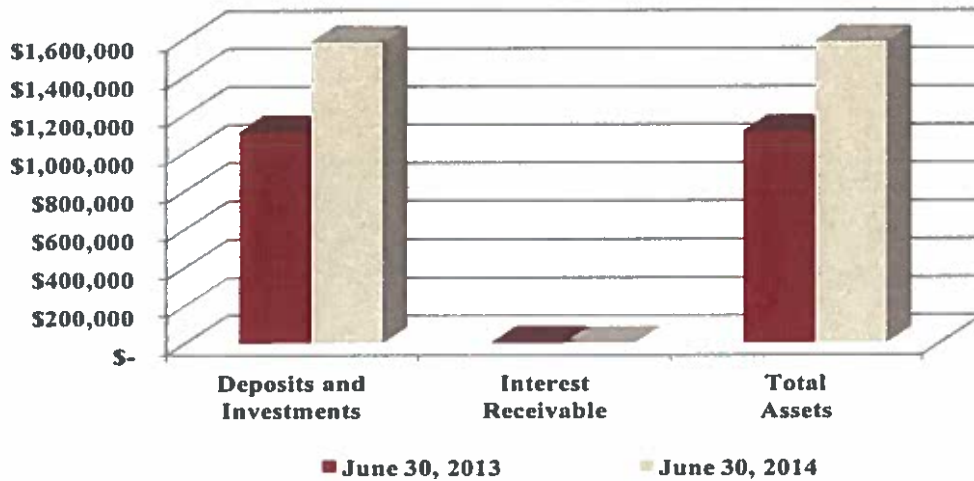
The overall assets of OCFBJPA increased by \$471,749 or 42.47 percent, deposits and investments increased by \$472,221 or 42.56 percent; accounts/interest receivable decreased by \$472. OCFBJPA retained a greater portion of their funding (cash) to pay future claims due to the better than anticipated claims experience in 2013-2014.

OCFBJPA invests funds not immediately necessary for the payment of operating expense in order to optimize the rate of return through Local Agency Investment Fund (L.A.I.F.) in Sacramento, California, which is administered by the State Treasurer's Office. Funds are invested in a manner that will protect principal, allow for cash flow needs and optimize returns, and are in conformity with all federal, state, and local statutes governing such investment of public funds.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

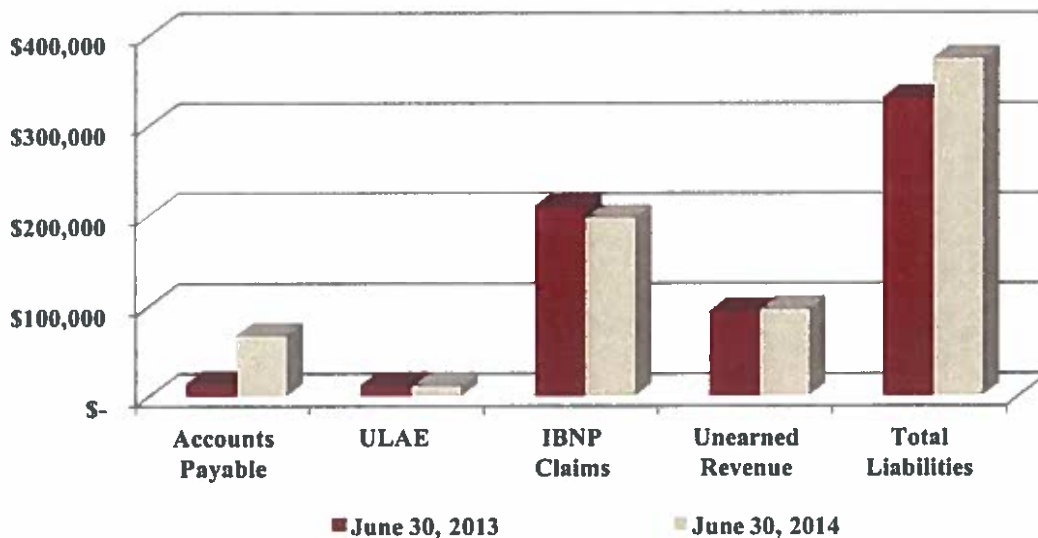
**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This increase in assets can be seen below for 2012-2013 and 2013-2014.



Liabilities

The overall liabilities of OCFBJPA have decreased in 2013-2014 by \$11,209 or 2.91 percent. This is mainly attributed to the fluctuation of claim reserve liabilities (IBNP) and unallocated loss adjustment expense (ULAE) which decreased by \$12,444 or 5.60 percent, and a decrease in accounts payable and unearned revenue by 0.76 percent or \$1,235. The improved claims experience in the self-insured programs is the major factor in the decrease in IBNP and ULAE.



**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

Designated Fund Net Position

OCFBJPA's Statement of Net Position reflects the Undesignated Net Position of \$954,321 and a Designated Capital Target of \$253,734. OCFBJPA's net position has increased by \$482,958 or 66.61 percent. This increase to the net position is primarily attributed to better than anticipated claims experience in 2013-2014.

OCFBJPA has adopted a Capital Target policy that is reviewed annually based upon the adopted annual budget and is calculated using the annual actual claims multiplied by 8 percent. The capital target policy requires an evaluation of the net position overall as well as by individual program years. Member distributions are calculated using the audited year-end financial statements. The Statement of Net Position reflects the capital target reserve and the amount available above the capital target. Distributions are made by request and approval of the Treasurer.

Statements of Revenues, Expenditures, and Changes in Net Position

Revenues exceeded Expenditures by \$482,958 in 2013-2014, resulting in a net increased/decreased to the Fund Net Position of 66.61 percent as shown in the Condensed Statement of Revenues/Expenditures and Change in Net Position shown below.

	<u>Balances of June 30,</u>		<u>Variance</u>	<u>Percentage</u>
	<u>2013</u>	<u>2014</u>		
Operating Revenues				
Contributions	\$ 3,905,837	\$ 3,945,060	\$ 39,223	1.00 %
Other	722	-	(722)	(100.00)
Total Operating Revenues	<u>3,906,559</u>	<u>3,945,060</u>	<u>38,501</u>	<u>0.99</u>
Operating Expenses				
Administrative expense	299,966	305,201	5,235	1.75
Other insurance	3,057,439	3,159,219	101,780	3.33
Total Administrative	<u>3,357,405</u>	<u>3,464,420</u>	<u>107,015</u>	<u>3.19</u>
Nonoperating Revenues				
Interest	1,501	2,318	817	54.43
Other income/expense	355	-	(355)	-
Total Nonoperating Revenues	<u>1,856</u>	<u>2,318</u>	<u>462</u>	<u>24.89</u>
Change in Net Position	551,010	482,958	(68,052)	(12.35)
Beginning Net Position	<u>174,087</u>	<u>725,097</u>	<u>551,010</u>	<u>316.51</u>
Ending Net Position	<u>\$ 725,097</u>	<u>\$ 1,208,055</u>	<u>\$ 482,958</u>	<u>66.61 %</u>

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

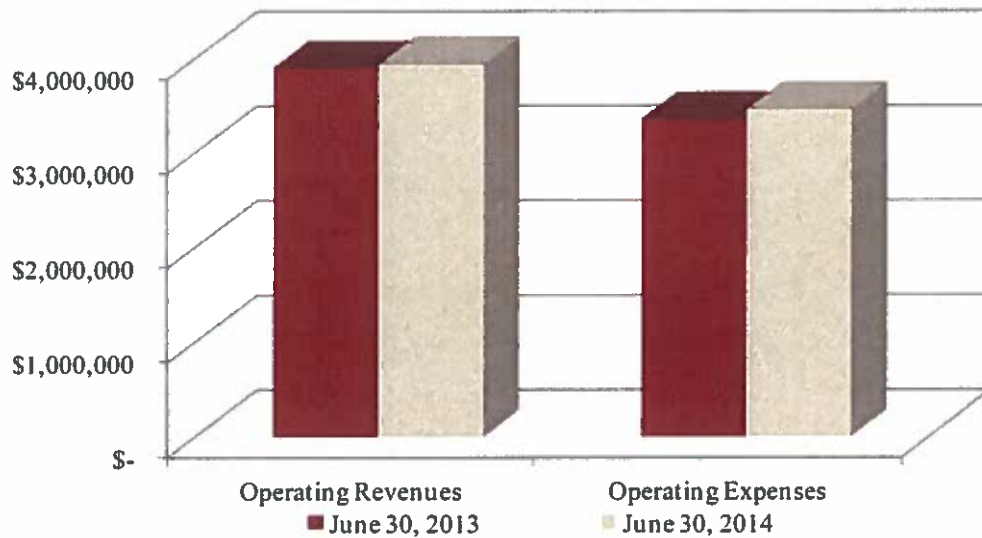
Revenues

Pool operating revenues consist mainly of contributions received from members. Member Contributions increased by one percent from \$3,905,837 to \$3,945,060 in 2013-2014. The annual funding renewal process determines member contributions rates. As a part of the renewal funding process the BOD adopts recommended percentage rate changes increases or decreases annually. Adopted renewal funding for 2013-2014 for Dental was a 5.05 percent increase and 4.06 percent for Vision.

Expenditures

Operating expenditures, claims costs and fully-insured premiums, and administrative expenditures increased by 3.19 percent in 2013-2014 to \$3,464,420.

Below is a graph that reflects operating income and expense in 2012-2013 and 2013-2014.



Analysis of Significant Variations between Final Budget Amounts and Actual Amounts

Each year the OCFBJPA BOD approves a budget and establishes rates and funding levels for the program year. The preliminary budget is brought to the BOD in May or June, with a final budget to be approved by the BOD no later than November. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. OCFBJPA is not required to make mid-year budget adjustments.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

Below is a summary of the budget information with a comparison to actual expenditures:

	2013 - 2014		
	Adopted Budget	Actual Results	Variance
Revenues			
Contributions	\$ 4,031,757	\$ 3,945,060	\$ (86,697)
Net investment income	2,059	2,318	259
Total Revenues	<u>4,033,816</u>	<u>3,947,378</u>	<u>(86,438)</u>
Expenses			
Costs	3,704,061	3,159,219	(544,842)
Administrative expense	327,696	305,201	(22,495)
Total Expenses	<u>4,031,757</u>	<u>3,464,420</u>	<u>(567,337)</u>
Revenues in Excess of Expenses	<u>\$ 2,059</u>	<u>\$ 482,958</u>	<u>\$ 480,899</u>

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

At present, there are no known facts or conditions that are expected to have a significant effect on the financial position or results of operations.

ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current Assets

Deposits and investments	\$ 1,581,746
Accounts receivable	733
Total Assets	<u>1,582,479</u>

LIABILITIES

Current Liabilities

Accounts payable	67,923
Unearned revenue	96,877
Administrative runoff	11,470
Unpaid claims and claim adjustment expenses	<u>198,154</u>
Total Current Liabilities	<u>374,424</u>

NET POSITION

\$ 1,208,055

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

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES

Contributions \$ 3,945,060

OPERATING EXPENSES

Claims paid 3,171,663
Credit for claims liability (11,909)
Credit for administrative runoff (535)
ASO fees 242,329
Administration expenses 38,833
Accounting and audit 21,000
Other administrative expenses 3,039
Total Operating Expenses 3,464,420

Operating Income 480,640

NON-OPERATING REVENUES

Interest 2,318

INCREASE IN NET POSITION 482,958

NET POSITION, BEGINNING OF YEAR 725,097

NET POSITION, END OF YEAR \$ 1,208,055

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

ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from members and others	\$ 3,947,653
Cash paid for claims and settlements	(3,173,255)
Cash paid to suppliers for goods and services	<u>(304,967)</u>
Net Cash Provided by Operating Activities	<u>469,431</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>2,790</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	472,221
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,109,525</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,581,746</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	<u>\$ 480,640</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities:	
Increase in accounts payable and unearned revenue	1,235
Decrease in claims and ULAE liabilities	<u>(12,444)</u>
Total Adjustments	<u>(11,209)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 469,431</u></u>

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

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Orange County Fringe Benefits Joint Powers Authority (the Authority) accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

Reporting Entity

The Authority was established for the purpose of providing the services and other items necessary and appropriate for the establishment, operation, and maintenance of a self-insurance system for employee health and welfare benefit claims for the public educational agencies who are members. The Authority was established and operates pursuant to a Joint Powers Agreement and became operative January 1, 1987. Effective November 1, 2006, Westminster School District withdrew its membership in the Authority, effective October 1, 2008, Ocean View School District withdrew its membership in the Authority, effective June 30, 2009, Savanna School District withdrew its membership in the Authority, effective June 30, 2012, Coastline Regional Occupational Program withdrew its membership in the Authority, and effective October 1, 2012, Huntington Beach City School District became a member of the Authority.

The Authority is governed by a board whose members are appointed by the participating members' governing boards and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

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.

Basis of Accounting

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

Under 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 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 Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, when preparing the financial statements.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

Budget and Budgetary Accounting

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

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 expenses during the reporting period. Actual results could differ from these estimates.

Member Contributions

Each member's contribution is determined based upon the number of plan participants and the contribution rate for each classification of covered participant. The rates for each member are determined based on each member's loss history, unusual exposures, and other pertinent information. If the total obligations would exceed the total assets of the Authority, the members may be assessed additional contributions.

Unearned Revenue

Certain members remit contributions on a tenthly basis (as opposed to every month) for the program year which commences on October 1. Accordingly, a portion of the tenthly contributions received are unearned and recorded as revenue when earned.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. For purposes of the cash flow statement, deposits with the Local Agency Investment Fund are considered cash equivalents.

Accounts Receivable

Accounts receivable generally includes investment earnings from deposits with the Local Agency Investment Fund, member contributions and insurance recoveries. Management has analyzed these accounts and believes all amounts are fully collectible.

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.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Cash on hand and in banks	\$ 117
Cash deposits	144,122
Investments	1,437,507
Total Deposits and Investments	<u>\$ 1,581,746</u>

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.

Investment in the State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of 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 LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. For additional information visit LAIF's website at: www.treasurer.ca.gov/pmia-laif.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

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

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>Minimum Legal Rating</u>	<u>Rating as of Year End Unrated</u>
State Investment Pool	<u>\$ 1,438,040</u>	*	<u>\$ 1,438,040</u>

* Not required to be rated.

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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
State Investment Pool	<u>\$ 1,438,040</u>	Average 232 Days

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 represent five percent or more of the total investments.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the Authority's bank balances were not exposed to custodial credit risk.

ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consist of the following:

Interest income	<u>\$ 733</u>
-----------------	---------------

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consist of the following:

Trade accounts	\$ 14,357
Due members	<u>53,566</u>
	<u>\$ 67,923</u>

NOTE 5 - ESTIMATED IBNR CLAIMS LIABILITY

The liability for incurred but not reported claims (IBNR) was established by the plan administrator based on the study of claims experience prior to year-end. The liability for IBNR claims is reviewed on a monthly basis by the plan administrator and is revised as necessary.

In general, loss development patterns are developed based on claims experience by type of coverage. This information is then applied to the estimate of the number of claims incurred prior to year-end to arrive at the current year claims liability. The calculations are based on estimates that may fluctuate from period to period based upon changes in information or additional information becoming available from time to time.

ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - CLAIMS LIABILITY

The following represents changes in the claims liability of the Authority for the fiscal years ended:

	June 30,	
	2014	2013
Claims Liability, Beginning of Fiscal Year	\$ 210,063	\$ 212,991
Incurred Claims:		
Provision for insured events of the current fiscal year	3,159,754	3,058,628
Decreases in provision for insured events of prior fiscal years	-	-
Total Incurred Claims	<u>3,159,754</u>	<u>3,058,628</u>
Payments:		
Losses attributable to insured events of the current fiscal year	2,961,600	2,848,565
Losses attributable to insured events of prior fiscal years	210,063	212,991
Total Payments	<u>3,171,663</u>	<u>3,061,556</u>
Claims Liability, End of Fiscal Year	<u>\$ 198,154</u>	<u>\$ 210,063</u>

NOTE 7 - NET POSITION

The Board of Directors established the designation for capital target of \$253,734 at June 30, 2014. Undesignated net position as of year-end totaled \$954,321 for the total net position of \$1,208,055.

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REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014

The information presented below is based on a policy year which differs from the Authority's fiscal year through September 2000. The policy year for the Authority was October 1 through September 30. Effective October 1, 2000, the policy year was changed to the fiscal year ending June 30. The Authority's fiscal year is July 1 through June 30. The information for 2014 is as of June 30, 2014.

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 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.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A Joint Powers Authority)**

**CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014**

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	2005	2006	2007
(1) Required contribution and investment revenue:			
Earned	\$ 3,743,346	\$ 3,852,679	\$ 3,865,838
Ceded	-	-	-
Net earned	<u>3,743,346</u>	<u>3,852,679</u>	<u>3,865,838</u>
(2) Unallocated expenses	<u>308,507</u>	<u>320,280</u>	<u>378,788</u>
(3) Estimated claims and expenses			
End of policy year			
Net incurred	<u>3,470,410</u>	<u>3,406,001</u>	<u>3,686,580</u>
(4) Net paid (cumulative) as of:			
End of policy year	3,094,690	3,077,772	3,358,281
One year later	3,470,410	3,406,071	3,673,091
Two years later	3,470,410	3,406,071	3,673,091
Three years later	3,470,410	3,406,071	3,673,091
Four years later	3,470,410	3,406,071	3,673,091
Five years later	3,470,410	3,406,071	3,673,091
Six years later	3,470,410	3,406,071	3,673,091
Seven years later	3,470,410	3,406,071	3,673,091
Eight years later	3,470,410	3,406,071	
Nine years later	3,470,410		
(5) Re-estimated ceded claims and expenses			
(6) Re-estimated net incurred claims and expenses:			
End of policy year	3,470,410	3,406,001	3,686,580
One year later	3,470,410	3,406,071	3,686,580
Two years later	3,470,410	3,406,071	3,673,091
Three years later	3,470,410	3,406,071	3,673,091
Four years later	3,470,410	3,406,071	3,673,091
Five years later	3,470,410	3,406,071	3,673,091
Six years later	3,470,410	3,406,071	3,673,091
Seven years later	3,470,410	3,406,071	3,673,091
Eight years later	3,470,410	3,406,071	
Nine years later	3,470,410		
(7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ -</u>	<u>\$ 70</u>	<u>\$ (13,489)</u>

June 30,

2008	2009	2010	2011	2012	2013	2014
\$ 4,070,940	\$ 3,527,406	\$ 3,276,710	\$ 3,323,517	\$ 3,538,499	\$ 3,908,415	\$ 3,947,378
-	-	-	-	-	-	-
<u>4,070,940</u>	<u>3,527,406</u>	<u>3,276,710</u>	<u>3,323,517</u>	<u>3,538,499</u>	<u>3,908,415</u>	<u>3,947,378</u>
<u>386,018</u>	<u>350,411</u>	<u>327,893</u>	<u>311,203</u>	<u>294,627</u>	<u>298,777</u>	<u>304,666</u>
<u>3,740,856</u>	<u>3,703,235</u>	<u>3,018,720</u>	<u>3,066,607</u>	<u>2,884,570</u>	<u>3,058,628</u>	<u>3,159,754</u>
3,426,046	3,462,149	2,726,861	2,817,946	2,671,579	2,848,565	2,961,600
3,717,905	3,754,008	3,241,175	2,774,748	2,897,394	3,058,628	
3,717,905	3,754,008	3,241,175	2,774,748	2,897,394		
3,717,905	3,754,008	3,241,175	2,774,748			
3,717,905	3,754,008	3,241,175				
3,717,905	3,754,008					
3,717,905						
3,717,905						
3,740,856	3,703,235	3,018,720	3,066,607	2,884,570	3,058,628	3,159,754
3,717,905	3,754,008	3,241,175	2,774,748	2,897,394	3,058,628	
3,717,905	3,754,008	3,241,175	2,774,748	2,897,394		
3,717,905	3,754,008	3,241,175	2,774,748			
3,717,905	3,754,008	3,241,175				
3,717,905	3,754,008					
3,717,905						
3,717,905						
<u>\$ (22,951)</u>	<u>\$ 50,773</u>	<u>\$ 222,455</u>	<u>\$ (291,859)</u>	<u>\$ 12,824</u>	<u>\$ -</u>	<u>\$ -</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
Orange County Fringe Benefits
Joint Powers Authority
Buena Park, 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 the Orange County Fringe Benefits 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 Orange County Fringe Benefits Joint Powers Authority's basic financial statements, and have issued our report thereon dated September 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Orange County Fringe Benefits 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 the Orange County Fringe Benefits Joint Powers Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Orange County Fringe Benefits 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 the Orange County Fringe Benefits 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
September 9, 2014

SCHEDULE OF FINDINGS

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**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A 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*.

**ORANGE COUNTY FRINGE BENEFITS JOINT POWERS AUTHORITY
(A 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.