



Financial Statements  
June 30, 2020 and 2019

# Orange County Fringe Benefits Joint Powers Authority

# Orange County Fringe Benefits Joint Powers Authority

Buena Park, California

Board of Directors

June 30, 2020

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June 30, 2020 and 2019

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Orange County Fringe Benefits Joint Powers Authority (OCFBJPA) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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 judgement, 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCFBJPA as of June 30, 2020 and 2019, and the results of its operations and cash flows for the years then ended in conformity 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 on pages 3 through 10 and the ten-year claims development information on pages 21 and 22, 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 a report dated October 13, 2020 on our consideration of OCFBJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCFBJPA'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 OCFBJPA's internal control over financial reporting and compliance.

*Eide Sully LLP*

Rancho Cucamonga, California  
October 13, 2020

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, 2020 and June 30, 2019. It discusses OCFBJPA's financial operations and analyzes the significant financial changes from the prior year. Readers should review the financial management information report and independent financial audit in conjunction with this report to enhance their understanding of OCFBJPA's financial performance.

### **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 6 school districts in Orange County and covers more than 3,360 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. After 10/31/2003 this program has essentially become a self-funded Dental and Vision JPA due to the withdrawal of members from the medical program.

### **Membership**

OCFBJPA's membership includes 6 members from Orange County for dental and vision insurance programs. Membership includes 4 School Districts, 1 Community College District, and 1 Regional Occupational Program (ROP).

### **Services and Programs**

There are currently three members in the vision program and five in the dental program. OCFBJPA participates in the California Dental Coalition and the Vision Service Plan (VSP) Coalition, which due to their 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.

### **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).

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 (BOD), 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 expenses 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.

Eide Bailly 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 year to evaluate the adequacy of their reserves. The last AB1200 study was perform 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. Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows are included.

The Statements 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, 2020 and 2019. The Statements of Revenues, Expenses and Changes in Net Position presents information showing total revenues versus total expenses for fiscal years 2019-2020 and 2018-2019 and the resulting effect on Net Position. The Statements of Cash Flows provides a reconciliation of the change during the fiscal years 2019-2020 and 2018-2019 in cash and cash equivalents.

OCFBJPA operates on a program and fiscal year from July 1<sup>st</sup> through June 30<sup>th</sup> 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 expenses of each claim year are accounted for in the year they are incurred.

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

**Condensed Financial Information Statement of Net Position**

Below is a summary of the Statements of Net Position showing total assets versus total liabilities with a percentage of change from the 2018-2019 to the 2019-2020 program year.

	Balances of June 30,		Difference	Percentage
	2020	2019		
Current Assets				
Deposits and Investments	\$ 3,549,117	\$ 2,911,325	\$ 637,792	21.91 %
Accounts/Interest Receivable	16,992	16,858	134	0.79
Total Assets	<u>\$ 3,566,109</u>	<u>\$ 2,928,183</u>	<u>\$ 637,926</u>	<u>21.79 %</u>
Current Liabilities				
Accounts Payable and Unearned Revenue	\$ 161,249	\$ 148,593	\$ 12,656	8.52 %
Claim Liabilities	150,718	188,490	(37,772)	(20.04)
Total Liabilities	<u>311,967</u>	<u>337,083</u>	<u>(25,116)</u>	<u>(7.45)</u>
Total Net Position	3,254,142	2,591,100	663,042	25.59 %
Total Liabilities and Net Position	<u>\$ 3,566,109</u>	<u>\$ 2,928,183</u>	<u>\$ 637,926</u>	<u>21.79 %</u>

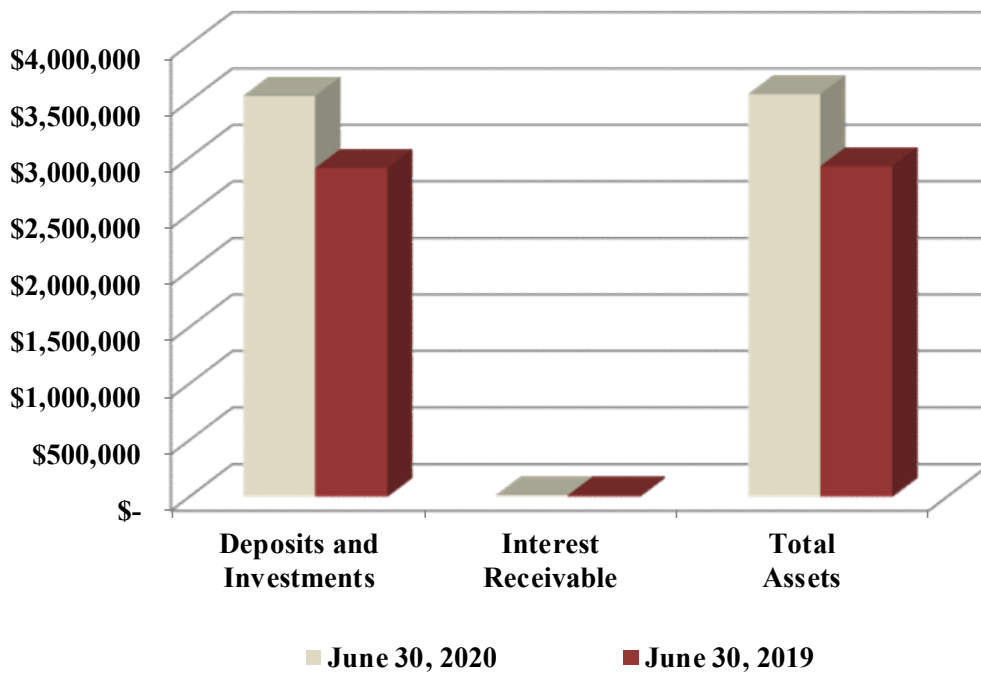


**Assets**

The overall assets of OCFBJPA increased by \$637,926 or 21.79% percent, deposits and investments increased by \$637,792 or 21.91 percent and accounts/interest receivable increased by \$134 or 0.79 percent. OCFBJPA retained a greater portion of their funding (cash) to pay future claims due to decreased claims experience in 2019-2020.

OCFBJPA invests funds not immediately necessary for the payment of operating expense 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.

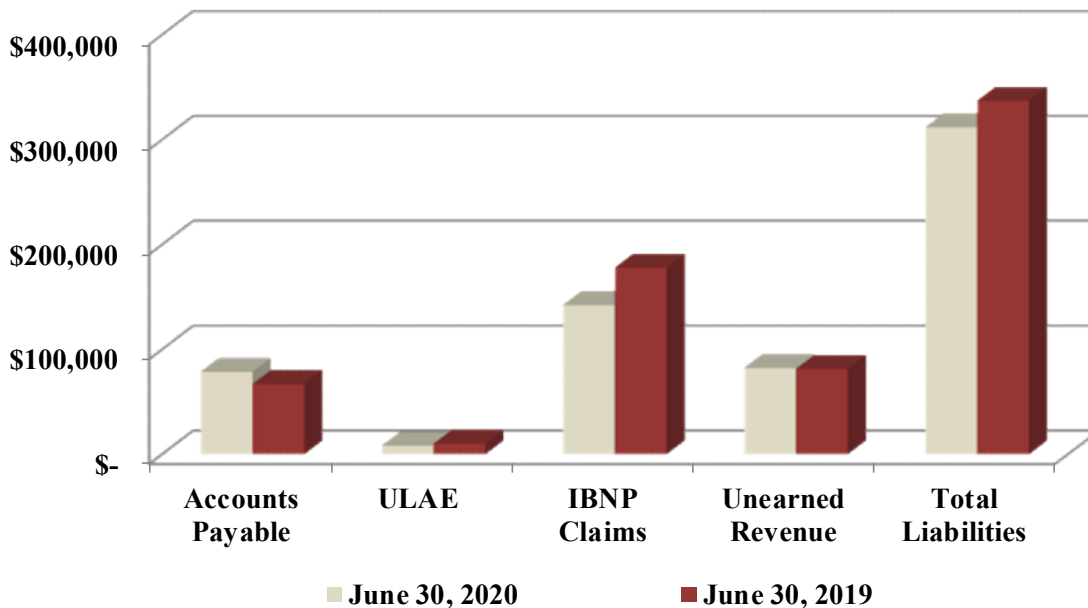
This increase in assets can be seen below for 2019-2020 and 2018-2019.



**Liabilities**

The liabilities of OCFBJPA decreased in 2019-2020 by \$25,116 or 7.45 percent. This is mainly attributed to a decrease in claim liabilities. The claims experience is a factor with decrease in IBNP and ULAE of \$37,772.

This decrease can be seen in the chart below from 2019-2020 and 2018-2019.



**Net Position**

OCFBJPA's Statements of Net Position reflects the Undesignated Net Position of \$2,406,254 and a Designated Capital Target of \$847,888. OCFBJPA's net position has increased by \$663,042 or 25.59 percent. This increase to the net position is primarily attributed to decreased claims activity in 2019-2020.

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 25 percent this is an increase of the prior calculation of 8 percent. The capital target policy which is reviewed annually 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 Statements of Net Position reflects the capital target reserve and the amount available above the capital target.

Orange County Fringe Benefits Joint Powers Authority  
Management's Discussion and Analysis  
June 30, 2020 and 2019

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

Revenues exceeded expenses by \$663,042 in 2019-2020, resulting in a net increase to the Fund Net Position of 25.59 percent as shown in the Condensed Statements of Revenues, Expenses, and Changes in Net Position shown below.

	Balances of June 30,		Variance	Percentage
	2020	2019		
Operating Revenues				
Contributions	\$ 3,336,448	\$ 3,405,312	\$ (68,864)	(2.02) %
Total Operating Revenues	<u>3,336,448</u>	<u>3,405,312</u>	<u>(68,864)</u>	<u>(2.02)</u>
Operating Expenses				
Administrative Expense	255,379	280,142	(24,763)	(8.84)
Other Insurance	2,414,261	2,935,372	(521,111)	(17.75)
Total Administrative	<u>2,669,640</u>	<u>3,215,514</u>	<u>(545,874)</u>	<u>(16.98)</u>
Nonoperating Revenues				
Withdrawn Member	(66,405)	(392,719)	326,314	(83.09)
Late Fees	5,457	-	5,457	-
Interest	57,182	66,654	(9,472)	(14.21)
Total Nonoperating Revenues	<u>(3,766)</u>	<u>(326,065)</u>	<u>322,299</u>	<u>(98.85)</u>
Change in Net Position	663,042	(136,267)	799,309	(586.58)
Beginning Net Position	<u>2,591,100</u>	<u>2,727,367</u>	<u>(136,267)</u>	<u>(5.00)</u>
Ending Net Position	<u>\$ 3,254,142</u>	<u>\$ 2,591,100</u>	<u>\$ 663,042</u>	<u>25.59 %</u>

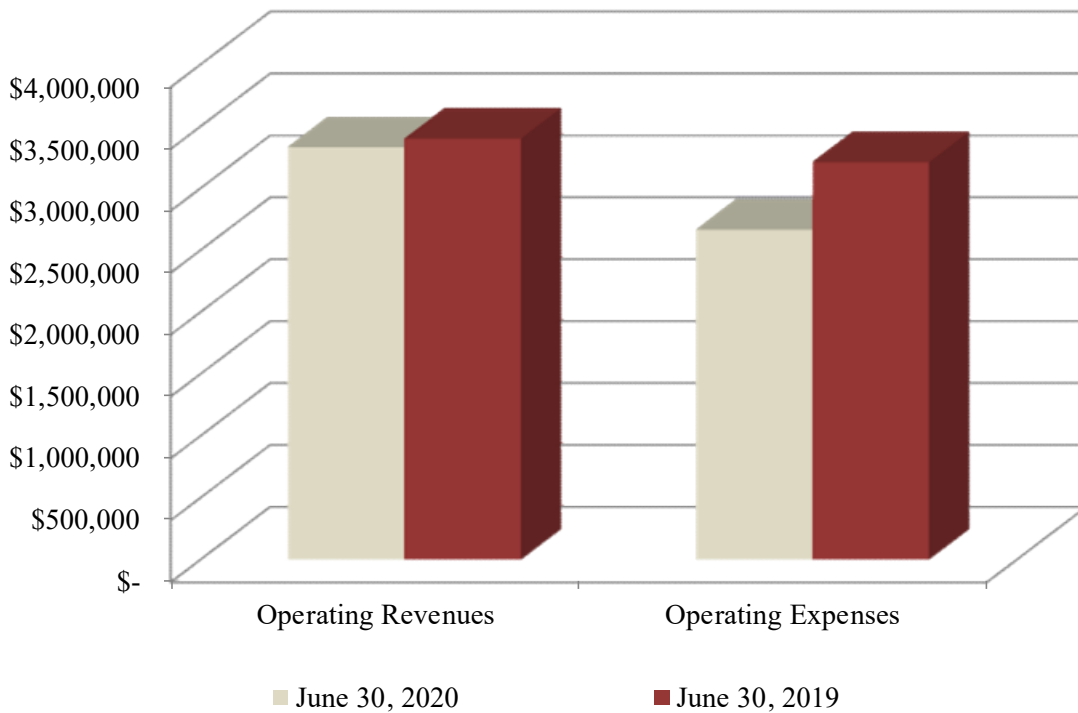
**Revenues**

Pool operating revenues consist mainly of contributions received from members. Member Contributions decreased by 2.02 percent from \$3,405,312 to \$3,336,448 in 2019-2020. 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 2019-2020 for Dental and Vision was a rate pass.

**Expenses**

Operating expenses, claims costs, and fully-insured premiums, and administrative expenses decreased by 16.98 percent in 2019-2020 from \$3,215,514 to \$2,669,640.

Below is a graph that reflects operating income and expenses in 2019-2020 and 2018-2019.



**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 subsequently made to the approval of the preliminary budget. OCFBJPA is not required to make mid-year budget adjustments.

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

	2019 - 2020			
	Adopted Budget	Actual Results	Variance	Percentage
<b>Revenues</b>				
Contributions	\$ 3,633,788	\$ 3,336,448	\$ (297,340)	(8.18) %
Withdrawn Member	(66,405)	(66,405)	-	-
Late Fees	-	5,457	5,457	-
Net Investment Income	58,497	57,182	(1,315)	(2.25)
<b>Total Revenues</b>	<b>3,625,880</b>	<b>3,332,682</b>	<b>(293,198)</b>	<b>(8.09) %</b>
<b>Expenses</b>				
Other Insurance	3,391,551	2,414,261	(977,290)	(28.82) %
Administrative Expense	346,449	255,379	(91,070)	(26.29)
<b>Total Expenses</b>	<b>3,738,000</b>	<b>2,669,640</b>	<b>(1,068,360)</b>	<b>(28.58) %</b>
<b>Revenues in Excess of Expenses</b>	<b>\$ (112,120)</b>	<b>\$ 663,042</b>	<b>\$ 775,162</b>	<b>(691.37) %</b>

**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  
 Statements of Net Position  
 June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Deposits and investments	\$ 3,549,117	\$ 2,911,325
Interest receivable	11,328	16,651
Accounts receivable	5,664	207
Total assets	3,566,109	2,928,183
Liabilities		
Current Liabilities		
Accounts payable	25,070	-
Deficit cash balance	-	13,461
Due to members	53,770	53,770
Unearned revenue	82,409	81,362
Administrative runoff	8,392	10,439
Unpaid claims and claim adjustment expenses	142,326	178,051
Total liabilities	311,967	337,083
Net Position - Unrestricted	\$ 3,254,142	\$ 2,591,100

Orange County Fringe Benefits Joint Powers Authority  
 Statements of Revenues, Expenses, and Changes in the Net Position  
 Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Contributions	\$ 3,336,448	\$ 3,405,312
Operating Expenses		
Claims paid	2,452,033	2,980,827
Credit for claims liability	(35,725)	(43,472)
Credit for administrative runoff	(2,047)	(1,983)
ASO fees	163,578	191,863
Administration expenses	32,952	34,226
Accounting and audit	25,607	25,357
Other administrative expenses	33,242	28,696
Total Operating Expenses	2,669,640	3,215,514
Operating Income	666,808	189,798
Non-Operating Revenues (Expenses)		
Withdrawan Member - Return of Net Position	(66,405)	(392,719)
Late fees	5,457	-
Interest	57,182	66,654
Net Non-Operating Expenses	(3,766)	(326,065)
Change in Net Position	663,042	(136,267)
Net Position, Beginning of Year	2,591,100	2,727,367
Net Position, End of Year	\$ 3,254,142	\$ 2,591,100

# Orange County Fringe Benefits Joint Powers Authority

Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Cash Received from Members and Others	\$ 3,332,038	\$ 3,402,032
Cash Paid for Claims and Settlements	(2,463,447)	(2,965,383)
Cash Paid to Suppliers for Goods and Services	(232,356)	(282,125)
Net Cash Provided by Operating Activities	636,235	154,524
Cash Flows from Investing Activities		
Interest Income	67,962	63,037
Cash Flows from Financing Activities		
Return of Member Net Position	(66,405)	(392,719)
Net Change in Cash and Cash Equivalents	637,792	(175,158)
Cash and Cash Equivalents, Beginning of Year	2,911,325	3,086,483
Cash and Cash Equivalents, End of Year	\$ 3,549,117	\$ 2,911,325
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating Income	\$ 666,808	\$ 189,798
Adjustments to Reconcile Operating Income		
to Net Cash Provided by Operating Activities		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(5,457)	(207)
Increase (Decrease) in Accounts Payable and Unearned Revenue	26,117	(3,073)
Increase (Decrease) in Deficit Cash Balance	(13,461)	13,461
Decrease in Claims and ULAE Liabilities	(37,772)	(45,455)
Total Adjustments	(30,573)	(35,274)
Net Cash Provided by Operating Activities	\$ 636,235	\$ 154,524



**Note 1 - Summary of Significant Accounting Policies**

The Orange County Fringe Benefits Joint Powers Authority (OCFBJPA) 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**

OCFBJPA 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. OCFBJPA was established and operates pursuant to a Joint Powers Agreement and became operative January 1, 1987. Effective October 1, 2006, Westminster School District withdrew its membership in OCFBJPA, effective October 1, 2008, Ocean View School District withdrew its membership in OCFBJPA, effective October 1, 2009, Savanna School District withdrew its membership in OCFBJPA, effective July 1, 2012, Coastline Regional Occupational Program withdrew its membership in OCFBJPA, and effective October 1, 2012, Huntington Beach City School District became a member of OCFBJPA, Brea-Olinda Unified Schools District withdrew its membership in OCFBJPA, effective October 1, 2018.

OCFBJPA 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.

OCFBJPA includes all funds and account groups that are controlled by or dependent on OCFBJPA's governing board for financial reporting purposes. OCFBJPA 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. OCFBJPA 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.

**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 OCFBJPA, the members may be assessed additional contributions.

### **Unearned Revenue**

Member contributions received in advance are recorded as unearned revenue and recognized over the effective coverage period.

### **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 State Investment Pool Local Agency Investment Fund (LAIF) 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**

OCFBJPA's income is exempt from Federal and State income taxes under Internal Revenue Code Section 115, and the corresponding section of the California Revenue and Taxation Code.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2020 and 2019, consist of the following:

	2020	2019
Cash on hand and in banks	\$ 87,285	\$ 88
Cash deposits	53,640	110,618
Investments - State Investment Pool	3,408,192	2,800,619
 Total deposits and investments	 \$ 3,549,117	 \$ 2,911,325

**Policies and Practices**

OCFBJPA 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**

OCFBJPA 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 OCFBJPA's investment in the pool is reported in the accompanying financial statement at amounts based upon OCFBJPA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. The LAIF has average weighted maturity of 191 days. For additional information visit LAIF's website at: [www.treasurer.ca.gov/pmia-laif](http://www.treasurer.ca.gov/pmia-laif).

**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 OCFBJPA manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### **Credit Risk**

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. OCFBJPA's investments in the Local Agency Investment Fund are not required to be rated.

### **Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, OCFBJPA's deposits may not be returned to it. OCFBJPA 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, 2020, and 2019, OCFBJPA's bank balances of \$110,618 and \$213,489, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of OCFBJPA.

### **Note 3 - Fair Value Measurements**

OCFBJPA 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 OCFBJPA 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 OCFBJPA's own data. OCFBJPA should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to OCFBJPA are not available to other market participants.

Uncategorized - Investments in the State Investment Pool Local Agency Investment Fund are not measured using the input levels above because OCFBJPA'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.

**Note 4 - Estimated Claims Liability**

The liability for claims was established by the plan administrator based on the study of claims experience prior to year-end. The claims liability 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.

**Note 5 - Claims Liability**

The following represents changes in the claims liabilities of OCFBJPA for the fiscal years ended:

	June 30,	
	2020	2019
Claims Liability, Beginning of Fiscal Year	\$ 178,051	\$ 221,523
Incurred Claims:		
Provision for insured events of the current fiscal year	2,416,308	2,937,355
Payments:		
Losses attributable to insured events of the current fiscal year	2,263,543	2,746,883
Losses attributable to insured events of prior fiscal years	188,490	233,944
Total Payments	2,452,033	2,980,827
Claims Liability, End of Fiscal Year	\$ 142,326	\$ 178,051

Claims liabilities are not discounted at June 30, 2020 and 2019.

# Orange County Fringe Benefits Joint Powers Authority

Notes to Financial Statements

June 30, 2020 and 2019

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## Note 6 - Net Position

Net position is composed of the following elements as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Unrestricted		
Designated - capital target	\$ 847,888	\$ 801,442
Undesignated	<u>2,406,254</u>	<u>1,789,658</u>
 Total Net Position	 <u>\$ 3,254,142</u>	 <u>\$ 2,591,100</u>

## Note 7 - Subsequent Events

Subsequent to year-end, OCFBJPA has been impacted by the effects of the world-wide coronavirus pandemic. OCFBJPA is closely monitoring its operations and reserves and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, OCFBJPA's management does not expect the pandemic to have a significant impact on operations and reserves.



Required Supplementary Information  
June 30, 2020

# Orange County Fringe Benefits Joint Powers Authority

The following table illustrates how OCFBJPA'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 OCFBJPA 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 OCFBJPA including overhead and claims expense not allocable to individual claims.
- (3) This line shows OCFBJPA'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  
 Ten-Year Claims Development Information  
 June 30, 2020

	2011	2012	2013	June 30, 2014
(1) Required contribution and investment revenue:				
Earned	\$ 3,323,517	\$ 3,538,499	\$ 3,908,415	\$ 3,947,378
Ceded	-	-	-	-
Net earned	<u>3,323,517</u>	<u>3,538,499</u>	<u>3,908,415</u>	<u>3,947,378</u>
(2) Unallocated expenses	<u>311,203</u>	<u>294,627</u>	<u>298,777</u>	<u>304,666</u>
(3) Estimated claims and expenses				
End of policy year				
Net incurred	<u>3,066,607</u>	<u>2,884,570</u>	<u>3,058,628</u>	<u>3,159,754</u>
(4) Net paid (cumulative) as of:				
End of policy year	2,817,946	2,671,579	2,848,565	2,961,600
One year later	2,774,748	2,897,394	3,058,628	3,159,754
Two years later	2,774,748	2,897,394	3,058,628	3,159,754
Three years later	2,774,748	2,897,394	3,058,628	3,159,754
Four years later	2,774,748	2,897,394	3,058,628	3,159,754
Five years later	2,774,748	2,897,394	3,058,628	3,159,754
Six years later	2,774,748	2,897,394	3,058,628	3,159,754
Seven years later	2,774,748	2,897,394	3,058,628	
Eight years later	2,774,748	2,897,394	3,058,628	
Nine years later	<u>2,774,748</u>			
(5) Re-estimated ceded claims and expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6) Re-estimated net incurred claims and expenses:				
End of policy year	3,066,607	2,884,570	3,058,628	3,159,754
One year later	2,774,748	2,897,394	3,058,628	3,159,754
Two years later	2,774,748	2,897,394	3,058,628	3,159,754
Three years later	2,774,748	2,897,394	3,058,628	3,159,754
Four years later	2,774,748	2,897,394	3,058,628	3,159,754
Five years later	2,774,748	2,897,394	3,058,628	3,159,754
Six years later	2,774,748	2,897,394	3,058,628	3,159,754
Seven years later	2,774,748	2,897,394	3,058,628	
Eight years later	2,774,748	2,897,394	3,058,628	
Nine years later	<u>2,774,748</u>			
(7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ (291,859)</u>	<u>\$ 12,824</u>	<u>\$ -</u>	<u>\$ -</u>

Orange County Fringe Benefits Joint Powers Authority

Ten-Year Claims Development Information

June 30, 2020

June 30,						
2015	2016	2017	2018	2019	2020	
\$ 3,903,650	\$ 3,776,772	\$ 3,969,964	\$ 4,026,708	\$ 3,079,247	\$ 3,332,682	
-	-	-	-	-	-	
<u>3,903,650</u>	<u>3,776,772</u>	<u>3,969,964</u>	<u>4,026,708</u>	<u>3,079,247</u>	<u>3,332,682</u>	
<u>266,618</u>	<u>270,280</u>	<u>290,520</u>	<u>282,410</u>	<u>280,142</u>	<u>255,379</u>	
<u>3,118,427</u>	<u>3,162,199</u>	<u>3,408,234</u>	<u>3,356,265</u>	<u>2,937,355</u>	<u>2,416,308</u>	
2,921,154	2,969,251	3,181,226	3,348,794	2,746,883	2,263,543	
3,118,427	3,162,199	3,194,182	3,582,738	2,935,373		
3,118,427	3,162,199	3,194,182	3,816,682			
3,118,427	3,162,199	3,194,182				
3,118,427	3,162,199					
3,118,427						
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
3,118,427	3,162,199	3,408,234	3,356,265	2,937,355	2,416,308	
3,118,427	3,162,199	3,408,234	3,356,265	2,937,355		
3,118,427	3,162,199	3,408,234	3,356,265			
3,118,427	3,162,199	3,408,234				
3,118,427	3,162,199					
3,118,427						
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	



Independent Auditor's Report  
June 30, 2020

**Orange County Fringe Benefits Joint  
Powers Authority**



**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 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 (OCFBJPA), which comprise the statement of net position as of June 30, 2020, and the related statement of revenues, expenses, changes in net position, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OCFBJPA'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 OCFBJPA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCFBJPA'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 entity'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 OCFBJPA'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* and which are described in the accompanying

## **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Eide Bailly LLP*

Rancho Cucamonga, California  
October 13, 2020