



SANTA ANA POLICE OFFICERS ASSOCIATION

JANUARY 1, 2023 THROUGH DECEMBER 31, 2023

INDEPENDENT AUDITORS' REPORT ON AGREED
UPON PROCEDURES FOR THE SANTA ANA POLICE
OFFICERS' ASSOCIATION TRUST FUND

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SANTA ANA POLICE OFFICERS ASSOCIATION

**Independent Accountants' Report
on Agreed Upon Procedures for the
Santa Ana Police Officers'
Association Trust Fund**

January 1, 2023 through December 31, 2023



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To Mr. John Kachirsiky, President
Santa Ana Police Officers Association
Santa Ana, California

To the Management of the City of Santa Ana
Santa Ana, California

We have performed the procedures enumerated below on the Santa Ana Police Officers Association (hereafter, the Association)'s medical insurance trust fund's excess fund balance calculation for the year ended December 31, 2023. The Association is responsible for the medical insurance trust fund's excess fund balance calculation.

The Association has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of calculating and verifying the excess fund balance of the medical insurance trust fund pursuant to the Association's agreement with the City of Santa Ana (hereafter, the City) for the year ended December 31, 2023. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and the associated findings are as follows:

Health Plan Agreement

1. We obtained a copy of the Agreement between the City and the Association, which establishes a medical insurance trust fund (hereafter, the Trust) for employees of the bargaining unit. We summarized the significant terms of the Agreement. We also obtained an understanding of the role of a third party to administer the Trust on behalf of the Association.

Results: Under the terms of the Agreement, the Association must maintain a Trust for the sole purpose of providing and administering health, dental, and long-term disability plans, which may include medical prescriptions, vision care, and/or long-term disability insurance for employees in the bargaining unit. Employees contribute toward the cost of health plan premiums at amounts determined by the Association. In addition, the City makes monthly contributions to the Trust based on the number of actively employed enrollee members in the bargaining unit. All costs of providing and administering the Trust's health benefit plans are the sole responsibility of the Association. The City's contributions may be used to cover administrative costs of the program up to the maximum amount stipulated in the Agreement. The Association has designated Union First Solutions as the third-party administrator of the Trust.

Internal Controls

2. We inquired with medical insurance trustee personnel and obtained an understanding of the accounting procedures used by the trustee to administer the Trust. We reviewed these procedures, which included bank reconciliations, cash receipts and cash disbursements transactions for health care benefits, for any significant internal control weaknesses.

Results: No exceptions were identified as a result of applying this procedure.



To the Board of Directors
Santa Ana Police Officers Association
Santa Ana, California

Summary of Trust Receipts and Disbursements

3. We obtained the Trust's checking and investment account statements prepared by the trustee for the twelve months ended December 31, 2023. We reviewed the source documents for each receipt and disbursement on the worksheets. Based on our review of the monthly worksheets and source documents, we prepared an annual summary of the Trust's receipts and disbursements, including a reconciliation to the Trust's checking and investment account balances.

We obtained copies of all checks deposited to the Trust. Per review of the checks deposited to the Trust, we categorized each cash receipt into one of the following categories:

- Medical and dental
- Retiree health
- Long-term disability
- Interbank transfers
- Interest income

Per review of the monthly bank statements and review of the cancelled checks, we categorized each cash disbursement into one of the following categories:

- Health Related:
 - Insurance Premiums (medical, dental, vision, long-term disability, and life)
 - Health and wellness screening
 - Exercise equipment and other
- Non-Health Related:
 - Administrative fees
 - Bank service fees
 - Audit, legal, and other charges

For each month, we determined the Trust's total ending balance by obtaining the monthly investment account statements for the Trust's Charles Schwab brokerage account. We added those balances to the ending balance of the checking account to arrive at the total balance of the Trust.

Results: The Summary of Receipts and Disbursements is included as Attachment 1A on page 7.

General Ledger, Receipts and Disbursements

4. The City makes monthly Trust contributions. We obtained from the City a Trust payment detail, which listed all payments made to the Trust for the period under review and compared 100% of the payments made by the City to the documentation on file with the Association. Next, we traced the transfers and their amounts to deposits listed on the bank statements and general ledger.

Results: The attached Summary of Receipts and Disbursements, which is based on the bank statements and general ledger, reflects twelve months of 2023 receipts. As part of the test work on the Summary of Receipts and Disbursements, we reviewed the supporting documentation for each cash receipt to determine which receipt type to classify it in. During our review, we noted that all receipts and disbursements were supported by appropriate documentation.



To the Board of Directors
Santa Ana Police Officers Association
Santa Ana, California

6. As part of our process to prepare the Summary of Receipts and Disbursements, we examined all disbursements made from the Trust's checking accounts to determine that disbursements were for the sole purpose of providing and administering health, dental, and long-term disability plans, which may include medical prescriptions, vision care, and/or long-term disability insurance for employees in the bargaining unit. Per Section 9 of the Agreement, the "use of City contributions to cover administrative costs of the program shall not exceed \$50,000 during calendar year 2023. Each calendar year thereafter, the maximum amount of administrative costs funded using City contributions will be adjusted by an annual percentage in the Medical Care Services CPI..." We compared total administrative costs per our Summary of Receipts and Disbursements to the allowable limit per the Agreement.

Results: We reviewed the applicable Consumer Price Index (CPI) table from the U.S. Bureau of Labor Statistics. The total allowable administrative costs for 2023 was \$50,000, and actual administrative costs totaled \$28,775. No exceptions were identified as a result of applying this procedure.

7. We obtained the Trust's monthly checking account bank statements and their corresponding monthly bank reconciliations for the Trust's checking account with Pacific Premier Bank for the period January 2023 through December 2023 and performed the following procedures:

- Compared the ending bank reconciliation balance to the Trust's general ledger.
- Compared the cash balance to the bank statement.
- Determined that bank reconciliations were prepared in a timely manner and reviewed appropriately.
- Compared outstanding checks to the subsequent month's bank statement.
- Verified that monthly interest earned per the bank statements was recorded to the corresponding month's general ledger.

Results: We noted that all bank statements were reconciled timely, were properly reviewed and approved, and were reconciled properly.

Eligibility for Benefits

8. We obtained from the City the December 2023 list of current employees of the bargaining unit. We judgmentally selected 30 individuals from the various invoices submitted by the insurance providers and compared the names of the selected individuals to the City's December 2023 list to verify that the individuals selected were eligible to receive benefits from the trust.

Results: We noted all individuals tested were eligible to receive benefits from the trust.

Investment Balances and Transactions

9. Per the general ledger, we identified the checking account amounts that were paid to Charles Schwab. We compared those amounts to payments made per the checking account bank statements. We also compared those amounts to the deposits recorded in the Trust's Charles Schwab brokerage accounts.

Results: We noted no payments were made to Charles Schwab during the year.



To the Board of Directors
Santa Ana Police Officers Association
Santa Ana, California

10. We obtained the monthly Charles Schwab account statements for the period under review. We reviewed the statements and prepared a schedule summarizing the debits (reductions) and credits (additions) that exceeded \$5,000 in the Charles Schwab account. For each debit and credit that exceeded \$5,000, we ascertained if the debit and credit appeared reasonable by reviewing the statements and investigating unusual items.

Results: We noted a number of debits and credits exceeding \$5,000 during the year. These were for reasonable investment transactions relating to purchases of various securities. No unusual transactions were noted for the period January 1, 2023, through December 31, 2023.

11. Section 5 of the Agreement states that the Association will be responsible for ensuring that best investment practices are used in accordance with all applicable laws and regulations when investing the Trust's funds. We requested and obtained a copy of the most recent version of the Association's investment policy. We also obtained the December 2023 Charles Schwab account statement and identified the types of investments held per its "Investment Detail."

Results: As of December 31, 2023, the Association held investments with Charles Schwab in a brokerage account. We inspected a copy of the investment policy statement of the Association's Trust adopted on June 13, 2024, identifying the following allowable allocations targets:

- Equity portfolio: 46%
 - U.S. Equities – Large Cap: 7% - 13%
 - U.S. Equities – Mid Cap: 7% - 13%
 - U.S. Equities – Small Cap: 7% - 13%
 - Non-U.S. Large Stocks – Developed Countries: 3% - 7%
 - Non-U.S. Small Stocks – Developed Countries: 3% - 7%
 - Non-U.S. Stocks – Emerging Markets: 2% - 6%
- Fixed income portfolio: 36%
 - U.S. Intermediate Term Taxable Bonds: 0% - 29%
 - U.S. Short Term Taxable Bonds: 0% - 29%
- Alternative/sector investments portfolio: 17.5%
 - U.S. Real Estate Securities/REITS: 7% - 13%
 - Commodities: 5% - 11%
 - Absolute Return: 5% - 9%
- Cash: 0.5%
 - Money Market Funds: 0% - 5%

A summary of the investments held is as follows:

	Charles Schwab	% Total of Investments
Cash	\$ 45,511	0.7%
Fixed Income	2,304,062	36.6%
Alternative/Sector Investments	743,658	11.8%
Equities	3,203,272	50.9%
	<u>\$ 6,296,503</u>	<u>100.0%</u>



To the Board of Directors
Santa Ana Police Officers Association
Santa Ana, California

Excess Fund Balance

12. Per Section 5 of the Agreement, the Association must return to the City any excess fund balance being held in the trust as of December 31. Excess fund balance is defined as any amount that exceeds four-times the total insurance premiums minus the employees' share of the premium contribution paid for the month of December for the year just ended. Once the excess fund balance is determined for the prior calendar year, the City shall reduce its monthly contribution for the next six months by one-sixth of the excess fund balance. The application of these reductions for excess fund balance will begin to occur 30 days after completion of the final audit report.

The final Association Trust Fund Calculation of Excess Fund Balance is documented in Attachment 1B.

- We tested the calculation for mathematical accuracy. We compared the trust balance to the Summary of Receipts and Disbursements (Attachment 1A).
- We compared the total insurance premiums to copies of insurance invoices and verified that they pertained to insurance coverage for the month of December 2023.
- We compared the payroll deductions to documentation provided by the City and verified that amounts pertained to December 2023 insurance coverage (amounts withheld in November 2023, pay periods 22 and 23).
- We reconciled the supporting documents used in the calculation to the general ledger, and to the Summary of Receipts and Disbursements.

Results: For the fiscal year beginning January 1, 2023, and ending December 31, 2023, there is excess fund balance in the amount of \$3,426,054 (see Attachment 1B).

We were engaged by the Association to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the medical insurance trust fund's excess fund balance calculation for the year ended December 31, 2023. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Other Matters

As an additional matter, we noted that the Trust Fund operated at a deficit for the year ended December 31, 2023, having disbursed \$608,894 in excess of the total receipts received for the period. For a health benefits trust fund, sound financial management is essential to ensure long-term sustainability, compliance, and the ability to meet obligations to beneficiaries. The following metrics were considered against industry best practices:

1. Reserve Levels: the generally recommended range of reserve levels is three to six months of average monthly disbursements maintained in reserve. Average monthly disbursements for the Trust are \$940,348; based on this calculation, the amount held in reserve by the Trust should range between \$2,821,044 and \$5,642,088 depending on a number of factors.
 - Plan size and volatility: larger, more stable plans may need less reserves;
 - Self-insured vs. fully insured: self-insured plans require higher reserves due to claims volatility;
 - Industry variability: plans covering industries with fluctuating employment may need higher reserves; and
 - Collective bargaining timelines: longer contract periods may justify higher reserves early on.



To the Board of Directors
Santa Ana Police Officers Association
Santa Ana, California

2. Operating Margins: This is a key indicator of financial health. The healthy range of operating margins for trust-based health plans is generally considered to be 1% to 5%. Margins below 1% indicate financial stress, while margins above 5% suggest underutilization of funds or overcharging. The Trust's operating margin is -11%, as calculated as the difference between Contributions from the City of Santa Ana (\$10,145,241) less Health Related Expenses (\$11,223,059) divided by Contributions. These negative margins have required the Trust to maintain significant reserves and investments in order to fund benefits for participants.

This information is presented to provide further context regarding the financial activity of the Trust Fund and was not a subject of the agreed-upon procedures described above. Our procedures were not designed to address the causes or future implications of this deficit, and accordingly, we do not provide any opinion or conclusion thereon.

LSL, LLP

Irvine, California
July 29, 2025

MEDICAL INSURANCE TRUST FUND
Summary of Receipts and Disbursements
January 1, 2023 Through December 31, 2023

	January	February	March	April	May	June
A. Opening Balance - Checking Account	\$ 850,909	\$ 915,455	\$ 893,426	\$ 386,140	\$ 372,436	\$ 335,076
RECEIPTS						
City of Santa Ana						
Medical and dental	750,728	713,191	675,655	710,325	713,149	711,801
Retiree health	95,856	100,026	103,111	102,031	102,072	102,604
Long-term disability	32,868	32,808	32,901	32,736	32,835	32,703
Other						
Interbank transfers	30,000	-	500,000	-	-	-
Interest Income	2	1	5	4	5	5
B. Total Receipts	909,454	846,026	1,311,672	845,096	848,061	847,113
DISBURSEMENTS						
Health related						
Insurance Premiums:						
Medical, dental, and vision	813,254	843,479	1,687,579	834,078	846,546	843,889
LTD insurance	20,583	20,706	20,583	20,501	20,542	20,542
Life insurance	2,399	2,394	2,413	2,409	2,394	2,394
Health and wellness screening	-	-	106,250	-	-	-
Exercise equipment and other	-	-	-	-	-	-
Total health related	836,236	866,579	1,816,825	856,988	869,482	866,825
Non-health related						
Administrative fee	1,170	1,474	1,691	1,810	9,810	1,810
Bank service fees	2	2	2	2	2	2
Audit, legal, and other charges	7,500	-	440	-	6,127	-
Total non-health related	8,672	1,476	2,133	1,812	15,939	1,812
C. Total Disbursements	844,908	868,055	1,818,958	858,800	885,421	868,637
D. Monthly Total/Net Monthly Activity = (B) - (C)	64,546	(22,029)	(507,286)	(13,704)	(37,360)	(21,524)
E. Ending Balance - Checking Account = (A) + (D)	\$ 915,455	\$ 893,426	\$ 386,140	\$ 372,436	\$ 335,076	\$ 313,552
TOTAL CASH & INVESTMENTS						
F. Checking account:						
Pacific Premier Bank	\$ 915,455	\$ 893,426	\$ 386,140	\$ 372,436	\$ 335,076	\$ 313,552
G. Charles Schwab Brokerage Account	5,952,993	5,788,975	5,852,468	5,867,484	5,769,918	5,959,032
Trust Total Balance = (F) + (G)	\$ 6,868,448	\$ 6,682,401	\$ 6,238,608	\$ 6,239,920	\$ 6,104,994	\$ 6,272,584

ATTACHMENT 1A

July	August	September	October	November	December	Totals
\$ 313,552	\$ 1,175,338	\$ 280,911	\$ 278,511	\$ 252,702	\$ 241,837	\$ 850,909
749,218	706,476	740,919	745,446	744,692	739,410	8,701,010
104,585	68,136	67,883	68,428	68,826	68,330	1,051,888
32,769	32,703	32,439	32,439	32,637	32,505	392,343
-	-	-	-	-	-	530,000
3	3	3	3	4	3	41
886,575	807,318	841,244	846,316	846,159	840,248	10,675,282
-	1,663,511	819,101	833,929	827,887	814,677	10,827,930
20,583	20,419	20,501	20,624	20,255	20,296	246,135
2,394	2,403	2,380	2,380	2,399	2,385	28,744
-	-	-	-	-	-	106,250
-	-	-	14,000	-	-	14,000
22,977	1,686,333	841,982	870,933	850,541	837,358	11,223,059
1,410	1,410	1,660	-	3,820	2,710	28,775
2	2	2	2	2	2	24
400	14,000	-	1,190	2,661	-	32,318
1,812	15,412	1,662	1,192	6,483	2,712	61,117
24,789	1,701,745	843,644	872,125	857,024	840,070	11,284,176
861,786	(894,427)	(2,400)	(25,809)	(10,865)	178	(608,894)
\$ 1,175,338	\$ 280,911	\$ 278,511	\$ 252,702	\$ 241,837	\$ 242,015	\$ 242,015
\$ 1,175,338	\$ 280,911	\$ 278,511	\$ 252,702	\$ 241,837	\$ 242,015	\$ 242,015
6,102,437	5,992,099	5,775,911	5,666,906	6,015,215	6,296,503	6,296,503
\$ 7,277,775	\$ 6,273,010	\$ 6,054,422	\$ 5,919,608	\$ 6,257,052	\$ 6,538,518	\$ 6,538,518

MEDICAL INSURANCE TRUST FUND
Calculation of Excess Fund Balance
As of December 31, 2023

ATTACHMENT 1B

Trust balance:

Checking account - Pacific Premier Bank	\$ 242,015
Brokerage Account - Charles Schwab	6,296,503
Trust balance as of December 31, cash basis	<u>6,538,518</u>

Total insurance premiums (December coverage):

Medical, dental, and vision	814,677
Long-term disability	20,296
Life insurance	2,385
Total insurance premiums (December coverage)	<u>837,358</u>

Employees' share of premiums contribution (December coverage):

Payroll deductions - medical	(44,402)
Payroll deductions - dental	(10,996)
Payroll deductions - vision	(3,844)
Total employees' share of premiums contribution (December coverage)	<u>(59,242)</u>

Total insurance premiums, net

778,116

Times 4

4

4 x total insurance premiums, net

\$ 3,112,464

Excess trust fund balance

\$ 3,426,054