

BIG INDEPENDENT CITIES EXCESS POOL
Financial Statements and
Supplementary Information
With Independent Auditor's Report
June 30, 2014 and 2013

BIG INDEPENDENT CITIES EXCESS POOL

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Management's Discussion and Analysis

Within this section of the Big Independent Cities Excess Pool (BICEP) Annual Financial Report for the years ended June 30, 2014 and 2013 the Pool's management provides narrative discussion and analysis of the entity for the two years reported on.

Financial Highlights

BICEP'S net assets exceeded its liabilities by \$13,358,659 at June 30, 2014 vs. \$12,531,336 at June 30, 2013. The change for the year can be attributed a last minute settlement of a major claim. The decrease in cash equivalents (money market funds) continued in 2013-2014. This was primarily due to a decrease of \$447,495 in funds held by the trustee.

Relating to paid premiums for the years 2005,2006,2007,2008, the board authorized reductions in premiums to be paid for the 2012-2013 and the year totaling \$645,752 shown as restricted net assets at June 30, 2013, which reduced liability premiums in the year ended June 30, 2014.

Overview of the Financial Statements

The financial statements included here, because the entity is an enterprise fund using full accrual accounting, are a statement of net assets, statement of operations and changes to net assets, and a statement of cash flows. Also included are notes to financial statements relating to matters significant to operations, some of which are required, such as accounting policies, definition of cash and cash equivalents and changes to Loss and Loss Adjustment Expenses. The supplementary Claims Development data also is required.

Condensed Financial Information

BICEP is considered to be an Enterprise Fund, meaning that it is accounted for in a manner similar to a commercial entity, accrual accounting. There are some differences, primarily terminology, because accounting standards are promulgated by the Government Accounting Standards Board (GASB), rather than the Financial Accounting Standards Board (FASB) for commercial enterprise and exempt organizations.

BICEP's net assets increased between years by \$822,323 between years even though its total assets decreased by \$59,968. The decline for year may largely be attributed to liquidation of the previously restricted net assets, offset, in part, by the aforementioned decrease in loss and loss adjustment liability.

Condensed financial information follows:

Major components of assets and liabilities are as follows:

	<u>Years ended June 30</u>		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
<u>Assets</u>			
Investments, at market including			
Accrued interest	\$18,409,857	\$18,051,200	358,657
Other assets	186,155	604,780	(418,625)
<u>Liabilities</u>			
Unpaid loss and loss adjustment expense including IBNR	5,121,651	6,004,886	883,235
Accounts payable	115,702	119,758	<u>4,056</u>
Increase in net assets			<u>827,323</u>
Operating Results - Improved			<u>\$ 243,782</u>
Prior Years' premium credits reduced members' liability premiums by \$645,752 for the 2013-2014 year. See Note 6			
Details of Operations are as follows:			
Earned premiums	3,370,257	3,270,969	99,288
Net investment income (loss)	436,183	(165,737)	601,920
Loss and loss adjustment expenses	(724,662)	73,007	797,669
Purchased liability insurance and reinsurance	3,452,482	2,192,461	(1,260,021)
General and administrative expenses	251,297	243,973	(7,324)
Worker's Compensation Costs	---	12,250	<u>12,250</u>
Total increase in operating results			<u>\$243,782</u>
Cash flow decrease between years, as follows			(\$418,625)

Financial Outlook:

We continue to look for cities of similar risk profiles to our members to add to our group as this will benefit members by spreading risk and lowering risks. To that end, we added the City of Ventura as a member effective July 1, 2014. Consistent with our strategic marketing plan, we established a website and developed a marketing brochure. Confirming BICEP's financial and management stability, in December of 2014, BICEP achieved Accreditation "with Excellence" from the California Association of Joint Powers Authority (CAJPA).

Investment returns continue to be satisfactory and investment income continues to be good.

Gregory J. Spiker, ARM
General Manager

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Big Independent Cities Excess Pool (BICEP)

We have audited the accompanying balance sheets of the Big Independent Cities Excess Pool (BICEP) at June 30, 2014 and 2013 and the related statements of operations and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of BICEP's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2014 and 2013 financial statements referred to above present fairly, in all material respects, the financial position of the Big Independent Cities Excess Pool at June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is a required part of the annual report. Although it is not a part of the auditor's opinion, the financial information contained therein has been subjected to all of the tests applicable to the underlying basic financial statements.

BICEP has 20 years of historical data for use in its estimates of incurred but not reported claims and the corresponding premium adjustments. Although BICEP considers its experience and industry data in determining such amounts, assertions and projections as to future events are necessary and ultimate losses may be higher or lower than amounts projected.

The comparative schedule of Claims Development, on page 12 not a required part of the basic financial statements which cover the prior ten years but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Pasadena, California
January 16, 2015

Robert Eichel & Associates
Certified Public Accountants

**BIG INDEPENDENT CITIES EXCESS POOL
BALANCE SHEETS
JUNE 30, 2014 AND 2013**

ASSETS	2014	2013
Cash and cash equivalents (Notes 1 and 2)	\$ 186,155	\$ 604,780
Investments, at market (Note 2)	18,293,153	17,935,557
Accrued interest receivable	116,704	115,643
Total assets	\$ 18,596,012	\$ 18,655,980

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 115,702	\$ 119,758
Unpaid losses and loss adjustment expenses (Note 3)	4,130,590	4,642,200
Actuarial determination of projected ultimate losses including losses incurred but not reported:	991,061	1,362,686
Total loss and loss adjustment expenses	5,121,651	6,004,886
Total liabilities	5,237,353	6,124,644
Net Assets		
Restricted (Note 6)	---	645,752
Unrestricted	13,358,659	11,885,584
Total Liabilities and Net Assets	\$ 18,596,012	\$ 18,655,980

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

**BIG INDEPENDENT CITIES EXCESS POOL
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Revenues:		
Deposit premiums earned	\$ 3,357,996	\$ 3,270,969
Other	12,261	----
	3,370,257	3,270,969
Expenses:		
Net (Decrease) increase in actuarially determined unpaid losses and loss adjustment expenses (Note 3)	(724,662)	73,007
Purchased liability insurance and reinsurance	3,452,482	2,192,461
General and administrative expenses	251,297	243,973
Worker's Compensation claims audits	----	12,250
	2,979,117	2,521,691
Excess revenues over expenses before net investment income (loss)	391,140	749,278
Net investment income:		
Interest earned:	532,049	601,978
Increase (decline) in market value of investments including gain (loss) on sale or redemption:	(95,866)	(767,715)
Net investment income (loss)	436,183	(165,737)
Excess of revenues over expenses	827,323	583,541
Net Assets at beginning of year	12,531,336	11,947,795
Net Assets at end of year	\$ 13,358,659	\$ 12,531,336

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

**BIG INDEPENDENT CITIES EXCESS POOL
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Cash flows from operating activities:		
Excess of revenues over expenses before net investment income	\$ 391,140	\$ 749,278
Adjustment to reconcile excess of revenues over expenses before net investment income to net cash provided by operations:		
Increase in accounts payable	4,054	63,865
Decrease in unpaid losses and loss adjustment expenses	(883,235)	(1,025,016)
Net cash (used) by operating activities	(488,041)	(211,873)
Cash flows from investing activities:		
Interest received	530,989	621,980
Net (purchases) sales of long-term investments and market value changes	(461,573)	2,103
	69,416	624,083
Net increase (decrease) in cash and cash equivalents	(418,625)	412,210
Cash and cash equivalents at beginning of year	604,780	192,570
Cash and cash equivalents at end of year	\$ 186,155	\$ 604,780

The accompanying notes are an integral part of these financial statements

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 and 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations

Big Independent Cities Excess Pool (BICEP) was created effective September 23, 1988, by a joint powers agreement among five cities organized and operating under the laws of the State of California. BICEP is organized pursuant to the provisions of the California Government Code for the purpose of providing joint insurance coverage and related risk-management services for member cities. The extension of joint insurance coverage to member cities began October 1, 1988.

BICEP's liability program has offered a combination of pooled and commercially purchased public auto and general liability coverages, plus errors and omissions coverage for losses in excess of the member cities' specified self-insurance retention levels of one million dollars. Individual and aggregate claims in excess of specified levels are covered by reinsurance and excess insurance policies purchased from commercial insurance carriers which, combined with the program's self-funded layers, offer a total of \$27 million in coverage limits. Additionally, through its broker, Alliant Insurance Services, it enables its members to higher liability limits through Catastrophe Liability Insurance Program (CLIP), Workers Compensations coverage, Crime coverage and Pollution Liability coverage as a group or individually as a BICEP member.

BICEP is a nonprofit California public agency, thus, it is tax-exempt. It is also considered a "Special District" by the Office of the State Controller, Division of Local Government Fiscal Affairs, for the purpose of filing an Annual Report of Financial Transactions of Special Districts.

Basis of Accounting

Defined as an Enterprise Fund the accounting records of BICEP are maintained on the accrual basis of accounting.

Cash and Cash Equivalents

BICEP considers money market funds and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

Deposit Premium Revenue

Premiums are recognized as earned over the periods covered by the policies.

Under the terms of the Liability Risk Coverage Agreement, between BICEP and its member cities, premium adjustments resulting in additional premium assessments or refunds were to commence in February 1992, covering the experience of BICEP from inception. Premium adjustments are subject to change as the ultimate cost of claims becomes known, investment income and expenses are realized, and BICEP's costs are allocated to each Policy Year. Presentation of premium adjustments has been changed to show the net favorable adjustments as equity, but, as noted, that amount can change as ultimate outcomes are realized.

Unpaid Losses and Loss Adjustment Expenses

Estimated unpaid losses and loss adjustment expenses include an amount for losses incurred but not reported (IBNR). These estimates have been discounted to their present value.

Liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. The previously noted claims and ultimate recoveries will be deducted from the gross amount of unpaid losses.

Claims which have been incurred but not reported to the claims administrator at June 30, 2014 have been estimated through an independent actuarial analysis based on loss development experience of BICEP and the member cities and available industry loss development data. Incurred losses have to be estimated until ultimate outcome is determined.

BICEP's recognition of losses incurred but not reported is in conformity with Government Accounting Standards Board (GASB 10), Accounting and Financial Reporting for Risk Financing and Related Insurance Issues and the Risk Finance Omnibus (GASB 30) and the American Institute of Certified Public Accountants (AICPA) Statement of Position 94-5.

At irregular intervals losses have occurred that fell either outside the usual insured layer by the authority or outside the assumed coverages of the excess carrier. In isolated instances BICEP has accepted claims liability along with the insurance carrier and the city of the occurrence. In previous years there was a claim against a city involving due process in a condemnation action, more recently a situation occurred in which one police officer shot and killed another during a drug raid, a third such situation occurred during 2001 and a fourth such incident led to a disagreement that prompted Pomona's expulsion from the pool in July 2003. See note 7.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Use of Estimates

Certain assets and liabilities are not subject to precise determination. Specifically, unpaid loss and loss adjustment expense must be estimated. Those losses that have occurred and not been reported can only be estimated by actuarial methods. From year ended June 30, 1995 to year ended June 30, 2000 the \$1,000,000 to \$2,000,000 loss layer originally carried by BICEP was insured by outside carriers, reducing both the premiums and the risks to the participating cities. Those losses in the \$1,000,000 to \$2,000,000 layer prior to July 1, 1994 generally have been reported but there is always the possibility of ultimate cost exceeding original estimates. Additionally, as noted previously, there can be the risk of denial of coverage in borderline circumstances. In the years ended after 2002 and 2003 BICEP shared the \$1,000,000 to \$2,000,000 layer due to increased costs of outside carriers. In years 2004 through 2013 BICEP was fully responsible for the \$1 million to \$2 million layer. In July of 2013 through June of 2014 the \$1 to \$2 million layer is fully reinsured by an insurance carrier.

Valuation of Investments

Investments prior to year ended June 30, 1998 were recorded at cost. Those investment securities are now valued at market as required by Governmental Accounting Standards Board Statements (GASB 31), resulting in restatement of carrying values of investments and changes in previously reported investment income prior to year ended June 30, 1998. The cumulative effects of these adjustments are reflected in retained earnings.

Note 2 CASH AND INVESTMENTS

Under provisions of the California Government Code (Code), BICEP is authorized to invest in:

- A variety of federal and state treasury obligations (including local California agencies)
- Obligations or other instruments of or issued by a federal agency or government sponsored enterprise
- Bankers' acceptances which are eligible for purchase by the federal reserve system (subject to certain limitations)
- Prime quality commercial paper (subject to certain limitations)
- Negotiable certificates of deposit issued by nationally or state chartered banks, savings and loan associations and credit unions

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 2 CASH AND INVESTMENTS (continued):

- Repurchase agreements or reverse repurchase agreements of any securities authorized by the Code

Cash and Cash Equivalents, Unrestricted

At June 30, 2014, the net carrying amount and deposit balance was \$186,155 of which \$8,173 was invested in the Local Agency Investment Fund, an investment pool maintained by the State Treasurer.

At June 30, 2013, the net carrying amount and deposit balance was \$604,780 of which \$8,153 was invested in the Local Agency Investment Fund, an investment pool maintained by the State Treasurer.

Cash Equivalents and Investments

BICEP invests only in investments that are insured or registered, or for which the securities are held by BICEP or its agent in BICEP's name. Investments held by the Trustee consist of:

Cash equivalent-repurchase agreements and cash	<u>2014</u> \$186,155	<u>2013</u> \$604,780
U.S. Treasury and Federal agency securities	<u>18,293,153</u>	<u>17,935,557</u>
	<u>\$18,479,308</u>	<u>\$ 18,540,337</u>

Deposits and investments by governmental agencies are categorized in three classes depending upon the relative level of risk.

Category 1 - Cash or investments fully insured or registered or where the securities are held by the unit or its agent in the unit's name.

Category 2 - Uninsured and unregistered instruments held by the broker or advisor's trust department or an agent in the unit's name.

Category 3 - Uninsured and unregistered investments held by the broker or dealer or by its trust department or by an agent but not in the unit's name.

All of Bicep's cash and investments are in category 1, excepting deposits with the Local Agency Investment Fund (LAIF), which cannot be categorized.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 3 UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES:

The following represents changes in the unpaid losses and loss adjustment expenses for BICEP for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Unpaid losses and loss adjustment expenses at beginning of year	\$6,004,886	\$ 7,029,902
Payments of claims reported or accrued	(218,669)	(1,098,023)
Increase (decrease) in funding levels	<u>(664,566)</u>	<u>73,007</u>
Total unpaid losses and loss adjustment expenses at end of year	<u>\$ 5,121,651</u>	<u>\$6,004,886</u>

Note 4 ESTIMATED FUTURE PREMIUM ADJUSTMENTS (RETAINED EARNINGS):

Until year ended June 20, 2002 BICEP's accounting had consistently charged or credited annually results of operations to the participant cities because as a group they are accountable for the benefits or lack thereof of the pool's operations. GASB 31 became effective for years ended June 30, 1998 with retroactive adjustment of prior years' results preferred.

Review of the relationship of cost to market values of investments at July 1, 1996 indicated a minor difference between cost and market value of those investments held by the trustee (\$26,568 of market value lower than cost on investments at cost of \$15,649,511). Accordingly, no adjustment was made at July 1, 1996.

At June 30, 1997 market exceeded cost by \$75,565 and at June 30, 1998 market exceeded cost by \$172,618. At June 30, 1997 financial statements were restated as follows:

	<u>Investments held by trustee</u>	<u>Estimated Future Premium Adjustments</u>
As originally reported	\$13,374,164	\$ 581,943
Market value adjustment	<u>75,565</u>	<u>75,565</u>
as restated	<u>\$13,449,729</u>	<u>\$ 657,508</u>

At June 30, 2014 and June 30, 2013 investment securities are valued at market.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 5 EXCESS INSURANCE:

Historically BICEP has purchased commercial excess liability insurance to transfer its exposure on any one loss or group of losses. BICEP is contingently liable for losses and loss adjustment expenses related to ceded business to the extent that its excess carriers are unable to fulfill their commitments. Management believes that its excess carriers are and will continue to be able to satisfy their obligations under excess liability policies. There have been instances in which BICEP has paid claims in excess of its layer of coverage or on ceded coverages due to special circumstances and coverage issues.

For the years beginning in the year beginning July 1, 1994, and continuing through June 30, 2001, because of substantial reductions in rates, BICEP placed all of its liability coverages with private insurance carriers. This included the \$1 million to \$2 million layer, which was previously retained. In years after July 1, 2001 BICEP either shared the \$1,000,000 to \$2,000,000 layer on a 50 percent basis with excess carriers or completely self-funded this layer.

BICEP's liabilities for unpaid losses and loss adjustment expenses as of June 30, 2014 and June 30, 2013, have been estimated net of amounts that would be recoverable from the excess insurer. For the years beginning July 1, 1994 through June 30, 2001 BICEP had no direct liability having placed all of its coverages with outside carriers, except in those rare instances that there was a reason to go beyond the coverage limitations. In years ending June 30, 2014 and 2013, as previously noted, the \$1,000,000 to \$2,000,000 layer was retained.

Note 6 ADJUSTMENTS IN PRIOR YEARS' PREMIUMS:

Pursuant to a Board decision in April, 2009 relating to available 2004-2005 excess equity the member cities were given the option to apply their available portion to 2010-2011 liability premiums or to receive a cash distribution. Santa Ana and San Bernardino elected to receive cash, which was paid respectively in December 2009 and July 2010. The premium adjustments for the remaining cities, including a partial adjustment for Santa Ana amounted to \$451,577 shown as a net asset reduction in year ended June 30, 2011. For years ended June 30, 2005, 2006, 2007 and 2008 the amounts were computed at \$830,693 and \$645,752 and reduced liability premiums for year ended June 30, 2013 and will do the same for year ending June 30, 2014. The amounts are shown as a restriction of net assets at June 30, 2013. Premium adjustments relating to fiscal years ended June 30, 2006, 2007, 2008 and 2009 were approved amounting to a net deficit of \$460,039. Those amounts were to be added to 2014-2015 liability premiums.

**BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)**

Note 7 ONGOING LITIGATION AND SETTLEMENT OF MAJOR CLAIMS

- a. Settlement of Major Claims and years ended June 30, 2013 and June 30, 2014

In the year ended June 30, 2013 the Pomona v BICEP matter became active again and the various claims involving Huntington Beach, Oxnard and San Bernardino were still outstanding however no new significant claims have been reported by any of the members. Prior to June 30, 2013 major claims involving Huntington Beach, Oxnard and Santa Ana were settled.

The minutes of the July 19, 2014 Director's Meeting reflects a settlement of Kline v Pomona for \$1.25 million. The effective date of settlement is July 15, 2014. The argument settles all material claims between the parties including those relating to the expulsion of Pomona from BICEP in August of 2003. It also provides that if the parties wish to file a collection action against Debra Kline the parties will split equally amounts received up to the \$1.25 million BICEP paid. Thereafter, proceeds will be retained by Pomona.

Note 8 ADDITION TO THE POOL OF THE CITY OF SAN BUENAVENTURA (VENTURA)

Effective July 1, 2014 the City of Ventura became a member of the pool and its representatives now sits on the governing board.

SUPPLEMENTARY INFORMATION

**BIG INDEPENDENT CITIES EXCESS POOL
CLAIMS DEVELOPMENT INFORMATION**

Ten years' Calculation through June 30, 2014

Explanation of the Claims Development table on the preceding page

The table on the preceding page illustrates how BICEP's earned revenues and investment income compare to related costs of loss and other expenses assumed by BICEP as of the end of each policy year. The rows of the table are defined as follows: 1. This line shows the total of each fiscal year's earned deposit premiums and investment income, net amounts earned for purchased excess insurance. 2. This line shows each fiscal year's other operating costs including overhead and claims expense not allocable to individual claims. 3. This line shows the estimated incurred losses and allocated loss adjustment expenses as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (both paid and accrued) net of loss assumed by excess insurers. 4. This line shows the cumulative amounts paid as of the end of successive years for each policy year. 5. This section of rows shows how each policy year's incurred claims and expenses increased or decreased as of the end of successive years. This annual re-estimation result from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. 6. This line compared the latest re-estimated incurred claims and expenses amount to the amount originally established (line 3) and shows whether this latest estimate of claims and expenses costs are greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated accounts is commonly used to evaluate this accuracy of incurred claims and expenses currently recognized in less mature policy years.

