BIG INDEPENDENT CITIES EXCESS POOL

REPORT ON AUDITED
FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

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Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

November 21, 2016

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Big Independent Cities Excess Pool (BICEP) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise BICEP'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 an opinion 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 risk 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 BICEP'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 BICEP'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 qualified audit opinion.

Basis for Qualified Opinion

Due in part to the City of San Bernardino bankruptcy filing under Chapter 9 of the U.S. Bankruptcy code, BICEP's claims administrator has stated that the City's claims information has been difficult to obtain and may not be complete or credible. Accordingly, we were unable to obtain sufficient appropriate audit evidence as to the completeness and accuracy of the outstanding claims liabilities and therefore, were unable to determine whether any adjustments to those amounts were necessary.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of BICEP as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and claims development information as listed in the table of contents, 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 financial statements, and other knowledge we obtained during our audit of the 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 November 21, 2016 on our consideration of BICEP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 BICEP's internal control over financial reporting and compliance.

Sampson, Sampson & Patterson, LLP

The management of the Big Independent Cities Excess Pool (BICEP) is pleased to present the following discussion and analysis of the operating results, financial condition, and liquidity of BICEP for the fiscal year ended June 30, 2016. This discussion should be read in conjunction with the financial statements and notes to the financial statements included with this report.

General Program Highlights

BICEP is a public agency created in 1988 by a joint powers agreement among five cities in California to provide a pooled approach to excess liability insurance, as well as joint insurance coverages for member cities pursuant to the California Government Code. BICEP currently consists of six Southern California cities: Huntington Beach, Oxnard, San Bernardino, Santa Ana, Ventura, and West Covina.

The pool provides liability coverage in excess of each member's self-insured retention (SIR) of $1 million through a reinsurance arrangement to $27 million. Prior to the 2013/2014 program year and since 2004/2005, BICEP members pooled losses in the $1 million to $2 million layer above their $1 million self-insured retention (SIR). However, beginning in the 2013/2014 program year, this layer is reinsured. In the 2015/2016 program year, a corridor deductible provision was included in the $1 million to $2 million reinsurance layer, whereby BICEP will pay the first $1 million in that layer before the reinsurance is activated. In addition, purchased coverage is offered for excess workers' compensation, property, special events, vendor/contractors liability, crime, airport/aircraft, and pollution.

BICEP's officers and members are active in all phases of risk management and the insurance industry. BICEP, as an organization, is a member of PRIMA (Public Risk Management Association); AGRIP (Association of Government Risk Pools), and CAJPA (California Association of Joint Powers Authorities), through which it holds the distinguished designation of "Accreditation with Excellence." This is the highest level of accreditation offered by CAJPA and places it among the elite of accredited JPAs in California. The accreditation review process involves an in-depth review of BICEP's operations, financial stability, performance, and overall management effectiveness.

Effective September 1, 2015, BICEP contracts with Bickmore, a York company specializing in the management of joint powers authorities, to handle the day-to-day operations of BICEP. Bickmore's employees provide general administrative, financial accounting, claims management oversight, and other services as necessary for the operations of BICEP.

Financial Highlights for the Fiscal Year Ended June 30, 2016

Revenues	$6.3 million	Total revenues, operating and non-operating, increased 6.4% overall due to a decrease in operating premium revenue of 4.4%, offset by an increase in non-operating investment income of 73.9%.
Expenses	$14.3 million	Increased 169.2% over the prior year primarily due to an increase in claims expense of $6.9 million, and the release of dividends to the membership in the amount of $3.1 million.
Assets	$14.7 million	Decreased $1.5 million, or 9.2%, resulting primarily from a decrease in cash and investments due to the payment of claims incurred in a prior program year.
Liabilities	$9.0 million	Increased $6.8 million or 303.7%, due to the increase in claims reserves, as well as the accrual of the dividend release.

2015/2016 Program Year Highlights

Program Administration: BICEP transitioned to a new program administrator, Bickmore, effective September 1, 2015. The new administrator is committed to ensuring the continuing success of BICEP and is in the process of reviewing and revising policies, procedures, and resolutions, and implementing improvements in these governing documents. Revised formats for the annual budget, return of equity calculation, and other financial reporting documents have been implemented to provide enhanced information for Board decision making. Other informative and helpful documents have been provided to the Board such as a Contractual Risk Transfer (CRT) Manual to simplify the CRT process.

Investment Custodian: A change was made in the custodian of BICEP's portfolio, managed by Chandler Asset Management. The Bank of New York Mellon was replaced by U.S. Bank, and will yield savings of over $1,000 per year for the same service.

Risk Management Seminar: BICEP sponsored a risk management seminar in October, 2015, which included presentations on best practices for public entities. Topics included Drones and Regulatory Challenges, Social Media, and Police Body Worn Cameras.

Financial Auditor/Audit: A Request for Proposal (RFP) was issued for financial audit services, and a new auditor, Sampson, Sampson & Patterson, LLP, was selected for the 2015/2016 program year audit. A prior year adjustment was made and will result in a change in accounting practice going forward. Any distribution of equity will be recorded in the year in which it was approved by the Board. In addition, a qualified opinion was given, and is explained in the **Description of Facts or Conditions that are Expected to have a Significant Effect on Financial Position or Results of Operations** section of this Discussion, as well as in Note 5 of the Notes to Financial Statements.

Strategic Planning: BICEP's first Board Strategic Planning in many years is calendared for September, 2016. Goals and objectives will be established for current challenges and future progress.

Description of the Basic Financial Statements

BICEP's financial statements are prepared in conformity with generally accepted accounting principles and include certain amounts based upon reliable estimates and judgments. The financial statements include the Independent Auditor's Report; Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows; along with accompanying Notes to Financial Statements.

The **Independent Auditor's Report** is presented in a formal letter format to the Board of Directors, and provides the auditor's opinion on whether or not the financial statements present fairly, in all material respects, the financial position of BICEP as of the end of the fiscal year being audited.

The **Statement of Net Position** presents information on BICEP's assets and liabilities and the difference between the two representing net position, or pool equity.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents information regarding revenues versus expenses and the change in BICEP's net position during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the collection or disbursement of cash during future fiscal years (e.g., interest and accounts receivable, and the expense associated with payable and liability accruals, both involving cash transactions beyond the date of the financial statements).

The **Statement of Cash Flows** presents the changes in BICEP's cash and cash equivalents during the fiscal year. The statement details the sources and uses of BICEP's cash and cash equivalents into two categories: operating activities and investing activities.

The **Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of BICEP's operations and significant accounting policies as well as clarify unique financial information.

Sampson, Sampson & Patterson, LLP, has performed an independent audit of the accompanying financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report. Aon provided an independent actuarial review, which in typical years would be used to value the amounts recorded as outstanding claims liabilities for the program.

Analysis of Overall Financial Position and Results of Operations

BICEP Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Cash and cash equivalents	$2,402,503	$551,850	335.4%
Investments at market value	12,070,493	15,527,865	-22.3%
Other assets	258,154	150,224	71.8%
Total Assets	$14,731,150	$16,229,939	-9.2%
Current Liabilities	$3,141,217	$79,765	3838.1%
Claims Liabilities	5,850,000	2,147,194	172.4%
Total Liabilities	8,991,217	2,226,959	303.7%
Net Position	5,739,933	14,002,980	-59.0%
Total Liabilities & Net Position	$14,731,150	$16,229,939	-9.2%

BICEP Pool Assets

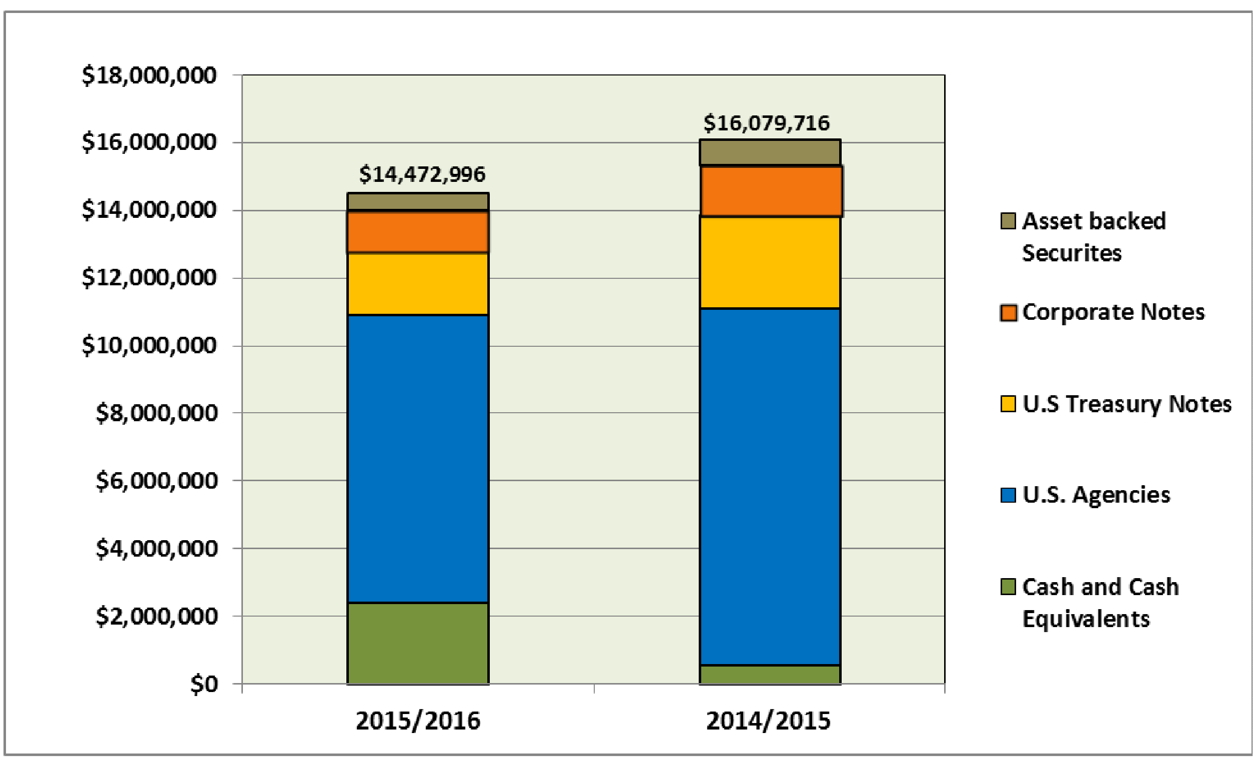
Total assets decreased $1.5 million, attributable in large part to a decrease in cash and investments due to the payment for claims for prior program years in the amount of $2.5 million.

BICEP maintains a balance of approximately $2.2 million in the Local Agency Investment Fund (LAIF), which is administered by the State Treasurer's Office in Sacramento. These funds are available, should they be needed, on a same-day notice basis.

BICEP's excess funds are invested in a portfolio managed by Chandler Asset Management. Custodial services are provided by U.S. Bank. Holdings in BICEP's portfolio were $12.3 million at June 30, 2016. Holdings are maintained in treasury and agency securities, U.S. Government supported corporate debt, corporate notes, and asset backed securities. BICEP's investment earnings increased 73.9% over the prior year. Actual interest income decreased by $55,800, while the market value of investments increased by $298,400. The investment environment is described in detail in the **Description of Facts or Conditions that are Expected to have a Significant Effect on Financial Position or Results of Operations** in the last section of this report. At June 30, 2016, the fair value of BICEP's investments was $241,400 more than the book value.

The chart below depicts the make-up of BICEP's cash assets at June 30, 2016 and 2015.

Total Cash by Category at June 30, 2016, and June 30, 2015



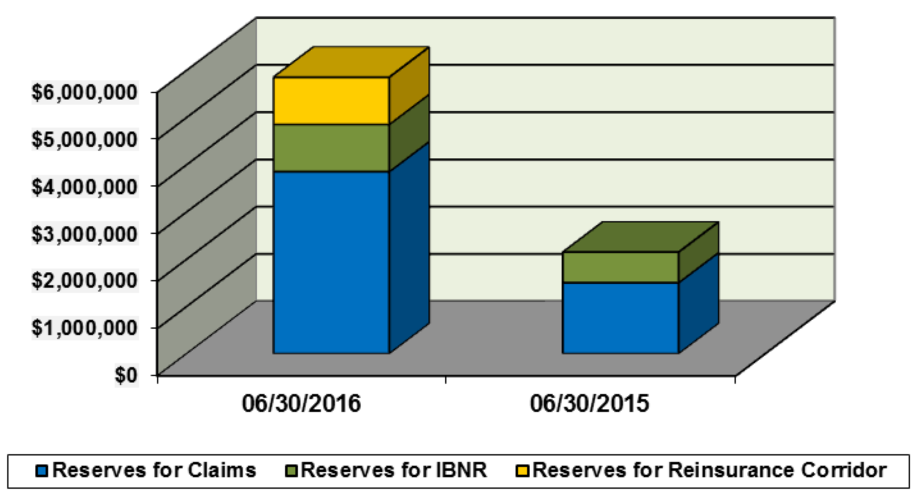
BICEP Pool Liabilities

As shown in the chart below, claim liabilities increased by $3.7 million over the prior year, from $2.1 million to $5.8 million. Reserves for known claims increased by $2.3 million, and reserves for anticipated future claims (IBNR), including the reserve for the reinsurance corridor in the current year, increased by $1.4 million.

BICEP's litigation manager, Carl Warren & Company, sets the reserves for known claims. Typically, it is the actuary's revaluation of claims liability that determines the IBNR reserves. However, the current actuarial study prepared by Aon estimated that at June 30, 2016, the total outstanding liability for all program years would be $1.5 million. Significant adverse claims development occurred through the end of the fiscal year, and necessitated placing $3.8 million in reserves on known claims, which considerably exceeded the actuary's estimate of total outstanding liability. $1.0 million in IBNR was reserved for the reinsurance corridor obligation in the 2015/2016 program year. In addition, management, in consultation with the independent auditor, placed a $1.0 million IBNR reserve, bringing total outstanding claims liability to $5.8 million at June 30, 2016.

BICEP has reinsured the $1 million to $2 million layer the past three years, so it could be assumed that only reserves for program years prior to 2013/2014 are reflected. However, due to a dispute with the reinsurance carrier for a City of Ventura claim in the 2013/2014 program year, a $1.0 million reserve has been placed for that program year.

Comparison of Pool Liabilities at June 30, 2016, and June 30, 2015



BICEP Revenues and Expenses

BICEP Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015	Percentage Change
Revenues:			
Deposit premiums	$5,767,915	$6,034,299	-4.4%
Cost Allocation	0	(460,039)	-100.0%
Investment income	570,775	328,246	73.9%
Misc income	0	56,726	-100.0%
Total Revenues	$6,338,690	$5,959,232	6.4%
Expenses:			
Excess insurance - Liability and Workers' Comp	4,043,708	4,786,346	-15.5%
Insurance purchases - Other Coverages	529,206	917,956	-42.3%
Claims Payments	2,497,248	2,275,810	9.7%
Change in Claims Liabilities	3,702,806	(2,974,457)	-224.5%
General and Administrative Expenses	434,653	309,254	40.5%
Total Operating Expenses	11,207,621	5,314,909	110.9%
Dividend Expense	3,102,013	0	
Change in Net Position	(7,970,944)	644,321	-1337.1%
Net Position, Beginning of Year, *as originally reported*	14,002,980	13,358,659	4.8%
Prior Period Adjustment	(292,103)	0	
Net Position, Beginning of Year, *Restated*	$13,710,877	$13,358,659	2.6%
Net Position, End of Year	$5,739,933	$14,002,980	-59.0%

Total revenues, operating and non-operating, increased by 6.4%, or $379,500, over the prior year. Operating revenues consist primarily of deposit premiums that include excess liability reinsurance and excess coverage, excess workers' compensation, other purchased coverages, administration, and pass through revenue offset by a corresponding expense reflected in administration expense.

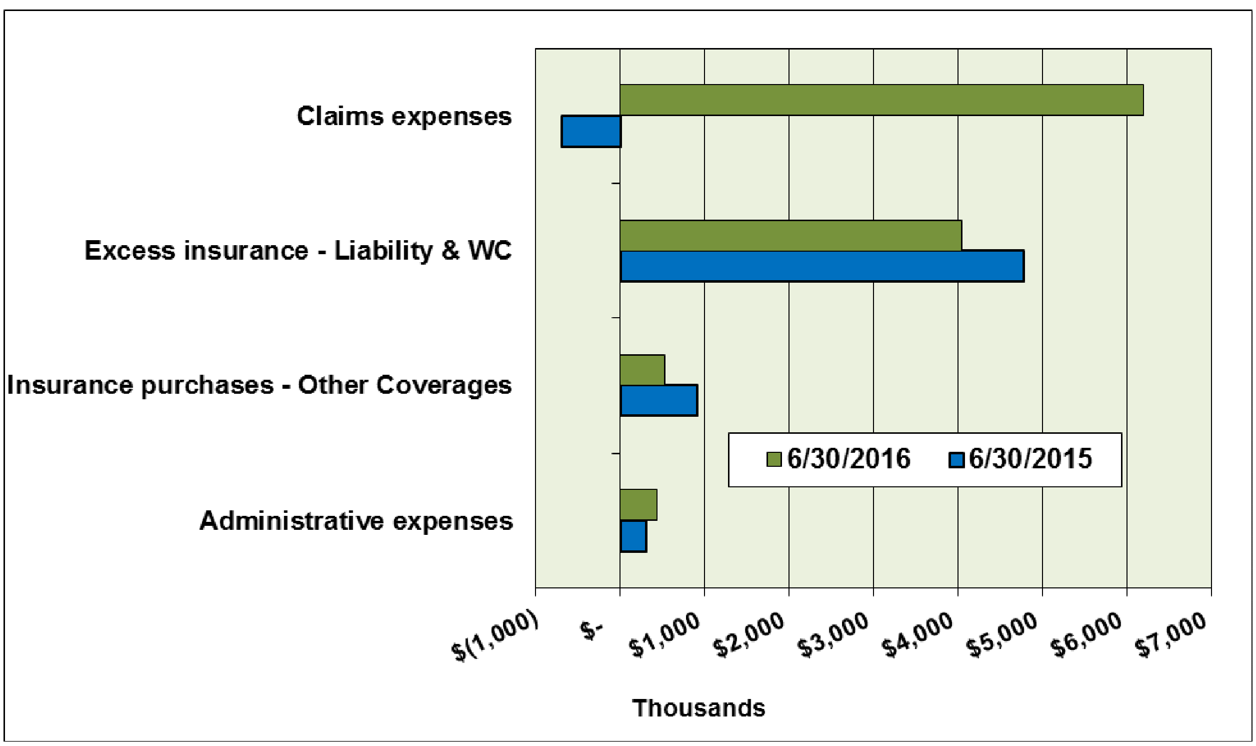
During the fiscal year ended June 30, 2015, total premiums collected were offset by a "cost allocation", which was a board authorized return of equity for program years 2005/06 through 2008/09. The current year premium had also been reduced by a Board authorized return of equity, "cost allocation", for program years 2004/2005 through 2009/2010 via a reduction in current year premium in the amount of $292,100. However, the current auditor and management are of the opinion that the "cost allocation", or reduction in premium, should have been accrued in the prior year as an expense. Therefore, the auditor has made a prior period adjustment in the financial statements to capture this change in accounting practice going forward. This change is reflected in the reporting of the board authorized "dividend expense" in the amount of $3.1 million in the current year, even though it was deducted from member premiums in the following year.

Investment income increased 73.9%, as discussed in a previous section. BICEP earned interest income of $329,400 with market appreciation on investments of $241,400, increasing overall investment income to $570,800.

Operating expenses increased 169.2%, or $9.0 million, over the prior year, due to an increase in claims expense of $6.9 million, and the release of dividends to the membership in the amount of $3.1 million, offset by a reduction of $900,000 in purchased excess liability and property premiums. The dividend release covered a return of equity to the membership for program years 2004/2005 through 2010/2011. All claims for program years 2004/2005 through 2006/2007 have been closed and there are no open reserves for those years. The equity for these three program years has been fully released.

In the prior year, the difference in total claims expense from the previous prior year had been negligible. Although claims payments had increased by $1.6 million over the previous prior year, changes in actuarially determined claims reserves had decreased by $1.5 million. The actuary's revaluation of the estimated outstanding liability for prior program years during the prior year yielded a projection of $2.1 million as compared to the previous prior year's projection of $5.6 million. Typically, changes in actuarial projections of ultimate loss exposure have a direct result on claims expense.

Expenses for the Years Ended June 30, 2016, and June 30, 2015



Insurance Expense

BICEP contracts with Alliant Insurance Services, who serves as its broker for insurance placement coverage.

BICEP provides various coverage options for its members as follows:

Pooled Program
- General Liability ($1 million x $1 million)
  - From 2004/2005 through 2012/2013
- Reinsurance Corridor ($1 million x $1 million)
  - 2015/2016

Purchased Programs through BICEP (Individually by Member)
- General Liability to $27 million (since 2013/2014)
- Excess Workers Compensation (CSAC-EIA)
- Governmental Crime
- Property
- Special Events Liability
- Special Liability Insurance Program (SLIP)

Member Optional Programs
- Liability – Vendors and Contractors
- Airport Liability
- Aircraft Liability
- Difference In Conditions (DIC)
- Flood
- Marine Liability
- Pollution (CSAC-EIA)

Provision for Insured Events

BICEP contracts with Aon for an actuarial valuation of its outstanding claims liability as well as a recommendation of a funding rate for its historically pooled layer for the coming year. Although pooling rates were provided in the study, the Board elected to reinsure the $1 million to $2 million layer in 2015/2016, as it had the prior two years. For financial statement purposes, the liability for claims has been recorded at the undiscounted expected confidence level.

General Administrative Expenses

Total general administrative and other operating expenses increased 40.5% over the prior year. The major drivers in this increase were: 1) Legal expense that exceeded budget by 300.0% due to efforts on the San Bernardino bankruptcy as well as time spent in program administration during the transition to the new administrator, and 2) Program administration expense due to an increase in scope in the contract for the new administrator. Total general administrative expenses represent 7.5% and 5.1% respectively of the total premiums for each of the fiscal years ended June 30, 2016 and June 30, 2015.

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

Litigation

BICEP's financial auditor has given a rare "qualified" opinion on the financial statements, due in part to one of its member city's, the City of San Bernardino's, bankruptcy filing under Chapter 9 of the U.S. Bankruptcy code, and the resulting difficulty in obtaining sufficient and credible claims information from that city. The outstanding claims liability as reported in the financial statements are based on known reported claims as valued by BICEP's litigation manager, Carl Warren & Company, and Incurred But Not Reported reserves as valued by management. However, it is not clear the extent to which the reported liability includes claims from the City of San Bernardino, which are relatively unknown at this time. The effect of this anomaly is uncertain, and could have a significant effect on BICEP's future financial position.

An explanation of the City's plan to settle its claims and BICEP's position in the matter is discussed in Note 5 under Notes to Financial Statements.

Economic Factors

The Federal Open Market Committee (FOMC) voted to keep the fed funds rate unchanged at a range of 0.25%-0.50% in July. There was one dissenting vote by Esther George who favored a 25 basis point rate hike. The tone of the July FOMC statement was more upbeat than the June statement, noting that the labor market strengthened and economic activity expanded moderately in the latest period. The July statement also indicated that "near-term risks to the economic outlook have diminished." Although there was no change to the Fed's forward guidance, the tone of the July statement suggests that the Fed is leaving the door open for a rate hike before year-end. There are three more FOMC meetings scheduled this year (September 20-21, November 1-2, and December 13-14). The Fed's most recent median projection implies two rate hikes before year-end, but BICEP's investment manager, Chandler Asset Management, believes this projection is unlikely to be met. Market reaction to the Fed's July statement was limited, which in their view suggests that the Fed's credibility has diminished. The outlook for the global economy remains uncertain, particularly in light of Brexit and the upcoming U.S. Presidential election. As such, they expect the Fed to remain on hold, at least over the near-term.

Investment

While the market and the FOMC members do not agree on the future path of fed funds rate hikes, it will be important to closely monitor the BICEP portfolio to ensure appropriate liquidity during times of volatility. BICEP's investment advisor, Chandler Asset Management, will continue to monitor the risks and opportunities present in the market and evaluate the impact they have on BICEP's portfolio.

BIG INDEPENDENT CITIES EXCESS POOL

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

Current Assets:	
Cash and cash equivalents	$ 2,402,503
Investments	647,245
Receivables:	
Member	27,500
Interest	58,894
Prepaid expenses	171,760
Total Current Assets	3,307,902
Non-Current Assets:	
Investments	11,423,248
Total Non-Current Assets	11,423,248
Total Assets	$14,731,150

LIABILITIES AND NET POSITION

Liabilities:	
Current Liabilities:	
Accounts payable	$ 39,204
Accrued dividend	3,102,013
Current portion of claims liabilities	2,000,000
Total Current Liabilities	5,141,217
Non-current Liabilities:	
Claims liabilities	3,850,000
Total Liabilities	8,991,217
Net Position	5,739,933
Total Liabilities and Net Position	$14,731,150

See independent auditor's report and notes to financial statements.

BIG INDEPENDENT CITIES EXCESS POOL

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

OPERATING REVENUES:	
Member deposits:	
General liability	$ 4,196,760
Workers' compensation	1,041,950
Property	469,888
Environment policy	16,935
Crime policy	42,382
Total Operating Revenues	5,767,915
OPERATING EXPENSES:	
Liability program:	
Claims paid	2,497,248
Change in unpaid claims	3,702,806
Claims servicing	40,485
Excess insurance	2,876,073
Broker fees	125,685
Total Liability Program Expenses	9,242,297
Workers' Compensation Program:	
Excess insurance	1,001,765
Broker fees	40,185
Total Workers' Compensation Program Expenses	1,041,950
Other Coverages:	
Excess insurance – property	469,888
Environment policy	16,936
Crime policy	42,382
Total Other Coverages Expenses	529,206
General and Administrative Expenses	370,996
Member Dividends	3,102,013
Total Operating Expenses	14,286,462
Net Operating Income (Loss)	(8,518,547)
Non-Operating Revenues (Expenses):	
Investment income	570,775
Investments expenses	(23,172)
Total Non-Operating Revenues (Expenses)	547,603
CHANGE IN NET POSITION	(7,970,944)
NET POSITION, BEGINNING OF YEAR – as originally reported	14,002,980
PRIOR PERIOD ADJUSTMENT	(292,103)
NET POSITION, BEGINNING OF YEAR, restated	13,710,877
NET POSITON, END OF YEAR	$ 5,739,933

See independent auditor's report and notes to financial statements.

BIG INDEPENDENT CITIES EXCESS POOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	$ 5,799,979
Cash paid for claims	(2,497,248)
Cash paid for excess insurance	(4,347,726)
Cash paid for member dividends	(292,103)
Cash paid for general and administrative	(848,990)
Net cash used by operating activities	(2,186,088)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	417,549
Investment expenses	(23,172)
Purchase of investment securities	(2,000,366)
Proceeds from sales and maturities of securities	5,642,730
Net cash provided by investing activities	4,036,741
Net increase in cash and cash equivalents	1,850,653
Cash and cash equivalents, beginning of year	551,850
Cash and cash equivalents, end of year	$ 2,402,503
RECONCILIATION OF NET LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Net operating loss	$(8,518,547)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Member receivable	32,064
Prepaid expenses	(171,760)
Accounts payable	(40,561)
Accrued dividend	2,809,910
Claims liabilities	3,702,806
Net cash used by operating activities	$(2,186,088)
NON CASH ITEMS:	
Change in unrealized fair value of investments	$ 72,098

See independent auditor’s report and notes to financial statements.

NOTE 1 – ORGANIZATION:

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' self-insurance retention (SIR) level of one million dollars. For the years between 2004/2005 through 2012/2013, members pooled liability coverage for the layer between each member's SIR of $1 million to $2 million. For the 2013/2014 and 2014/2015 years, the $1 million to $2 million layer was reinsured. However, BICEP entered into a funding agreement with the City of Ventura to provide coverage for certain claims incurred during the 2013/2014 year that are within BICEP's Memorandum of Coverage but are being disputed by the reinsurance carrier. BICEP has reserved $1 million for the payment of these claims. For the 2015/2016 year, BICEP provided coverage for the $1 million to $2 million layer through a corridor self-insured retention arrangement whereby individual or aggregate losses exceeding $1 million are covered by the insurance carrier. Claims in excess of the member's SIR of $1 million 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. In addition, purchased insurance is provided by BICEP to its members for excess workers compensation, property, crime, and pollution coverage.

Admission and Withdrawal

Under BICEP's Joint Powers Agreement, new members may be admitted by a two-thirds vote of all current members of the Board. Charter members must submit written notice at least six months prior to the start of the upcoming renewal date of coverage to voluntarily withdraw. Non-charter members may not voluntarily withdraw for a period of three years from the date of admission (initial term). After the initial term, non-charter members are required to provide six months written notice to withdraw. The effect of withdrawal does not terminate the responsibility of the members for its share of obligations incurred while a member of BICEP.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

Accounting Method

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded in the accounting period which the liability is incurred. BICEP does not discount claims liabilities, therefore, anticipated investment income is not considered in determining if a premium deficiency exists.

Cash and Cash Equivalents

BICEP considers money market fund, deposits with the Local Agency Investment Fund (LAIF), and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value on quoted market prices and consist primarily of federal agency securities, U.S. treasury notes, corporate notes, mortgage pass-through securities, and deposits with the Local Agency Investment Fund (LAIF). Changes in the fair value of investments, both realized and unrealized, are included in the Statement of Revenues, Expenses, and Changes in Net Position as a component of non-operating revenues.

Prepaid Expenses

Expenses for the portions of insurance and brokers fees that extend into future accounting periods have been recorded as prepaid expenses.

Claims Liabilities

BICEP has established liabilities for claims, based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The incurred but not reported claims have been estimated by management. The claims reserves have been estimated by BICEP's claims administrator based upon prior experience with similar claims. Because actual costs depend on such factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Accordingly, the reserve for claims is computed annually to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to the reserves are charged to income or expense in the period in which they are made.

Classification of Revenues

BICEP has classified its revenue as either operating or non-operating revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement 34. Revenues and expenses are classified according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as member contributions for insured events and administration fees.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources described in GASB Statement 34 such as investment earnings.

Income Taxes

As a public agency under the State of California, BICEP is exempt from federal and state income taxes under Internal Revenue Code Section 115 and California Revenue and Taxation Code Section 17131, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS:

Cash and investments held by BICEP are reflected in the accompanying statement of net position at June 30, 2016 as follows:

Cash and cash equivalents	$ 2,402,503
Investments – current	647,245
Investments – noncurrent	11,423,248
Total	$14,472,996

Cash and investments held by BICEP at June 30, 2016 consisted of the following:

Deposits	$ 10,627
Investments	14,462,369
Total	$14,472,996

Investments Authorized by the California Government Code and BICEP's Investment Policy

The following table identifies the investment types that are authorized for BICEP by the California Government Code and BICEP's investment policy. The table also identifies certain provisions of the California Government Code that addresses interest rate risk and concentration of credit risk.

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	5%
U.S. Treasury Obligations	Yes	10 years	None	None
U.S. Agency Securities	Yes	10 years	None	None
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	5%
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Repurchase Agreements	Yes	1 year	None	5%
Reverse Repurchase Agreements	Yes	92 days	20%	5%
Medium-Term Notes	Yes	5 years	10%	5%
Money Market Mutual Funds	Yes	N/A	20%	5%
Mortgage Pass-Through Securities	Yes	5 years	5%	5%
County Pooled Investment Funds	Yes	N/A	None	5%
Local Agency Investment Fund (LAIF)	Yes	N/A	None	5%
JPA Pools (other investment pools)	Yes	N/A	None	5%
Supranationals Debt	Yes	5 years	30%	5%

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

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

Information about the sensitivity of the fair values of BICEP's investments to market interest rate fluctuations is provided by the following table that shows the distribution of BICEP/s investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Federal Agency Securities	$ 8,509,306	$ 647,245	$1,381,215	$4,694,513	$1,786,333
U.S. Treasury Notes	1,880,712			959,358	921,354
State Investment Pool	2,205,739	2,205,739			
Money Market Fund	186,137	186,137			
Corporate Notes	1,190,588		861,315	329,273	
Mortgage Pass-Through Securities	489,887		233,712	256,175	
Total	$14,462,369	$3,039,121	$2,476,242	$6,239,319	$2,707,687

Disclosures Relating to Credit Risk

Generally, 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 actual Standard and Poors rating as of year-end for each investment type.

Investment Type	Total	Exempt from Disclosure	AAA	AA	A	Not Rated
Federal Agency Securities	$ 8,509,306	$	$	$ 8,509,306	$	$
U.S. Treasury Notes	1,880,712			1,880,712		
State Investment Pool	2,205,739	2,205,739				
Money Market Fund	186,137		186,137			
Corporate Notes	1,190,588			482,335	708,253	
Mortgage Pass-Through Securities	489,887		160,996			328,891
Total	$14,462,369	$2,205,739	$347,133	$10,872,353	$708,253	$328,891

Concentration of Credit Risk

The investment policy of BICEP places limits on the amount that may be invested in any one issuer. The limits are applied at the time the investment decision is made. These limits are summarized as follows:

	Limit per Issuer	Limit per Asset Class
Corporate Notes	5%	5%
Mortgage Pass-Through Securities	5%	5%

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total BICEP investments are as follows:

Issuer	Investment Type	Reported Amount
FFCB	Federal Agency Securities	$ 801,052
FHLMC	Federal Agency Securities	1,002,180
FNMA	Federal Agency Securities	1,997,225
TVA	Federal Agency Securities	2,133,089
FHLB	Federal Agency Securities	2,575,760

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and BICEP's investments policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure BICEP's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, none of BICEP's deposits with financial institutions were held in uncollateralized accounts. In addition, none of BICEP's investments were subject to custodial credit risk as of June 30, 2016. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or a government investment pool (such as LAIF).

Managed Investment Pools

BICEP is a voluntary participant in the Local Agency Investment Fund (LAIF) which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of BICEP's investment in this pool is reported in the accompanying financial statements at amounts based upon BICEP'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 are recorded at fair market value.

Fair Value Measurements

BICEP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

BICEP has the following recurring fair value measurements as of June 30, 2016:

Assets at Fair Value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
Federal Agency Securities	$	$8,509,306	$	$8,509,306
U.S. Treasury Notes		1,880,712		1,880,712
Corporate Notes		1,190,588		1,190,588
Mortgage Pass-Through Securities		489,887		489,887

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

NOTE 4 – CLAIMS LIABILITIES:

The following represents changes in the unpaid claims liabilities for BICEP during the current and prior year:

	2015/16	2014/15
Unpaid claims and claim adjustment expense - beginning of year	$2,147,194	$ 5,121,651
Incurred claims and claim adjustment expenses:		
Change in provision for insured events for prior years	5,850,000	(698,647)
Total incurred claims and claim adjustment expenses	5,850,000	(698,647)
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	2,147,194	2,275,810
Total payments	2,147,194	2,275,810
Total unpaid losses and loss adjustment expenses - end of year	$5,850,000	$2,147,194

NOTE 5 – SAN BERNARDINO BANKRUPTCY FILING:

On August 1, 2012, San Bernardino, a BICEP member city, filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy code. The filing was with the U.S. Bankruptcy Court of the Central District of California. On September 13, 2013, the Court entered an order permitting the City to proceed with Chapter 9 relief. In an effort to adjust its debts and liabilities, the City has proposed a plan to fully satisfy all unsecured claims at the rate of 1%, including the $1 million SIR requirements to access coverage under its agreements with BICEP. BICEP has taken the position that payment of the $1 million SIR requirement in full is an obligation that the City must fulfill before asserting a claim against BICEP for coverage. Those resolved claims exceeding $1,000,000 coming within BICEP's Memorandum of Understanding in the $1,000,000 to $2,000,000 layer will continue to be paid by BICEP. As of the date of the audit report, the terms of the City's proposed plan have not been approved and the ultimate outcome and its affect on BICEP is uncertain.

NOTE 6 – MEMBER DIVIDENDS:

In June 2016, the Board of Directors approved the return of equity totaling $3,102,013 to members that participated in the program years from 2004/2005 to 2010/2011. BICEP's return of equity policy provides that available equity can be released to members at the rate of 20% per year over a five year period, beginning no earlier than four years after the end of the applicable program year.

NOTE 7 – PRIOR PERIOD ADJUSTMENT:

The beginning fund balance has been reduced by $292,013 to reflect the liability and related expense in the prior year for the return of member equity approved by the board in June, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

BIG INDEPENDENT CITIES EXCESS POOL

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2016

The following table illustrates how BICEP'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 Program for its most current ten year period. The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue amounts of premiums ceded and reported premiums (net of reinsurance) and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims.

(3) This line shows the Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called program year).

(4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each program year.

(5) This line shows the latest reestimated amount of losses assumed by reinsurers for each program year.

(6) This section of rows shows how each program year's net amount of losses increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.)

(7) This line compares the latest reestimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual program years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature program years. The columns of the table show data for successive program years.

BIG INDEPENDENT CITIES EXCESS POOL

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2016

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
1. Required contribution and investment revenue:										
Contribution revenue earned	$ 3,802,281	$ 3,494,271	$ 3,401,737	$ 3,783,256	$ 4,641,947	$ 3,836,708	$ 4,101,662	$ 4,103,917	$ 4,103,015	$ 4,488,863
Cost allocation	247,594	(785,871)	(440,380)	(97,983)						
Net dividends	(523,034)	(1,069,884)	(184,789)	(396,554)	(521,868)					
Ceded	(2,019,257)	(1,843,400)	(1,870,536)	(1,928,214)	(1,800,115)	(1,840,364)	(2,192,461)	(3,452,482)	(3,773,018)	(2,876,073)
Net earned before interest	1,507,584	(204,884)	906,032	1,360,505	2,319,964	1,996,344	1,909,201	651,435	329,997	1,612,790
Interest earned	710,094	1,681,807	1,289,142	1,189,893	985,902	1,306,281	(123,727)			100,168
Total net earned	2,217,678	1,476,923	2,195,174	2,550,398	3,305,866	3,302,625	1,785,474	651,435	329,997	1,712,958
2. Unallocated expenses	191,383	203,496	249,751	240,811	303,078	250,895	256,223	239,036	228,983	394,170
3. Estimated incurred claims and expenses, end of policy year	1,409,161	1,377,968	1,488,591	1,591,013	1,707,330	1,533,000	1,557,000			1,000,000
4. Paid claims (cumulative) as of:										
End of program year										
One year later										
Two years later				1,000,000		68,084	1,000,000			
Three years later			1,000,000	1,000,000		68,084	2,497,248			
Four years later			1,605,511	1,000,000		1,068,064				
Five years later	1,000,000		1,605,511	1,000,000						
Six years later	2,000,000		1,605,511	1,000,000						
Seven years later	2,000,000		1,605,511							
Eight years later	2,000,000									
Nine years later	2,000,000									
5. Re-estimated incurred claims and expenses:										
End of program year	1,409,161	1,377,968	1,488,591	1,591,013	1,707,330	1,533,000	1,557,000			1,000,000
One year later	83,242	88,077	532,008	1,200,000	241,546	254,527	1,466,539			
Two years later	300,000	26,283	2,401,148	1,315,630	1,344,596	125,565	2,147,194	1,000,000		
Three years later		1,200,000	1,201,148	1,201,648	1,207,621	1,068,084	3,497,248			
Four years later		10,959	1,605,511	1,115,148	1,118,209	1,918,064				
Five years later	2,200,000	2,315	1,605,511	1,051,911						
Six years later	2,000,000		1,605,511	1,000,000						
Seven years later	2,000,000		1,605,511							
Eight years later	2,000,000	1,000,000								
Nine years later	2,000,000									
7. Increase (decrease) in estimated net incurred claims and expenses from end of program year	$ 590,839	$ (377,968)	$ 116,920	$ (591,013)	$(1,707,330)	$ 385,064	$ 1,940,248	$1,000,000	$	$

OTHER INDEPENDENT AUDITOR’S REPORT

Sampson, Sampson & Patterson, LLP
Certified Public Accountants

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

November 21, 2016

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANICAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Big Independent Cities Excess Pool (BICEP)
Sacramento, 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 Big Independent Cities Excess Pool (BICEP) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise BICEP basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BICEP'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BICEP's internal control. Accordingly, we do not express an opinion on the effectiveness of BICEP'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 BICEP's financial statements will not be prevented, or detected or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses costs as item #2016-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BICEP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

BICEP's Response to Findings

BICEP's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. BICEP's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 BICEP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BICEP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP

BIG INDEPENDENT CITIES EXCESS POOL

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Significant Deficiency

2016-1 – Inadequate Controls over Cash Disbursements

Condition:

BICEP changed program administrators as of September 1, 2015. For July and August, 2015, Ken Spiker and Associates was the administrator and from September 1, 2015 through June 30, 2016, Bickmore was the administrator. We reviewed the internal controls and performed disbursement testing under the procedures and policies established by both administrators.

For disbursements made during July and August, 2015, we noted the following:

1. The former administrator signed a check payable to himself for $32,573.74. There was only 1 signer required on the check and the supporting invoices had no indication that they had been reviewed or approved. In addition, there was no indication that the Board of Directors received a check listing to provide a means to facilitate their monitoring and oversight responsibilities.

We had no findings for the period during which Bickmore was the administrator based on the audit procedures performed for disbursements made between September 1, 2015 and June 30, 2016.

Criteria:

Internal controls are designed to safeguard assets and help prevent or detect misappropriation of the entity's assets either intentionally or through an undetected error. Policies and procedures should be established to ensure that internal controls are effective and routinely monitored for compliance.

Effective internal controls over cash disbursements require that segregation of duties exist to prevent the misappropriation of assets. The same person should not have the incompatible responsibilities of approving invoices, paying bills, signing checks, and maintaining the books and records.

Effect of Condition:

Inadequate internal controls over disbursements increase the risk that funds could be misappropriated without being detected.

Cause of Condition:

Adequate controls over disbursements had not been established prior to September 1, 2015. Prior to that date, BICEP's policies allowed for the payment of checks with only 1 signer, regardless of amount, and did not prohibit the practice of the payee and check signer being the same person.

Recommendation:

Bickmore has implemented a strong internal control system for cash disbursements. As previously mentioned, we had no findings for disbursements made between September 1, 2015 and June 30, 2016 based on the sample tested. We recommend that the current policies be followed diligently and monitored regularly to make sure that the controls are working as intended.

Response:

As indicated in the auditor's "recommendation," Bickmore, the current administrator, has strong internal controls for cash disbursements in place. The cited "condition" occurred during the tenure of the prior administrator.