Independent Cities Risk Management Authority

ICRMA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2018
(With Independent Auditors' Report)

Independent Cities Risk Management Authority

— Governmental Joint Powers Authority —

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Independent Cities Risk Management Authority (Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 4 to the financial statements, the City of Redondo Beach has filed a suit against the Authority claiming the assessment was not properly calculated and approved. As of June 30, 2018, $2,044,670 is due from the City of Redondo Beach.

As described in Note 7 to the financial statements, the Authority is seeking reimbursement from its insurance carrier for approximately $6.8 million for certain claims. However, the carrier has denied payment and coverage for the claim. A full allowance has been recorded as of June 30, 2018 in accordance with generally accepted accounting principles.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, reconciliation of claims liabilities by program, claims development information for the Liability and Workers' Compensation Programs, and related notes, 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows for the year ended June 30, 2018, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows for the year ended June 30, 2018 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2017, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
May 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Independent Cities Risk Management Authority (ICRMA) presents the following discussion and analysis of the operating results, financial condition, and liquidity of ICRMA for the fiscal year ended June 30, 2018. This discussion should be read in conjunction with the financial statements and notes to the financial statements included with this report.

General Program Highlights

ICRMA was established for the purpose of operating and maintaining a cooperative program of self-insurance and risk management. Consisting of 16 cities in Los Angeles and Orange Counties, ICRMA offers pooled liability and workers' compensation coverage programs. Members also group purchase property/earthquake/flood insurance, along with auto physical damage, crime and cyber coverage. ICRMA provides its members with a wide range of tailored risk management services, including claims oversight, cost containment, training, and loss control services.

Financial Highlights for the Fiscal Year Ended June 30, 2018

Revenues	$22.9 million	Operating revenues decreased $27.5 million, or (55%) over the prior year. Member premiums decreased $2.2 million due to the withdrawal of two members. No additional assessments were assessed in 2017/2018 compared to the prior year assessment of $25.3 million. Non-operating revenues (investment income) increased from the prior year due to market valuation on the investment portfolio and sales of several investments.
Expenses	$26.7 million	Increased $18.4 million (224%) over the prior year primarily as a result of $19.4 million increase in ultimate losses projected by the actuary for liability claims during the fiscal year. The ultimate losses figure was partly offset by a $1.4 million decrease in excess insurance premium purchased.
Assets	$99.1 million	Increased $3.7 million from the prior year largely due to increase in cash ($3.4 million) and an increase in the value of the investment portfolio ($6.8 million), but was partially offset by the accounts receivable allowance recorded ($6.8 million) against the reinsurance receivable.
Liabilities	$61.6 million	Increased $7.5 million due to the increase of claim estimates in the Liability Program.

Description of the Basic Financial Statements

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

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

The **Statement of Revenues, Expenses and Changes in Net Position** presents information showing total revenues versus total expenses and how ICRMA's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., the expense associated with the increase in claims liability, involving cash outlay beyond the date of the financial statements).

The **Statement of Cash Flows** presents the changes in ICRMA's cash and cash equivalents during the fiscal year. ICRMA's routine activities appear in the operating activities while sales and purchases of investments are part of investing activities.

The **Notes to the 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 ICRMA's operations and significant accounting policies as well as clarify unique financial information.

The **Required Supplementary Information** follows the basic financial statements and provides further detail and reconciliation of claims liabilities.

Analysis of Overall Financial Position and Results of Operations

Condensed Statements of Net Position

June 30, 2018 and 2017

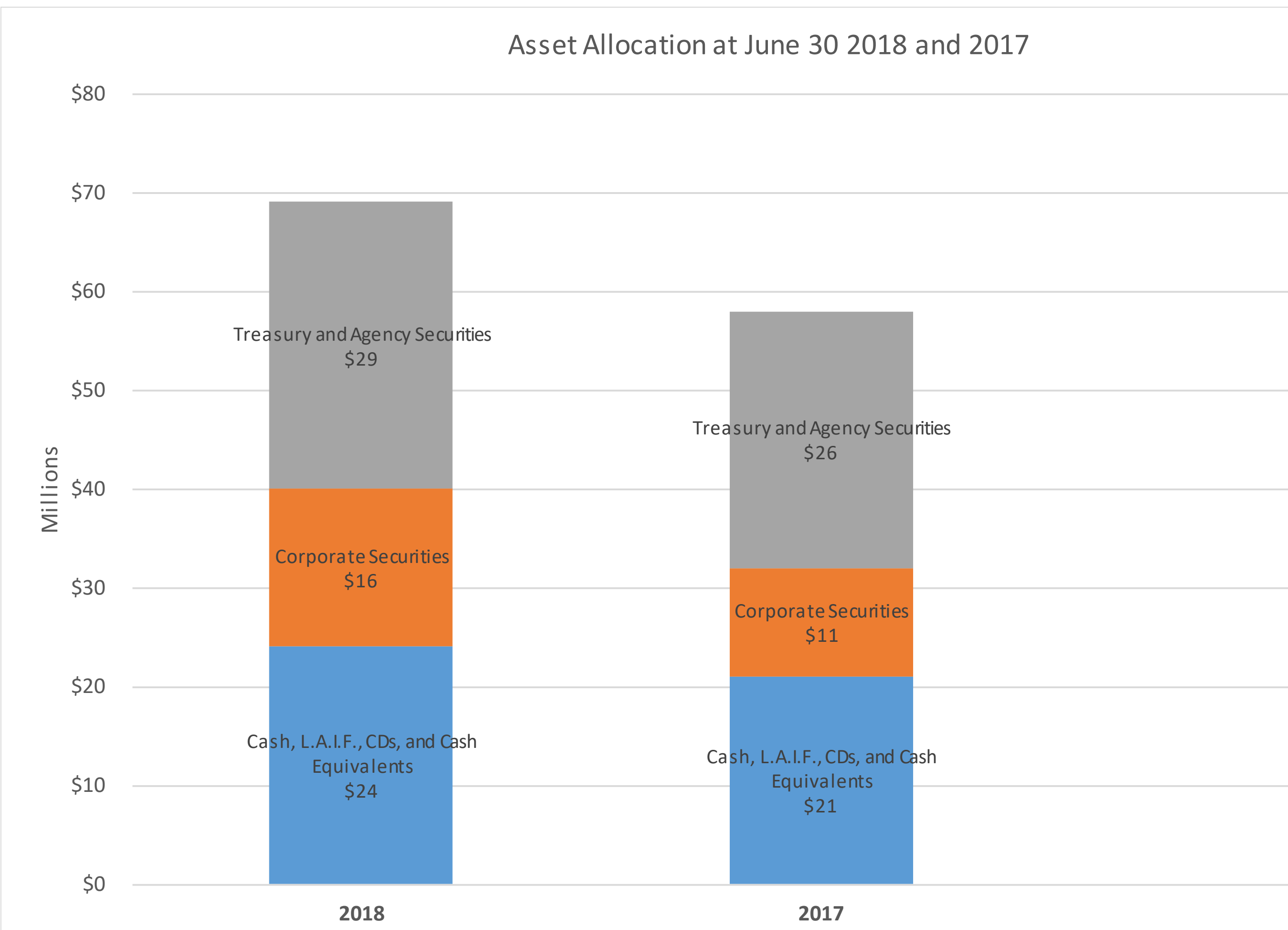
	2018	2017
Assets		
Current Assets	$ 19,527,117	$ 22,214,115
Noncurrent Assets	79,616,358	73,219,314
Total Assets	99,143,475	95,433,429
Liabilities		
Current liabilities	13,262,980	10,137,252
Noncurrent liabilities	48,410,148	44,047,135
Total liabilities	61,673,128	54,184,387
Net position (Deficit)		
Unrestricted	$ 37,470,347	$ 41,249,042

Current and Non-Current Assets

<u>*2017/18 Fiscal Year*</u>
Total assets increased approximately $3.7 million which was driven by the increase in cash ($3.4 million) and an increase in the value of the investment portfolio ($6.6 million) partially offset by the accounts receivable allowance recorded ($6.8 million) against the reinsurance receivable. Liabilities increased due to the increase in claims liabilities.

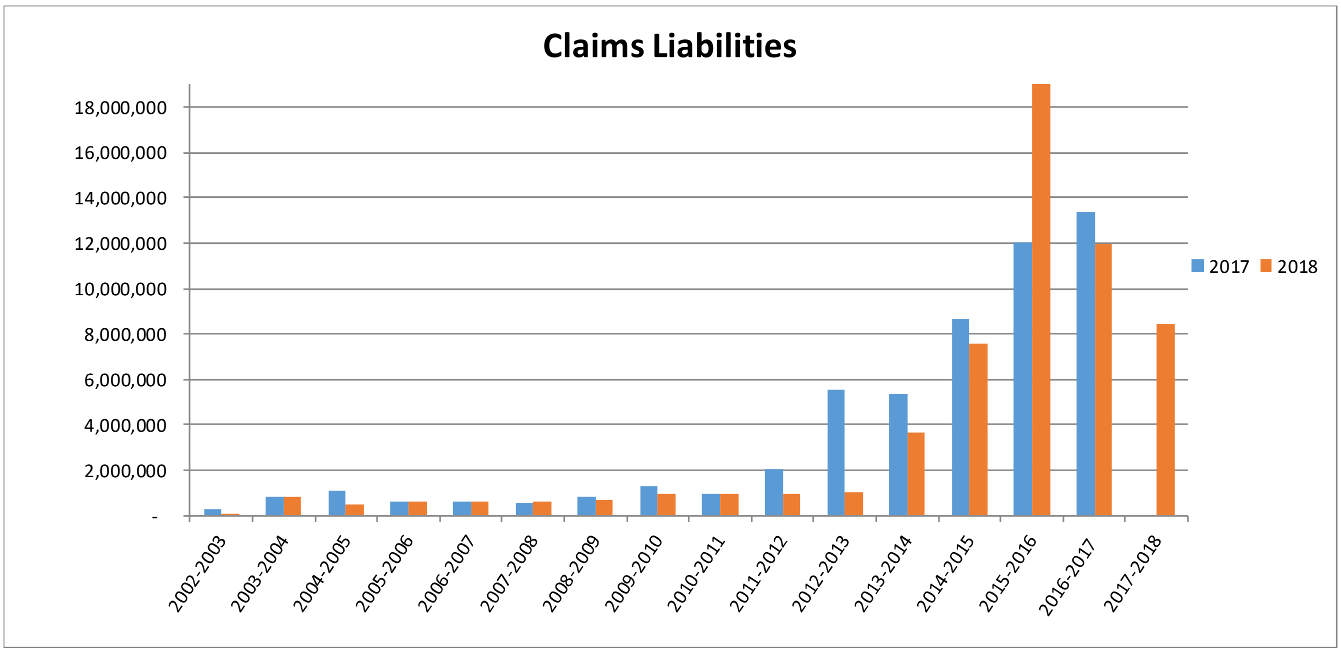
Cash and Investments
The majority of ICRMA's investments are maintained in a professionally managed portfolio or in the Local Agency Investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office. The managed portfolio consists of fixed income securities and cash equivalents purchased and held in accordance with ICRMA's investment policy and the California Government Code.

The asset allocation at June 30, 2018, remained generally consistent over prior years with a decrease in the deposits held in LAIF to match an expected decrease in projected expenses including claims payments. The following graph depicts the make-up of ICRMA's cash and investments at June 30, 2018 and 2017:



Current and Non-Current Liabilities

2017/18 Fiscal Year
ICRMA's liabilities consist almost entirely of the unpaid liability for loss and loss adjustment expenses in the Liability and Workers' Compensation Programs, which increased $6.4 million over the prior year. While the Workers' Compensation claim costs showed a small increase over the prior year, the Liability Program experienced a significant increase in projected ultimate losses for the 2017/18 and prior fiscal years. The following chart presents a comparison of the ultimate loss estimates by program year valued at 6/30/18 and 6/30/17. As shown in the chart, the ultimate estimated claim costs decreased in several program years, of which $59.2 million and $54.0 million remained unpaid as of June 30, 2018 and 2017, respectively.



Revenues and Expenses

	2018	2017
Operating revenues	$ 22,762,730	$ 50,270,104
Operating expenses	26,686,635	8,242,692
Operating income (loss)	(3,923,905)	42,027,412
Nonoperating revenues,		
Investment income	145,210	43,357
Change in net position	(3,778,695)	42,070,769
Net position, beginning of year	41,249,041	(821,727)
Net position, end of year	$ 37,470,346	$ 41,249,042

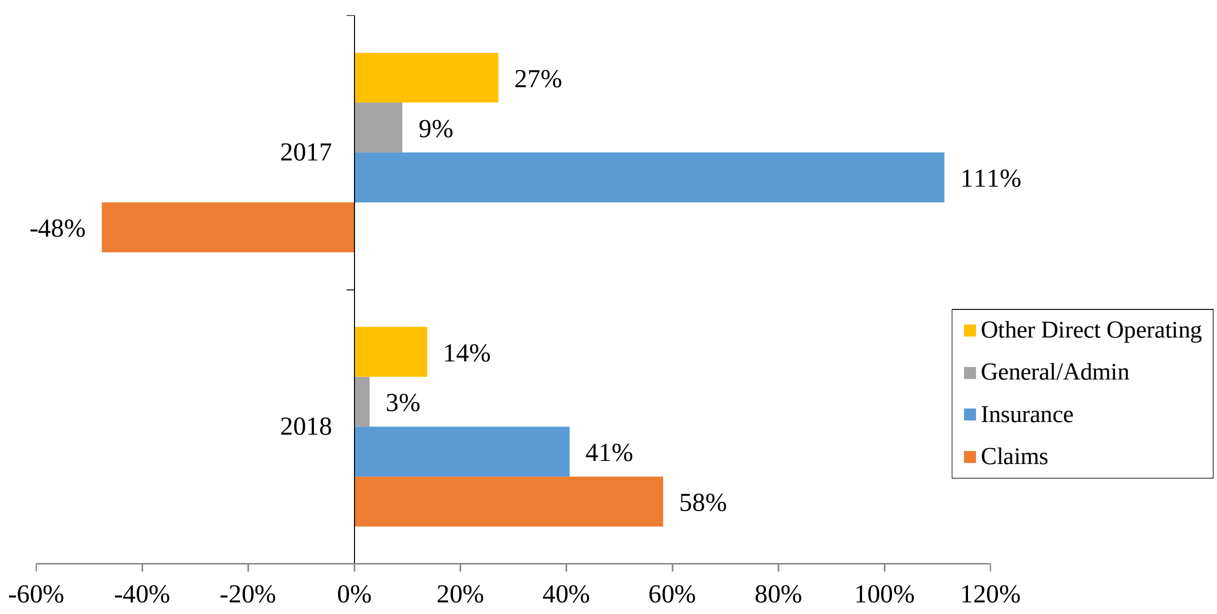
2017/18 Fiscal Year

Total operating revenues decreased $27.5 million or 55% over the prior year which was driven primarily by the prior year $25 million assessment approved by the Board on November 17, 2016 as well as a $2.2 million decrease in premium contributions. Liability and Worker's Compensation premiums decreased by around 6% and the remaining programs were stable over the prior year with contribution decreases of approximately 20%.

Expenses increased $18.4 million or 224% over the prior year as a result of a $19.4 million increase in claim expenses. Professional fees, program operating expenses, regulatory assessments, and general and administrative expenses increased 13% over the prior year primarily due to increased claims administration costs and California worker's compensation assessments.

The table below shows the distribution of the major expense categories for the fiscal years ended June 30, 2018 and 2017.

2018 and 2017 Program Year Expenses, Excluding Dividends

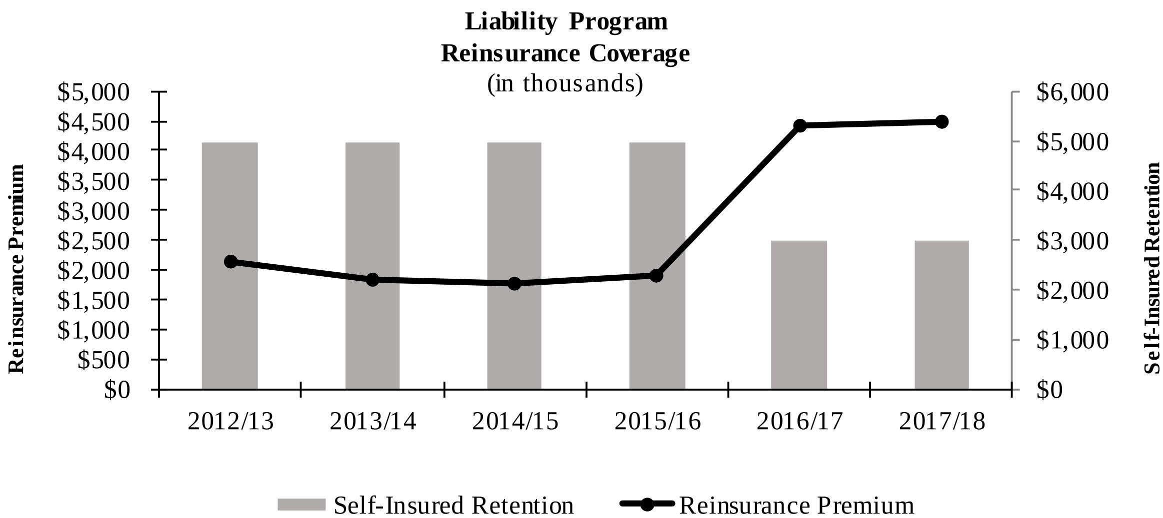


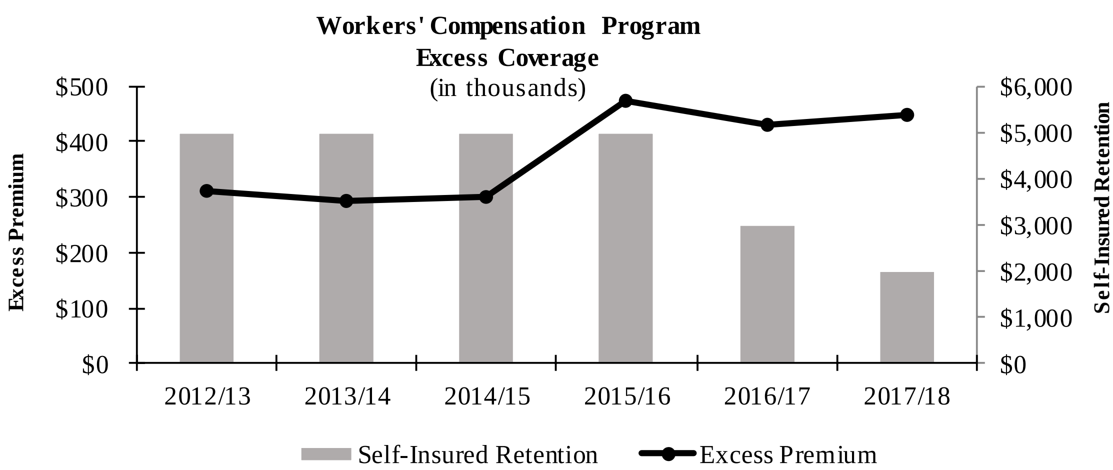
Provision for Insured Events

As discussed above, total claims expenses increased $19.4 million from the prior year. The increase results from: 1) recognizing the initial estimates of claims costs for the 2017/18 program year, and 2) the effect of re-estimating the ultimate cost of claims of all older program years. The initial estimates of the 2017/2018 claims provided by the actuary were conservative and reflected positive development for both the Liability and Workers' Compensation Programs prior to the actuary revisions. The re-estimated costs of claims incurred in older accident years increased in the Liability Program due to unfavorable development of claims incurred within ICRMA's layer which was precipitated by the overall decrease in claims estimates in 2016/17. Alternatively, ICRMA 2016/17 and 2017/18 paid claims decreased from $10.7 million to $8.8 million, respectively

Insurance Expense

ICRMA purchases liability reinsurance and workers' compensation excess insurance to cover losses in excess of its self-insured retentions of $3 million and $2 million respectively. The graphs below show ICRMA's historical excess insurance premiums and the respective self-insured retentions. Reinsurance premiums for both the Liability and Workers' Compensation Programs stayed relatively flat for the 2017/18 fiscal year.





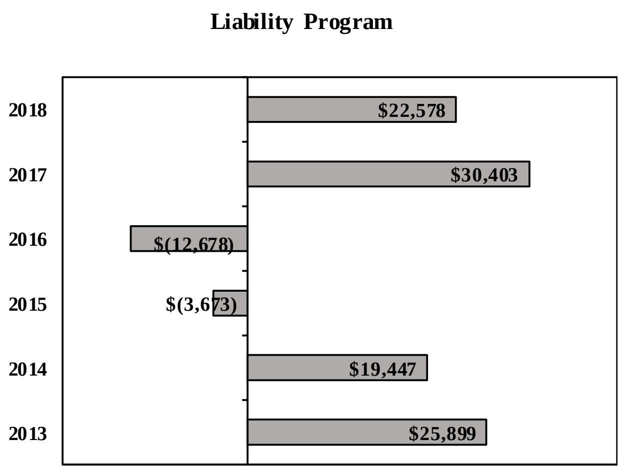
* The liability program for 2015/16 and 2016/17 had a $1M corridor in addition to the SIR.

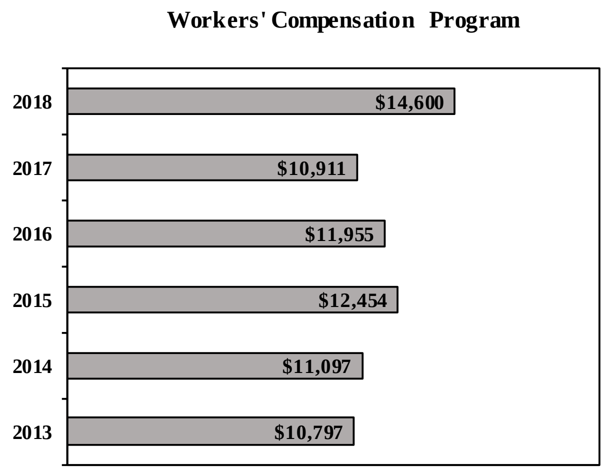
Net Position

The Liability Program net position was $22.6 million at June 30, 2018, which is a decrease from the prior year net position of $30.4 million. The Workers' Compensation net position was $14.6 million at the end of the fiscal year, increasing approximately $3.7 million over the prior year due to a decrease in claims liabilities based on the latest actuarial report.

The following charts display ICRMA's historical net position.

Historical Net Position
(In thousands)





The following ratios are used to gauge the financial stability of ICRMA. The two ratios shown below provide an indication of financial strength based on the net position maintained by ICRMA. A low ratio of net contribution to net position indicates that a margin exists in the event annual contributions are ultimately deemed insufficient to cover all program year losses and expenses. A high ratio of net position to self-insured retention indicates a greater ability to finance multiple large losses without impairing the solvency of ICRMA.

	Liability Program		Workers' Compensation Program	
	2018	2017	2018	2017
Net contributions received	$ 10,414,794	$ 11,805,015	$ 3,816,423	$ 3,660,141
Net position as of June 30	$ 22,577,805	$ 30,402,945	$ 14,599,622	$ 10,910,903
Net contribution to net position ratio (Target: <2:1)	**0.46:1**	**0.39:1**	**0.26:1**	**0.34:1**
Net position as of June 30	$ 22,577,805	$ 30,402,945	$ 14,599,622	$ 10,910,903
Program SIR as of June 30	$ 3,000,000	$ 3,000,000	$ 2,000,000	$ 3,000,000
Net position to self-insured retention ratio (Target: >5:1)	**7.53:1**	**10.13:1**	**7.3:1**	**3.64:1**

The Workers' Compensation Program ratios were in a more favorable position compared to the previous year since the program increased its net position as of June 30, 2018 while maintaining a stable net contribution. The Liability Program ratios were in a less favorable position due to a decrease in net position as of June 30, 2018, however the 2018 ratios still exceed the benchmark ratios utilized to indicate that contributions remain in a position to cover program losses and expenses.

Request for Information:

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Independent Cities Risk Management Authority
18201 Von Karman, Suite 200
Irvine, CA 92612

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BASIC FINANCIAL STATEMENTS

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2018

(With comparative totals for June 30, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 12,841,989	$9,471,282
Investments	2,875,500	3,598,039
Accounts Receivable	314,408	150,686
Assessment Receivable, Current	3,045,223	8,647,405
Interest Receivable	368,011	233,721
Prepaid Expenses	81,986	112,982
Total Current Assets	19,527,117	22,214,115
Noncurrent Assets:		
Investments	53,209,901	45,694,281
Assessment Receivable	26,406,457	27,525,033
Total Noncurrent Assets	79,616,358	73,219,314
Total Assets	99,143,475	95,433,429
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,265,980	137,252
Claims Payable - Current Portion	11,997,000	10,000,000
Total Current Liabilities	13,262,980	10,137,252
Noncurrent Liabilities:		
Claims Payable - Long-term Portion	48,410,148	44,047,135
Total Noncurrent Liabilities	48,410,148	44,047,135
Total Liabilities	61,673,128	54,184,387
NET POSITION		
Net Position - Unrestricted	$ 37,470,347	$ 41,249,042

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

(With comparative totals for year ended June 30, 2017)

	2018	2017
OPERATING REVENUES		
Member premiums	$ 22,762,730	24,932,413
Assessments	-	25,337,691
Total Operating Revenues	22,762,730	50,270,104
OPERATING EXPENSES		
Claims expense	15,553,115	(3,922,691)
Insurance expense	7,740,042	9,175,278
Broker fees	266,667	200,000
Claims administration	446,105	235,000
CA division of workers comp. assessment	884,004	654,301
Structured return to work program	50,375	187,620
Program administration	973,947	963,710
General & administrative expense	772,380	749,474
Total Operating Expenses	26,686,635	8,242,692
Operating Income (Loss)	(3,923,905)	42,027,412
NONOPERATING REVENUES:		
Investment income	145,210	43,357
Change in Net Position	(3,778,695)	42,070,769
Beginning Net Position (Deficit)	41,249,042	(821,727)
Ending Net Position	$ 37,470,347	41,249,042

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

(With comparative totals for year ended June 30, 2017)

	2018	2017
Cash Flows from Operating Activities:		
Cash Received from Members for Deposit Premiums	$ 29,483,488	$ 26,769,206
Cash Payments to Suppliers for Services	(10,007,035)	(11,872,648)
Cash Payments Relating to Claims and Claim Administration	(9,289,207)	(10,963,535)
Net Cash Provided By Operating Activities	10,187,246	3,933,023
Cash Flows from Investing Activities:		
Purchases of Investments	(85,532,904)	(99,525,126)
Proceeds from Investment Sales and Maturities	77,631,177	95,804,342
Interest Income Received	1,085,188	765,392
Net Cash Used For Investing Activities	(6,816,539)	(2,955,392)
Net Increase in Cash and Cash Equivalents	3,370,707	977,631
Cash and Cash Equivalents, Beginning of Year	9,471,282	8,493,651
Cash and Cash Equivalents, End of Year	$ 12,841,989	$ 9,471,282

	2018	2017
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ (3,923,905)	$ 42,027,412
Adjustment to net cash used by operating activities:		
(Increase) Decrease in Accounts/Assessment Receivable	6,591,414	(23,501,113)
(Increase) Decrease in Prepaid Expenses	30,996	(28,328)
(Decrease) Increase in Accounts Payable	1,128,728	85,482
(Decrease) Increase in Claims Payable	6,360,013	(14,650,430)
Net Cash Provided By (Used For) Operating Activities	$ 10,187,246	$ 3,933,023
Unrealized gain (loss) in market values of investments	$ (708,468)	$ 557,542

See accompanying notes to financial statements.

1. GENERAL INFORMATION

Independent Cities Risk Management Authority (ICRMA) was formed in 1980 under a joint exercise of powers agreement with five members in accordance with the provisions of California Government Code Section 6500, et seq. As of June 30, 2018, there were 16 participating members. ICRMA was created to provide risk treatment programs to protect its members, their officers and employees, and property against unavoidable losses through pooling of losses, self-insurance and purchasing insurance. ICRMA is governed by a Governing Board of Directors, consisting of one voting member appointed by each member agency.

Each member may elect to participate in one or more of the risk treatment programs that are offered by ICRMA for liability, workers' compensation and property coverage. A member may elect to withdraw from ICRMA at the end of a given fiscal year by providing written notice by July 1. Such withdrawal, however, will not terminate the member's responsibility for its share of claims and losses incurred prior to its withdrawal. ICRMA also has the right to cancel a member's participation with the approval of a two-thirds vote of the Governing Board.

ICRMA maintains an agreement with a pool management firm to provide administrative services to ICRMA. ICRMA also maintains agreements with outside firms to provide general legal counsel, coverage counsel, insurance brokerage, actuarial, financial, accounting, claims auditing, claims administration and litigation management, pre-employment screening and investment management.

A. MEMBERSHIP

As of June 30, 2018 membership and selected retained limits were as follows:

Member	General Liability Program	Workers' Compensation Program	Property & Auto Physical Damage Programs	Crime Program[1]	Cyber Program[1]	Earthquake & Flood Program[1]
City of Alhambra	750,000	500,000	●	●	●	●
City of Baldwin Park	300,000	500,000	●	●	●	●
City of Bell	250,000	-			●	
City of Downey	2,000,000	-	●	●	●	●
City of El Monte	250,000	-	●	●	●	
City of El Segundo	750,000	350,000	●		●	
City of Fullerton	8,000,000	-	●	●	●	
City of Glendora	300,000	500,000	●	●	●	●
City of Hawthorne	250,000	-	●	●	●	
City of Hermosa Beach	250,000	500,000	●	●	●	
City of Huntington Park	250,000	500,000	●	●	●	●
City of Inglewood	1,500,000	1,000,000			●	
City of Lynwood	100,000	500,000	●	●	●	●
City of Monterey Park	300,000	500,000	●	●	●	
City of San Fernando	250,000	500,000	●	●	●	●
City of South Gate	250,000	-	●	●	●	

[1] These programs are a fully insured group purchase program with no risk sharing.

1. GENERAL INFORMATION (continued)

B. ADMISSION AND WITHDRAWAL OF MEMBERS

Admission

Any governmental agency, organized and operating under the laws of the state of California which is authorized to participate in a joint powers agreement under the Government Code may become a member of ICRMA. Prospective members must submit an application for admission and are subject to inspections by ICRMA. Admission into ICRMA is subject to the approval of the Governing Board, and prospective members must agree to remain a member for at least three consecutive fiscal years. The bylaws of each of ICRMA's programs contain admission and termination provisions specific to each program.

Withdrawal

Any member that has completed three complete fiscal years as a member of ICRMA may voluntarily terminate their membership provided it gives written notice of its intention to withdraw by July 1.

C. DESCRIPTION OF PROGRAMS

Liability Program

The general liability self-insurance arranged by ICRMA for its members affords protection from third party tort claims alleging damages from member activities or facilities. The Liability Program has the following coverage limit features:

July 1, 2017 to June 30, 2018

Member Retentions:	Ranges from \$100,000 to \$8,000,000
ICRMA's Retention:	\$3,000,000 less the Member Retention
Reinsurance:	\$30,000,000 excess of \$3,000,000

Each ICRMA member pays for its own losses up to the retention it selects. ICRMA provides coverage that exceeds the Member Retentions up to \$3,000,000 each. Safety National provided quota share reinsurance for the \$5 million excess \$3 million layer, while Markel, Pennsylvania, and ScorRe reinsured the layers between \$8 million and \$30 million. For the 2017/2018 program year, one member's retention was \$8,000,000.

The annual contributions paid by each member to ICRMA for the Liability Program are approved by the Governing Board and are calculated to cover ICRMA's forecasted claim expenses, settlements and operating costs. Every member participates in the liability program.

1. GENERAL INFORMATION (continued)

C. DESCRIPTION OF PROGRAMS (continued)

Workers' Compensation Program

ICRMA's Workers' Compensation Program operates in a similar fashion to the Liability Program. It has the following coverage limit features:

July 1, 2017 to June 30, 2018

Member Retentions:	Range from $350,000 to $1,000,000
ICRMA's Retention:	$2,000,000 less the Member Retention
Excess Insurance:	Excess of $2,000,000 to Statutory Limits

Within ICRMA's retention, a risk sharing pool arrangement has been established whereby each member selects its own self-insured retention level from $350,000 to $1,000,000. Each member of ICRMA then assumes its own losses up to its selected retention. Any losses between its retention and $2,000,000 are shared by participating members. A commercial insurance company provides coverage in excess of ICRMA's retained limit up to statutory limits. Ten members participated in the Workers' Compensation Program during the fiscal year ended June 30, 2018.

Property/Auto Physical Damage (APD) Programs

ICRMA's property/APD program began providing coverage July 1, 2017. The program includes $250 million limits, a $250,000 pool deductible, and a $500,000 aggregate stop loss. Member deductibles are $10,000 for property and $5,000 for auto physical damage. The property program also includes boiler and machinery coverage.

Earthquake and Flood, Crime, & Cyber Programs

ICRMA also provides its members Earthquake and Flood, Crime, and Cyber Programs. These are group purchased, non-risk sharing, fully insured all-risk programs. The Crime program coverage limits were increased from $3M to $5M during the 2017-18 coverage period. Program deductibles are the individual member's responsibility.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Proprietary funds are accounted for using the accrual basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB). Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus

The accounts of ICRMA are organized on the basis of a fund which is considered a separate accounting entity. The operation of this fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. ICRMA's resources are allocated and accounted for based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. For external financial reporting purposes, all program activities of ICRMA are organized into one fund which is accounted for as an enterprise fund as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 10.

Enterprise funds, which fall under the Proprietary Fund Type category, are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing services to members on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

C. Reporting Entity

ICRMA's reporting entity includes all activities (operations of its administrators, officers, and Governing Board as they relate to ICRMA) considered to be part of (controlled by or dependent upon) ICRMA. This includes financial activity relating to all of the membership years of ICRMA.

D. Operating Revenues and Expenses

Operating revenues, such as charges for services (membership premiums) result from exchange transactions associated with the principal activity of ICRMA. Exchange transactions are those in which each party receives and gives up essentially equal values. All other revenues not related to principal activities of ICRMA are classified as nonoperating revenues, such as investment income.

Operating expenses include costs of services and administrative expenses. All expenses not meeting this definition are reported as nonoperating expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Investments

Generally accepted accounting principles require that public agencies report investments in their financial statements at fair value, except for certain nonparticipating certificates of deposit, investment contracts, or money market funds, that are reported at cost if they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

F. Cash and Cash Equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents represent funds in bank account and deposits held by the state local agency investment fund (LAIF) but does not include the California Asset Management Program (CAMP) as these are managed as an investment.

G. Accounts Receivable

As of June 30, 2018, ICRMA reported $314,408 of receivables related to amounts due from members and former members for various adjustments and interest and/or penalties on assessments.

Accounts receivable also includes a receivable of $6,853,066 related to amounts due from ICRMA's insurance carrier related to a claim from FY 2013/14. ICRMA has also recorded an allowance for $6,853,066 related to the reinsurance claim receivable. Refer to Note 7 for further details.

H. Contributions and Assessments

Member contributions are collected and recognized as revenues in the period for which insurance protection is provided. In accordance with its Bylaws, the Governing Board of ICRMA may take actions to assess the members of a program an amount determined necessary for the soundness of the program. ICRMA has analyzed these receivables for collectability and has not recorded an allowance for uncollectible amounts related to these assessments. Refer to Note 4 for further details regarding the assessments approved, and related activity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Claims Liabilities (Claims Reserves and Claims Incurred But Not Reported)

ICRMA establishes claims liabilities based on actuarial estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims payable does not necessarily result in an exact amount, particularly for coverage such as claims liability. Claims liabilities are re-computed periodically using a variety of actuarial techniques to produce current estimates that reflect recent settlements, claims frequency, and broader economic and social trends. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on historical data that reflects inflation and on other factors considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged to expense in the periods in which they are made. Claims liabilities are presented at their net present value, discounted at 2% for the Liability Program and 2% for the Workers' Compensation Program. This valuation of claims liabilities is used since claims are paid out over a period of time, yet contributions to pay for the claims are collected immediately and earn interest, which will offset the amount paid.

J. Unallocated Loss Adjustment Expense

The liability for unallocated loss adjustment expense (ULAE) includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. The estimate has been calculated by ICRMA's actuary. As of June 30, 2018 and 2017, the ULAE was $1,193,052 and $1,005,000, respectively.

K. Reclassification

Prior period financial statements have been reclassified to conform to current period presentation.

L. Confidence Level Used by ICRMA

The liability for unpaid claims is measured in terms of a *confidence or probability level* because the actual development and outcome of claims (and of losses incurred but not reported as claims) cannot be known with absolute certainty. Confidence level measures the degree of certainty in estimating the liability for claims payable. For example, a 50% confidence level means that 50% of the time, the methodology and assumptions used by the actuary will produce an estimate of the liability for claims payable that is equal to (or greater than) the actual amount that will be paid for those claims and losses. The accompanying financial statements reflect the application of a central estimate. The central estimate is a representation of the statistical distribution, which approximates the mean or average value. Member contribution rates for losses were set to provide funding for the fiscal year as follows: 1) 70% probability level for the Liability Program self-insured layer from the members' retained limit to $3 million, 2) 60% confidence level for the Workers' Compensation Program self-insured layer from the members' retained limit to $2 million.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Comparative Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in ICRMA's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ICRMA's financial statements for the year ended June 30, 2017, from which this selected financial data was derived.

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash consisted of the following at June 30:

	2018	2017
Cash Per Bank Statement	2,307,742	$ 2,240,324
Less: Outstanding Checks	(388,440)	(26,101)
Balance Per Books	1,919,302	2,214,223
LAIF	10,922,687	7,257,059
Total Cash and Cash Equivalents	12,841,989	9,471,282

Cash In Bank

The carrying amount of ICRMA's cash is covered by federal depository insurance up to $250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

3. CASH AND INVESTMENTS (continued)

Local Agency Investment Fund

ICRMA is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of ICRMA's investment in this pool is reported in the accompanying financial statements based upon ICRMA'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), is not subject to fair value hierarchy and therefore uncategorized. The balance available for withdrawal is based on the accounting records maintained by LAIF which are recorded on an amortized cost basis. Funds are accessible and transferable to ICRMA's cash account within twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. This fund currently yields approximately 1.85% interest annually and has a weighted average to maturity of 193 days. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

3. CASH AND INVESTMENTS (continued)

B. Investments Authorized by the California Government Code and ICRMA's Investment Policy

The table below identifies the investment types that are authorized for ICRMA by the California Government Code and ICRMA's investment policy. The table also identifies certain provisions of the California Government Code (or ICRMA's investment policy, if more restrictive) that address 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
Municipal Bonds	Yes	5 Years	30%	None
U.S. Treasury Obligations	Yes	5 Years	None	None
U.S. Agency Securities	Yes	5 Years**	None	None
Banker's Acceptance	Yes	180 Days	40%	20%
Commercial Paper	Yes	270 Days	25%	10%
Certificate of Deposit	Yes	5 Years	30%	None
Repurchase Agreements	Yes	30 Days	None	None
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Corporate Notes	Yes	5 Years	30%	None
Supranational Debt	Yes	5 Years	15%	None
Asset Backed Securities	Yes	5 Years	20%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	$65M	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

**Pursuant to governent code, ICRMA has authorized certain investments up to 10 years maximum maturity

3. CASH AND INVESTMENTS (continued)

C. 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 is to changes in market interest rates. One of the ways that ICRMA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of ICRMA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of ICRMA's investments by maturity as of June 30, 2018:

Interest Rate Risk		Remaining Maturity (in months)			
	Fair Value	12 months or less	13 to 24 months	25 to 60 months	61 months or more*
U.S. Treasury Notes	$ 15,954,940	$ -	$342,439	$15,612,501	$ -
Supranational Debentures	6,350,875	-	972,466	5,378,409	-
Asset Backed Securities	3,615,578	-	389,185	3,226,393	-
U.S. Agency Securities	2,859,552	42,314	926,734	1,658,349	232,155
Medium Term Corporate Notes	15,786,040	760,687	4,911,652	10,113,701	-
Municipal Bond	583,608	-	-	583,608	-
Certificate of Deposit	10,704,376	1,842,067	6,040,050	2,822,259	-
Money Market Mutual Funds	230,432	230,432	-	-	-
Total	$ 56,085,401	$ 2,875,500	$13,582,526	$39,395,220	$ 232,155

*Pursuant to governent code, ICRMA has authorized certain investments up to 10 years maximum maturity

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D. Concentration of Credit Risk

The investment policy of ICRMA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total ICRMA investments are as follows:

Name of Issuer	Investment Type	Reported Amount	% of Portfolio
International Bank for Reconstruction & Development	Supranational Debentures	$ 3,379,346	6%

3. CASH AND INVESTMENTS (continued)

E. 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 minimum rating required by (where applicable) the California Government Code, ICRMA's investment policy, and the actual rating as of year end for each investment type.

Credit Risk	Amount	Ratings as of Year End	Minimum Legal Rating
U.S. Treasury Notes	$ 15,954,940	Exempt	n/a
Supranational Debentures	6,350,875	AAA	AA
Asset Backed Securities	3,615,578	AA or Better	AA
U.S. Agency Securities	2,859,552	AA+ or Better	AA
Medium Term Corporate Notes	10,434,477	A or Better	A
Medium Term Corporate Notes	5,351,563	A-	A
Municipal Bond	583,608	AA-	AA
Certificate of Deposit	4,543,813	AA-	A
Certificate of Deposit	3,444,638	A+	A
Certificate of Deposit	2,715,925	A	A
Money Market Mutual Funds	230,432	AAA	n/a
Total	$ 56,085,401		

F. 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 ICRMA's investment 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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All amounts were collateralized as described above.

3. CASH AND INVESTMENTS (continued)

G. Fair Value Measurement

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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. Investments fair value measurements at June 30, 2018 are as follows:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ -	$ 15,954,940	$ -	$ 15,954,940
Supranational Debentures	-	6,350,875	-	6,350,875
Asset Backed Securities	-	3,615,578	-	3,615,578
U.S. Agency Securities	-	2,859,552	-	2,859,552
Medium Term Corporate Notes	-	15,786,040	-	15,786,040
Municipal Bond	-	583,608	-	583,608
Certificate of Deposit	-	10,704,376	-	10,704,376
Total	$ -	$ 55,854,969	$ -	$ 55,854,969

*LAIF are transacted on a basis of $1 in or out, therefore are not subject to the fair value hierarchy and are uncategorized. Money market funds are recorded at amortized cost.

4. ASSESSMENT RECEIVABLE

The ICRMA Board of Directors approved assessments of $12,500,000 and $25,000,000 on January 21, 2016, and November 17, 2016, respectively. The $12.5 million assessment was to be collected over seven years beginning with 2016/17 fiscal year; however upon the approval of the $25 million assessment, members were able to choose between a lump sum payment and the 10 year payment plan. In 2017-18, seven cities chose the lump sum payment option for a total of $3.7 million and 18 cities chose the 10 year payment plan with the first year payments totaling $3 million.

The City of Redondo Beach has not made all payments towards the assessment. The City of Redondo Beach made one assessment payment (approximately one-seventh of their allocated share of the $12.5 million assessment). However, in September 2017, the City of Redondo Beach filed suit claiming the assessment was not properly calculated and approved. The City of Redondo Beach has not paid its share of the current $1,948,037 assessment nor its payment of $96,633 due on the prior year assessment for a total of $2,044,670. ICRMA believes these amounts were properly calculated and assessed. As described above, all other members have either paid their balance or entered into multi-year payment plans.

During the year ended June 30, 2018, payments of $6,807,204 were made from the members related to the multi-year payment plans. As of June 30, 2018, $29,451,680 was due from the members for the remaining balances of these assessments, including $2,044,670 from the City of Redondo Beach. No allowance for uncollectable amounts has been recorded regarding the City of Redondo Beach's balance as ICRMA deems these amounts collectible. The City of Redondo Beach has also accrued $129,199 in penalties and interest as of June 30, 2018 related to the unpaid assessment.

5. MEMBER DIVIDEND

In accordance with each program's bylaws, a dividend calculation is performed five years after the end of the program year. Dividends are available to be declared only at such time as each individual program as a whole has equity, with liabilities actuarially stated at a 90% confidence level and discounted (Liability Program) or undiscounted (Workers' Compensation Program). The calculated amount represents the maximum dividend available to be declared. No dividends were declared or paid during the fiscal year ended June 30, 2018.

6. CLAIMS LIABILITIES

ICRMA establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of losses, related claim adjustment expenses and unallocated loss adjustment expenses. Claims payable are presented at their net present value, discounted at 2% for the liability program and 2% for the workers' compensation program. The following represents the changes in the claims liabilities for the years ended June 30 2018 and 2017:

	2018	**2017**
Unpaid claims and claims adjustment expenses at beginning of fiscal year	54,047,135	68,697,565
Incurred claim and claims adjustment expenses:		
Provision for insured events of the current fiscal year	8,454,258	13,342,020
Increase (decrease) in provision for insured events of prior fiscal years	6,621,816	(17,264,711)
Total incurred claims and claims adjustment expenses	15,076,074	(3,922,691)
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-	-
Claims and claim adjustment expenses attributable to covered events in prior years	8,716,061	10,727,739
Total payments	8,716,061	10,727,739
Total unpaid claims and claim adjustment expenses at end of fiscal year	60,407,148	54,047,135
Claims reserves	29,018,287	17,032,660
Claims incurred but not reported (IBNR)	30,195,809	36,009,475
Unallocated loss adjustment expenses (ULAE)	1,193,052	1,005,000
Total	60,407,148	54,047,135
Current Portion	11,997,000	10,000,000
Noncurrent Portion	48,410,148	44,047,135
Total Claims Liabilities	60,407,148	54,047,135

As of June 30, 2018 and 2017, the undiscounted unpaid claims and claims adjustment expenses were $67,116,403 and $60,489,376, respectively.

7. CONTINGENCIES

Various claims and suits have been filed in the normal course of operations. The probable amounts of loss associated with these cases have been estimated by contracted actuarial consultants and reflected in the accompanying financial statements as claims liabilities. Although the outcome of these claims and lawsuits is uncertain, management does not expect that the resolution of these cases will have a material adverse effect on ICRMA that is significantly beyond the provision for claims liabilities reflected in the accompanying financial statements.

As described in Note 4 the City of Redondo Beach has filed a lawsuit challenging ICRMA's assessment of $2,044,670.

Further, a claim arouse in previous years related to FY 2013/14, and involving two ICRMA members. Early in the litigation, the members agreed to apportion the claim 50/50 for the purposes of resolving the underlying claims and litigation, and claim payments were made accordingly related to the $16.8 million claim through the spring of 2018. In May 2018, the members entered into an agreement whereby one member was assessed full responsibility for the accident, and as a result, responsible for the claim.

As a result of the responsibility being assessed 100% to one member, ICRMA is seeking reimbursement from its carrier for the $10 million x $10 million coverage layer in accordance with the claim allocation. This amounts to approximately $6,853,066 due from the carrier, and was reflected as a receivable by ICRMA as of June 30, 2018. However, the carrier has denied payment and coverage for this claim, and has subsequently filed a lawsuit. In accordance with generally accepted accounting principles, although ICRMA believes the amounts are collectible based on the terms of the reinsurance agreement, a full allowance has been recorded for $6,853,066 to offset the receivable as it has not been realized as of June 30, 2018. As a result, no amounts are reflected in the financial statements (income related to the receivable is offset by the expense related to allowance).

8. SUBSEQUENT EVENTS

The City of Alhambra withdrew from ICRMA for the 2018/2019 policy year.

According to ICRMA program bylaws, a participant may withdraw from ICRMA if, by July 1, a notice to terminate participation is provided to ICRMA in accordance with the Bylaws. Any such timely notice to terminate may be revoked by the participant by providing written notice by December 1. As of July 1, 2018 the City of Baldwin Park submitted a withdrawal notice for the 2019/2020 policy year.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

RECONCILIATION OF CLAIM LIABILITY BY PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2018 (In Thousands)

	General Liability		Workers' Compensation		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Unpaid loss and loss adjustment expenses at beginning of year beginning of the year	$ 37,546,255	$ 54,352,924	$ 16,500,880	$ 14,344,641	$ 54,047,135	$ 68,697,565
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	6,904,200	11,071,574	1,550,058	2,270,446	8,454,258	13,342,020
Provision for insured events of prior years	9,837,327	(18,353,984)	(3,215,511)	1,089,273	6,621,816	(17,264,711)
Total incurred loss and loss adjustment expenses	16,741,527	(7,282,410)	(1,665,453)	3,359,719	15,076,074	(3,922,691)
Payments:						
Loss and loss adjustments expenses for insured events of the current year	-	-	-	-	-	-
Loss and loss adjustments expenses for insured events of the prior year	8,447,622	9,524,259	268,439	1,203,480	8,716,061	10,727,739
Total payments of loss and loss adjustment expenses	8,447,622	9,524,259	268,439	1,203,480	8,716,061	10,727,739
Unpaid loss and loss adjustment expenses at end of year	$ 45,840,160	$ 37,546,255	$ 14,566,988	$ 16,500,880	$ 60,407,148	$ 54,047,135
Reserve for known claims	$ 25,757,590	$ 13,642,456	$ 3,260,697	$ 3,390,204	$ 29,018,287	$ 17,032,660
Reserve for incurred but not reported (IBNR)	18,964,518	22,976,799	11,231,291	13,032,676	30,195,809	36,009,475
Reserve for unallocated loss adjustment expenses (ULAE)	1,118,052	927,000	75,000	78,000	1,193,052	1,005,000
Total claims payable as of end of year	$ 45,840,160	$ 37,546,255	$ 14,566,988	$ 16,500,880	$ 60,407,148	$ 54,047,135

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – LIABILITY PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2018 (In Thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Contributions and investment income:										
Earned	$ 10,642	$ 9,005	$ 11,691	$ 11,126	$ 10,499	$ 11,665	$ 12,367	$ 15,448	$ 16,260	$ 15,074
Assessment	-	-	-	4,150	13,620	16,940	1,239	-	-	-
Ceded	(1,546)	(1,548)	(4,074)	(2,149)	(1,846)	(1,771)	(1,891)	(2,442)	(4,414)	(4,479)
Net earned and investment income	9,096	7,457	7,617	13,127	22,273	26,834	11,715	13,006	11,846	10,595
2. Unallocated expenses	1,214	1,261	1,278	1,124	1,050	1,119	1,146	1,415	1,385	1,328
3. Estimated incurred claims and expenses, end of policy year	4,448	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400
4. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	15	7	21	454	1,602	4,802	-	-	297	
Two years later	1,571	29	386	4,806	2,689	15,569	352	3,547		
Three years later	3,956	48	3,858	5,974	12,110	18,730	1,350			
Four years later	4,194	1,515	4,323	8,729	16,714	13,162				
Five years later	4,215	2,533	4,324	8,827	18,964					
Six years later	4,602	1,334	5,634	8,846						
Seven years later	4,940	1,334	5,635							
Eight years later	4,940	1,382								
Nine years later	4,940									
5. Reestimated ceded claims and expenses	283	5,501	209	2,808	403	15,296	-	3,872	-	-
6. Reestimated claims and expenses:										
End of policy year	4,448	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400
One year later	5,115	5,156	3,995	5,871	6,427	26,216	10,887	9,840	11,000	
Two years later	4,472	2,348	6,037	5,689	11,997	25,707	7,190	23,000		
Three years later	5,256	2,278	5,840	8,188	21,612	22,510	8,100			
Four years later	5,484	2,081	5,059	11,419	20,980	15,500				
Five years later	5,278	2,911	5,062	10,145	18,964					
Six years later	5,810	4,985	5,730	8,870						
Seven years later	5,105	1,810	5,750							
Eight years later	5,120	1,470								
Nine years later	4,940									
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ 492	$ (3,177)	$ (497)	$ 2,758	$ 12,071	$ 1,813	$ (882)	$ 12,284	$ (500)	-

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – WORKERS' COMPENSATION PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2018 (In Thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Contributions and investment income:										
Earned	$ 3,975	$ 3,916	$ 4,226	$ 2,865	$ 3,017	$ 3,879	$ 4,121	$ 3,786	$ 4,092	$ 4,231
Ceded	(412)	(415)	(402)	(311)	(294)	(302)	(473)	(365)	(430)	(449)
Net earned and investment income	3,563	3,501	3,824	2,554	2,723	3,577	3,648	3,421	3,662	3,782
2. Unallocated expenses	1,129	1,136	1,134	994	1,283	1,322	1,378	1,524	1,347	1,759
3. Estimated incurred claims and expenses, end of policy year	1,129	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110
4. Paid (cumulative) as of:										
End of policy year	-	-	199	-	-	-	-	-	-	-
One year later	-	-	400	-	-	-	-	-	-	
Two years later	-	-	432	151	5	-	-	-		
Three years later	-	-	519	299	14	-	-			
Four years later	-	2	656	467	14	-				
Five years later	67	2	1,130	1,594	99					
Six years later	103	2	1,130	1,551						
Seven years later	117	2	1,189							
Eight years later	128	2								
Nine years later	274									
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	1,045	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110
One year later	701	745	2,539	1,372	1,605	1,806	1,913	3,111	2,390	
Two years later	625	1,196	2,114	1,322	1,237	1,626	2,402	1,900		
Three years later	989	1,372	3,049	1,945	1,547	2,109	1,560			
Four years later	613	790	2,012	1,886	1,869	1,550				
Five years later	677	787	2,424	2,608	1,460					
Six years later	612	756	2,260	2,810						
Seven years later	652	1,106	2,320							
Eight years later	995	1,130								
Nine years later	1,070									
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ (59)	$ 188	$ 868	$ 810	$ (267)	$ (330)	$ (409)	$ (509)	$ (682)	-

See notes to required supplementary information.

1. RECONCILIATION OF CLAIMS LIABILITIES BY PROGRAM

The schedules represent the changes in claims liabilities for the current and past year for ICRMA's liability and workers' compensation programs.

2. CLAIMS DEVELOPMENT INFORMATION

The tables illustrate how ICRMA's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by ICRMA as of the end of the year. 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 Programs including overhead and claims expenses not allocable to individual claims.

(3) This line shows the Program's gross incurred losses and allocated claim 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 accident year).

(4) This section shows the cumulative net amounts paid as of the end of the year.

(5) This line shows the latest re-estimated amount of losses assumed by reinsurers as of the end of the current year for each insured year.

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

(7) This line compares the latest re-estimated 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.

The original and re-estimated cost of claims is presented on a net present value basis, the effect of which decreases over time and may cause the appearance of adverse loss development when compared to original estimates. As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

SUPPLEMENTARY INFORMATION

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2018

ASSETS	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Earthquake/ Flood	Total
Current Assets:								
Cash and Cash Equivalents	$ 11,507,884	$ 1,143,077	$ 189,397	$ (27,149)	$ 1,554	$ (2,781)	$ 30,007	$ 12,841,989
Investments	1,444,342	1,431,158	-	-	-	-	-	2,875,500
Accounts Receivable	114,400	121,868	40,380	37,760	-	-	-	314,408
Assessment Receivable	3,045,223	-	-	-	-	-	-	3,045,223
Interest Receivable	250,130	117,881	-	-	-	-	-	368,011
Prepaid Expenses	50,993	(15,007)	80,000	-	(2,000)	(2,000)	(30,000)	81,986
Total Current Assets	16,412,972	2,798,977	309,777	10,611	(446)	(4,781)	7	19,527,117
Noncurrent Assets:								
Investments	26,706,885	26,503,016	-	-	-	-	-	53,209,901
Assessment Receivable	26,406,457	-	-	-	-	-	-	26,406,457
Total Noncurrent Assets	53,113,342	26,503,016	-	-	-	-	-	79,616,358
Total Assets	69,526,314	29,301,993	309,777	10,611	(446)	(4,781)	7	99,143,475
LIABILITIES								
Current Liabilities:								
Accounts Payable	1,108,349	135,383	22,248	-	-	-	-	1,265,980
Claims Payable - Current Portion	11,240,000	757,000	-	-	-	-	-	11,997,000
Total Current Liabilities	12,348,349	892,383	22,248	-	-	-	-	13,262,980
Noncurrent Liabilities:								
Claims Payable - Long-term Portion	34,600,160	13,809,988	-	-	-	-	-	48,410,148
Total Liabilities	46,948,509	14,702,371	22,248	-	-	-	-	61,673,128
NET POSITION								
Net Position - Unrestricted (deficit)	$ 22,577,805	$ 14,599,622	$ 287,529	$ 10,611	$ (446)	$ (4,781)	$ 7	$ 37,470,347

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Earthquake/ Flood	Total
OPERATING REVENUES:								
Member Premiums	$ 14,894,250	$ 4,265,285	$ 1,141,994	$ 22,932	$ 42,897	$ 122,621	$ 2,272,751	$ 22,762,730
Assessment	-	-	-	-	-	-	-	-
Total Operating Revenues	14,894,250	4,265,285	1,141,994	22,932	42,897	122,621	2,272,751	22,762,730
EXPENSES:								
Claims expense	17,091,527	(1,665,453)	127,041	-	-	-	-	15,553,115
Insurance Expense	4,479,456	448,862	554,005	8,813	31,875	111,600	2,105,431	7,740,042
Broker Fees	123,333	74,667	34,667	-	2,000	2,000	30,000	266,667
Claims Administration	231,000	190,377	24,728	-	-	-	-	446,105
CA Division of Workers Comp. Assessment	-	884,004	-	-	-	-	-	884,004
Structured Return To Work Program	-	50,375	-	-	-	-	-	50,375
Program Administration	461,068	333,284	27,699	-	8,220	8,220	135,456	973,947
General & Administrative Expense	512,480	226,186	30,619	-	619	619	1,857	772,380
Total Expenses	22,898,864	542,302	798,759	8,813	42,714	122,439	2,272,744	26,686,635
Operating Income (Loss)	(8,004,614)	3,722,983	343,235	14,119	183	182	7	(3,923,905)
NONOPERATING REVENUES:								
Investment Income	179,474	(34,264)	-	-	-	-	-	145,210
Change in Net Position	(7,825,140)	3,688,719	343,235	14,119	183	182	7	(3,778,695)
Net Position, Beginning of Year (deficit)	30,402,945	10,910,903	(55,706)	(3,508)	(629)	(4,963)	-	41,249,042
Net Position, End of Year (deficit)	$ 22,577,805	$ 14,599,622	$ 287,529	$ 10,611	$ (446)	$ (4,781)	$ 7	$ 37,470,347

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Earthquake/ Flood	Total
Cash Flows from Operating Activities:								
Cash Received from Members for Deposit Premiums	$ 21,615,008	$ 4,265,285	$ 1,141,994	$ 22,932	$ 42,897	$ 122,621	$ 2,272,751	$ 29,483,488
Cash Payments to Suppliers for Services	(4,872,946)	(1,986,919)	(711,528)	(31,745)	(40,714)	(120,439)	(2,242,744)	(10,007,035)
Cash Payments Relating to Claims and Claim Administration	(8,678,622)	(458,816)	(151,769)	-	-	-	-	(9,289,207)
Net Cash Provided By (Used For) Operating Activities	8,063,440	1,819,550	278,697	(8,813)	2,183	2,182	30,007	10,187,246
Cash Flows from Investing Activities:								
Purchases of Investments	(43,622,439)	(41,910,465)	-	-	-	-	-	(85,532,904)
Proceeds from Investment Sales and Maturities	41,144,524	36,486,653	-	-	-	-	-	77,631,177
Interest Income Received	636,837	448,351	-	-	-	-	-	1,085,188
Net Cash Used For Investing Activities	(1,841,078)	(4,975,461)	-	-	-	-	-	(6,816,539)
Net Increase (Decrease) in Cash and Cash Equivalents	6,222,362	(3,155,911)	278,697	(8,813)	2,183	2,182	30,007	3,370,707
Cash and Cash Equivalents, Beginning of Year	5,285,522	4,298,988	(89,300)	(18,336)	(629)	(4,963)	-	9,471,282
Cash and Cash Equivalents, End of Year	$ 11,507,884	$ 1,143,077	$ 189,397	$ (27,149)	$ 1,554	$ (2,781)	$ 30,007	$ 12,841,989
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:								
Operating income (loss)	$ (8,004,614)	$ 3,722,983	$ 343,235	$ 14,119	$ 183	$ 182	$ 7	$ (3,923,905)
Adjustment to net cash used by operating activities:								
(Increase) Decrease in Accounts/Assessment Receivable	6,757,044	(108,391)	(34,307)	(22,932)	-	-	-	6,591,414
(Increase) Decrease in Prepaid Expenses	2,979	45,351	(51,333)	-	2,000	2,000	30,000	30,997
(Decrease) Increase in Accounts Payable	1,014,126	93,499	21,102	-	-	-	-	1,128,727
(Decrease) Increase in Claims Payable	8,293,905	(1,933,892)	-	-	-	-	-	6,360,013
Net Cash Provided By (Used For) Operating Activities	$ 8,063,440	$ 1,819,550	$ 278,697	$ (8,813)	$ 2,183	$ 2,182	$ 30,007	$ 10,187,246
Unrealized gain (loss) in market values of investments	$ (375,488)	$ (332,980)	$ -	$ -	$ -	$ -	$ -	$ (708,468)

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

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Independent Cities Risk Management Authority (Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 24, 2019. Our report included an emphasis of matter regarding the Authority's involvement with a lawsuit from the City of Redondo Beach as described in Note 4. Our report also included an emphasis of matter regarding the Authority's claim with its excess insurance carrier as described in Note 7.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have 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 certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
May 24, 2019

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENEDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

Finding 2018-001

FINANCIAL REPORTING, CLOSING AND SEGREGATION OF DUTIES

Criteria:

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein, and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. This requires management to work through a year-end closing process to accumulate, reconcile and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances with the general ledger. Accounts must be reviewed for proper cutoff, classification, and presentation. These processes should be completed before the external auditors begin the final fieldwork.

The use of journal entries is an important element of financial processing and year-end closing. Journal entries are used to post adjustments and perform accruals. There should be sufficient segregation of duties over journal entries, including authorization and recordkeeping (posting to the general ledger). This includes secondary review of all journal entries posted to the system. A proper segregation of duties should include different individuals performing initiation, recording, approval of transactions, and custody of assets.

Condition:

We noted the Authority did not have formal year-end closing procedures. The following deficiencies within the year-end closing process were noted:

- The Authority does not have sufficient internal control over both recurring and non-recurring types of journal entries. While there is generally supporting documentation for each journal entry, we noted there is no process requiring approval of journal entries, nor is there secondary review of the entries posted to the general ledger.
- The same individuals record transactions in the financial system, prepare cash receipts, prepare disbursements, and perform the bank reconciliation. Further, while a bank reconciliation is performed monthly, there was no evidence of preparation or secondary review by individual other than the preparer (i.e. signature or other electronic approval).
- For credit card purchases, there was no secondary review of invoices and supporting documentation prior to payment.
- During the audit, we identified adjustments, which were posted as part of the audit for the following:
    - Adjustments to claims liabilities balances to adjust balances as of June 30, 2018 based on actuarial results.
    - Adjustment of $6.8 million to record an allowance (and offsetting expense) for amounts receivable from an excess carrier that have not been received.
    - Adjustment to accounts payable and claims expense for anticipated legal reserves.

Context:

The Authority did not have a comprehensive closing process, nor sufficient internal controls over the journal entry process. Segregation of duties, whether through physical or electronic systems, must be in place to prevent the unauthorized access, approval and use of Authority assets. Secondary review and approval should be in place where there are limited segregation of duties, as a mitigating control.

Effect:

The internal controls of the Authority are weakened as there is not a comprehensive closing process, journal entries are not reviewed, and proper safeguards are not in place to protect the assets of the Authority. Adjusting journal entries were proposed to adjust the claims liabilities, as well as to provide for an allowance related to the claim receivable. Financial statements were not prepared or available for audit in a timely basis.

Cause:

The Authority did not perform a complete year-end close for the fiscal year ended June 30, 2018 on a timely basis. Further they have not established documented policies and procedures for the use and approval of journal entries, including evidence of review. The Authority has not established proper segregation of duties, or ensured there are sufficient mitigating controls in place.

Recommendation:

We recommend the Authority develop a comprehensive year-end closing process and standard policies and procedures for the use of journal entries. This process should include detailed checklists to ensure each financial statement account is reconciled, balanced, and reviewed during the closing process, on a timely basis. The closing process should detail specific assignments, including those performed by outside vendors, and timelines to complete the process. Each of these steps should be documented and signed off as evidence of performance. In addition, the individuals involved in the year-end closing process should be adequately trained, and sufficient resources should be identified to ensure a proper year-end close. For journal entries, the policies and procedures should include obtaining and documenting the appropriate level of review, obtaining and maintaining supporting document, and the sign off of approval from a different individual than the person recording into the general ledger system. The Authority must provide for an adequate segregation of duties. While there are limited members of management, it is possible to structure internal controls systems to provide for the proper safeguarding of Authority assets. The Authority should implement such controls.

Views of Responsible Officials:

Management will continue to refine internal controls surrounding segregation of duties and reporting and closing procedures. Management will specifically address implementing a process and adding resources for documenting the review and approval of journal entries and account reconciliations.

<u>Finding 2018-002</u>

ACTUARIAL DATA AND USE OF SPECIALISTS

Criteria:

The Authority's primary purpose is to provide risk treatment programs to protect its members through pooling of losses, self-insurance and purchasing insurance. The estimation of the claims liabilities is critical to the accuracy of the financial reporting of the organization. Claims liabilities are based on actuarial valuations, which are subject to the completeness and accuracy of the underlying data. The underlying data used by the actuary includes loss data maintained by each City, and submitted through each respective Third Party Administrator (TPA) to the Authority. This data provides the actuary and management the information necessary to project ultimate losses, and is subject to ongoing changes in the underlying data as cases progress and more information is available, or through the variability and consistency of the reporting of such data.

Condition:

During our testwork over the claims liabilities balance, certain claims adjustment were identified by management, and provided to the actuary to update projections as of June 30, 2018. Further, we identified differences between the projected claims liabilities balance, and amounts reported by management. The Authority has historically compiled the underlying data as of a point in time, and projected results to the fiscal year end to reflect significant changes. For the audit of June 30, 2018, the Authority compiled underlying data as of December 31, 2017, and projected forward to June 30, 2018, resulting in six months of data projections. However, this process was not timely, as a final balance was not projected by management, in conjunction with the actuary, until March 2019.

Context:

The condition was noted during our procedures over the claims liabilities balance. Management has been developing procedures to improve the consistency of the data reported by each member through their TPAs to ensure complete and accurate data feeds are available to management on a timely basis.

Effect:

Inconsistencies of data reported by the TPAs, and the variability of data, may lead to incorrect reserves established for claims of the Authority. As a result of the manual process whereby management compiles the data for the actuary, the timing of the actuarial valuation is currently established at six months prior to year end, but was not updated timely subsequent to year-end.

Cause:

Inconsistencies of reporting and tracking of claims, by the cities through their TPAs, has led the Authority to historically perform a lengthy manual process each year in order to provide complete and accurate loss data to the actuary, and to have such data available to management, for the estimation of claims liabilities each year. The timing of this process has historically been performed once per year when the data is provided to the actuary.
There is a significant lag between the timing of the actuary report, and the ultimate availability of accounting records for the audit process.

Recommendation:

We recommend the Authority continue to strengthen its policies and procedures for compiling data, including formalizing policies and procedures for the cities and their TPAs to follow, which ensure the completeness and accuracy of the loss data reported to the Authority, as well as improving the timeliness of such reporting.

Views of Responsible Officials:

Management identified the difference and updated the claim reserves during the current year prior to auditor review.

Background
ICRMA is an excess pool with member retentions varying from $250,000 - $8 million. Each member city is responsible for managing their claims and their claims data. ICRMA finances the claim amounts above the member retention but does not manage the underlying claim or claims data. Historically the membership had used up to five (5) different liability Third Party Administrators (TPAs). This led to a variety of inconsistencies in how the members and TPAs manage claims and data.

- The ICRMA Board has adopted policies and standards to resolve those issues and ensure data integrity and consistency, including:
    - Third Party Administrator Performance Standards
    - Litigation Management Policies and Procedures
- The Board retains an independent claim auditor to perform liability claim audits every other year.
- The Origami claim management software has been fully integrated for the workers'' compensation program and TPA data is imported monthly. The liability integration is anticipated to be completed by summer 2019. This software will assist ICRMA in compiling and maintaining, in a claim system format, the data collected from the member TPAs.
- The Liability Program Manager is working actively to help resolve identified claim issues.
- The Board has taken steps to resolve claim inconsistencies and correct data issues at the primary TPA level.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND STATUS OF CORRECTIVE ACTION
FOR THE YEAR ENEDED JUNE 30, 2018

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2017-001	Actuarial Data and Use of Specialists	Partially implemented – refer to finding 2018-002

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

We have audited the financial statements of the Independent Cities Risk Management Authority (Authority) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 1, 2018. We also provided an update letter on January 24, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were management's estimates described below:

- Amounts related to the claims liabilities are based on actuarial valuations, using a central estimate. The actuarial valuations are based on claims loss data maintained by each City, and submitted, through their respective Third Party Administrators (TPAs), to the Authority. This data provides the actuary and management the information necessary to project ultimate losses, and is subject to ongoing changes in the underlying data as cases progress and more information is available, or through the variability and consistency of the reporting of such data.
- Assessment receivables are recorded at net realizable value, based on management's consideration of the collectability of such amounts from each member agency. Based on management's evaluation, no allowance has been recorded with respect to the $2 million due from the City of Redondo Beach, who have filed suit against ICRMA related to such amounts.
- Fair value measurements for investments are based on observable market inputs and information from the Authority's safekeeping custodian banks and investment pool administrators.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> Notes 2 and 6 to the financial statements disclose the significant accounting policies and other required disclosures related to the estimated claims liabilities.
>
> Note 4 to the financial statements discloses the assessment receivable and related collection period associated with the Board-approved assessment. Further, this note describes the lawsuit with the City of Redondo Beach related the City's $2 million assessment receivable, and that no allowance has been recorded with respect to this receivable based on management's evaluation.
>
> Note 7 to the financial statements discloses contingencies, including a reference to the City of Redondo Beach lawsuit described above, as well as a separate claim between ICRMA and its excess carrier. ICRMA is seeking reimbursement for $6.8 million from its excess carrier related to a claim from FY 2013-14, but the carrier has denied payment and coverage for the claim. Management has recorded an allowance for the $6.8 million receivable.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

As described in our letter dated January 24, 2019, the completion of our audit was delayed due to the additional time required by management to prepare and provide schedules and information for the audit. As a result, the audit timing was delayed to allow additional time for us to complete the audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Adjustments identified as part of the audit and corrected by management include:

- Adjustments to claims liability (increase of $690 thousand and decrease of $265 thousand for general liability and workers' compensation, respectively) to adjust balance as of June 30, 2018 based on actuarial results.
- $6.8 million allowance (and offsetting expense) for excess carrier receivable.
- Adjustment of $350,000 to accounts payable and claims expense for anticipated legal reserves.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to the management's discussion and analysis, reconciliation of claims liabilities by program, claim development information for the Liability and Workers' Compensation Programs, and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

<u>Restriction on Use</u>

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
May 24, 2019