Independent Cities Risk Management Authority

ICRMA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2020
(With Independent Auditor's Report)

Independent Cities Risk Management Authority

— Governmental Joint Powers Authority —

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

JUNE 30, 2020

TABLE OF CONTENTS

Report of Independent Auditors

The 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, 2020, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Independent Cities Risk Management Authority as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof 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 and 7 to the financial statements, the City of Redondo Beach filed suit against the Authority claiming the assessment was not properly calculated and approved. As of June 30, 2020, approximately $2.7 million of assets and accrued interest 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. The carrier has denied payment and coverage for the claim. A full allowance has been recorded as of June 30, 2020 against the receivable recorded.

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, workers' compensation and auto physical damage programs on pages 25 through 27 and 30 through 32 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 opinions on the financial statements that collectively comprise the Independent Cities Risk Management Authority 's basic financial statements. The combining statement of net position, statement of revenue, expenses and changes in net position, and statement of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position, statement of revenue, expenses and changes in net position, and statement of cash flows are 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 revenue, expenses and changes in net position, and statement of cash flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Period Financial Statements

The financial statements of the Independent Cities Risk Management Authority as of and for the year ended June 30, 2019, were audited by other auditors whose report dated February 12, 2020, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of the Independent Cities Risk Management 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 Independent Cities Risk Management 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 Independent Cities Risk Management Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Irvine, California
March 16, 2021

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, 2020. 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, San Bernardino, and Orange Counties, ICRMA offers pooled liability, workers' compensation, property (inclusive of equipment breakdown coverage), and auto physical damage coverage programs. Members also group purchase earthquake/flood, crime, cyber, and terrorism 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, 2020

Revenues	$27.8 million	Operating revenues increased $3.9 million (19%) over the prior year. The increase was due to an increase in member contributions due to the net addition of one member and increased premium cost passed on to members. No additional assessments were made in 2019/2020. Nonoperating revenues (investment income) increased from the prior year due to market valuation and higher average balances in the investment portfolio.
Expenses	$13.1 million	Operating expenses decreased $22.4 million (63%) over the prior year due primarily to a $24.8 million net decrease in claims expense consisting of a $15.0 million decrease in claims paid and a $9.8 million decrease in the reserve projected by the actuary at fiscal year-end. The decrease in claims expense was partly offset by a $1.9 million increase in insurance premium purchased.
Assets	$101.6 million	Assets increased $9.6 million from the prior year largely due to an increase in investments ($13.6 million) due to greater cash and investment resources associated with the decrease in claims paid.
Liabilities	$61.9 million	Liabilities decreased $5.1 million due to the decrease in claim liability estimates in the Liability and Workers' Compensation Programs.

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 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, 2020 and 2019

	2020	2019
Assets		
Current Assets	$ 15,572,829	$ 13,970,036
Noncurrent Assets	86,032,219	78,064,166
Total Assets	101,605,048	92,034,202
Liabilities		
Current Liabilities	11,558,699	13,808,804
Noncurrent Liabilities	50,328,975	53,180,000
Total Liabilities	61,887,674	66,988,804
Net Position		
Net Position - Unrestricted	$ 39,717,374	$ 25,045,398

Current and Noncurrent Assets

<u>*2019/20 Fiscal Year*</u>

Total assets increased approximately $9.6 million which can be attributed to an increase in investments ($13.6 million) offset by a decrease in the total assessment receivable ($3.0 million).

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, 2020, remained generally consistent with the prior year. The increase in total investments is due to reduced claim payments during the fiscal year, preserving the member contribution collected to pay claims.

Current and Noncurrent Liabilities
2019/20 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 decreased $4.6 million over the prior year. The Liability Program claim liability experienced an $198 thousand decrease, the Workers' Compensation Program claim liability experienced an $4.6 million decrease over the prior year, and a new $136,000 thousand liability was recorded for the Auto Physical Damage (APD) program, as calculated by ICRMA's third-party actuary.

Revenues and Expenses

	2020	2019
Operating Revenues	$ 23,908,856	$ 20,041,905
Operating Expenses	13,109,550	35,517,850
Operating Income (Loss)	10,799,306	(15,475,945)
Nonoperating Revenues		
Investment Income	3,872,670	3,050,996
Change in Net Position	14,671,976	(12,424,949)
Beginning Net Position	25,045,398	37,470,347
Ending Net Position	$ 39,717,374	$ 25,045,398

2019/20 Fiscal Year
Total operating revenues increased $3.9 million (19%) over the prior year due to an increase in member contributions. Liability and Worker's Compensation premiums increased by approximately 19%, while the remaining programs increased 17% over the prior year for a 19% increase in total contributions. The premium costs are passed through to the members and collected as member contributions.

Expenses decreased $22.4 million (63%) over the prior year as a result of a $24.8 million decrease in claim expenses. As claims expense is a combination of both claims expense, and the change in the claims liability balance, the decrease in claims expense was mainly attributable to a $15 million decrease in claims payments from the prior year, with the remaining variance due to changes in the claims liability balance, as projected by the actuary. Professional fees, program operating expenses, regulatory assessments, and general and administrative expenses increased $2.4 million (25%) over the prior year primarily due to increased insurance expense and other direct operating expenses. ICRMA purchases liability and workers' compensation excess insurance and reinsurance to cover losses in excess of its self-insured retentions of $3 million and $1.5 million, respectively. Excess and reinsurance premiums for both the Liability and Workers' Compensation Programs increased by $1.6 million for the 2019/20 fiscal year. Other coverages are also purchased for the property and APD pooled programs and other fully-insured group-purchase programs.

Net Position

The Liability Program net position was $23.6 million at June 30, 2020, an $8.1 million decrease from the prior year. The Workers' Compensation net position was $15.5 million at the end of the current fiscal year, an increase of $6.6 million to the prior year net position of $8.9 million. The Property Program net position was $622 thousand and the Auto Physical Damage Program net position was ($14) thousand at June 30, 2020, an increase of $4 thousand and decrease of $10 thousand, respectively.

The following ratios are used to help evaluate 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. The Property and APD programs are young programs (established in FY 2017-2018) and in the early stages of growing equity balances.

	Liability Program		Workers' Compensation Program	
	2020	2019	2020	2019
Net Contributions Received	$ 11,382,242	$ 9,686,267	$ 3,129,267	$ 3,039,804
Net Position as of June 30	$ 23,641,202	$ 15,531,519	$ 15,464,834	$ 8,853,334
Net Contributions to Net Position Ratio (Target: <2:1)	**0.48:1**	**0.62:1**	**0.2:1**	**0.34:1**
Net Position as of June 30	$ 23,641,202	$ 15,531,519	$ 15,464,834	$ 8,853,334
Program SIR as of June 30	$ 3,000,000	$ 3,000,000	$ 1,500,000	$ 2,000,000
Net Position to Self-Insured Retention Ratio (Target: >5:1)	**7.88:1**	**5.18:1**	**10.31:1**	**4.43:1**

	Property Program		Auto Physical Damage Program	
	2020	2019	2020	2019
Net Contributions Received	$ 577,014	$ 551,434	$ 138,736	$ -
Net Position as of June 30	$ 621,849	$ 618,191	$ (14,155)	$ (4,217)
Net Contributions to Net Position Ratio (Target: <2:1)	**0.93:1**	**0.89:1**	**-9.8:1**	**0.00:1**
Net Position as of June 30	$ 621,849	$ 618,191	$ (14,155)	$ (4,217)
Program SIR as of June 30	$ 250,000	$ 250,000	$ 25,000	$ 250,000
Net Position to Self-Insured Retention Ratio (Target: >5:1)	**2.49:1**	**2.47:1**	**-0.57:1**	**-0.02:1**

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

In developing the budget for the fiscal year ended June 30, 2020, pool administration staff and the Board took into account the factors that had significant potential to adversely affect the budgeted figures: primarily the claims, investment, and insurance environments. Projections for investment income took into consideration the trends in the interest income generated by ICRMA's invested cash and the resulting effect on the funding levels. Following is a brief overview of the major insurance programs and fixed income investment market.

<u>Liability:</u>
ICRMA's Liability Coverage. The same reinsurance partners (Safety National, Markel, Pennsylvania, ScorRe, and Hallmark) remained on the liability program.

- *$3M self-insured retention was maintained.*
- *$10,000 loss control funds were offered by Safety National.*

<u>Workers' Compensation</u>
Excess Workers' Compensation Coverage. Safety National Casualty Corporation continues to be the partner of ICRMA.

- *Self-insured retention was reduced to $1.5 million from $2.0 million in the previous year.*
- *$10,000 loss control funds were offered by Safety National.*

<u>Property:</u>
ICRMA had a combined Property/APD program (including equipment breakdown coverage) in the prior year. These programs were separated into independent pooled programs on July 1, 2019. The standalone property program includes a $250 million limit, a $250,000 pool deductible, and $619,884 of aggregate stop loss funding.

- *$10,000 member deductible.*

<u>Auto Physical Damage (APD):</u>
As described above, the APD program is now a separate program with a $10 million limit, a $25,000 pool deductible, and funding for the pool's $15,000 excess of $10,000 layer is actuarially determined.

- *$10,000 member deductible.*

<u>Earthquake and Flood, Crime, Cyber, & Terrorism Programs:</u>
Members may select to participate in these programs, except for Cyber which is required. All are group purchased, non-risk sharing, fully insured all-risk programs. Program deductibles are the individual member's responsibility.

<u>Investments:</u>
ICRMA, through its investment advisor, PFM Asset Management LLC, continues to pursue a policy of diversification of issuers, credit, bond market sectors, and maturities. Likewise, the investment advisor closely monitors current and expected market conditions for investment opportunities consistent with ICRMA's long-term investment objectives. Furthermore, all investments are carefully analyzed and monitored to evaluate possible risks and to ensure that the portfolio remains in compliance with the Government Code and ICRMA's investment policy, which it did at all times during the fiscal year.

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

BASIC FINANCIAL STATEMENTS

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2020

(With comparative totals for June 30, 2019)

	2020	2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 4,253,021	$ 6,033,225
Investments	6,855,908	4,251,972
Accounts Receivable	923,555	266,927
Assessment Receivable, Current Portion	3,045,223	3,045,204
Interest Receivable	379,301	345,839
Prepaid Expenses	115,821	26,869
Total Current Assets	15,572,829	13,970,036
Noncurrent Assets:		
Investments	65,716,209	54,702,913
Assessment Receivable	20,316,010	23,361,253
Total Noncurrent Assets	86,032,219	78,064,166
Total Assets	101,605,048	92,034,202
LIABILITIES		
Current Liabilities:		
Accounts Payable	603,566	1,056,804
Claims Payable - Current Portion	10,955,133	12,752,000
Total Current Liabilities	11,558,699	13,808,804
Noncurrent Liabilities:		
Claims Payable - Long-term Portion	50,328,975	53,180,000
Total Noncurrent Liabilities	50,328,975	53,180,000
Total Liabilities	61,887,674	66,988,804
NET POSITION		
Net Position - Unrestricted	$ 39,717,374	$ 25,045,398

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, 2020

(With comparative totals for year ended June 30, 2019)

	2020	2019
OPERATING REVENUES		
Member Premiums	$ 23,908,856	$ 20,041,905
Total Operating Revenues	23,908,856	20,041,905
OPERATING EXPENSES		
Claims Expense	790,931	25,632,095
Insurance Expense	8,466,354	6,576,355
Broker Fees	275,000	169,935
Claims Administration	1,512,482	1,215,377
Program Administration	1,319,405	1,017,800
General & Administrative Expense	745,378	906,288
Total Operating Expenses	13,109,550	35,517,850
Operating Income (Loss)	10,799,306	(15,475,945)
NONOPERATING REVENUES:		
Investment Income	3,872,670	3,050,996
Change in Net Position	14,671,976	(12,424,949)
Beginning Net Position	25,045,398	37,470,347
Ending Net Position	$ 39,717,374	$ 25,045,398

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

(With comparative totals for year ended June 30, 2019)

	2020	2019
Cash Flows from Operating Activities:		
Cash Received from Members for Deposit Premiums	$ 26,954,079	$ 23,087,109
Cash Payments to Suppliers for Services	(12,004,954)	(8,426,936)
Cash Payments Relating to Claims and Claim Administration	(6,951,305)	(21,672,620)
Net Cash Provided By (Used In) Operating Activities	7,997,820	(7,012,447)
Cash Flows from Investing Activities:		
Purchases of Investments	(50,815,401)	(54,057,379)
Proceeds from Investment Sales and Maturities	39,328,394	53,310,654
Interest Income Received	1,708,983	950,408
Net Cash Provided By (Used In) Investing Activities	(9,778,024)	203,683
Net Decrease in Cash and Cash Equivalents	(1,780,204)	(6,808,764)
Cash and Cash Equivalents, Beginning of Year	6,033,225	12,841,989
Cash and Cash Equivalents, End of Year	$ 4,253,021	$ 6,033,225

	2020	2019
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:		
Operating Income (loss)	$ 10,799,306	$ (15,475,945)
Adjustment to net cash provided by (used in) operating activities:		
(Increase) Decrease in Accounts/Assessment Receivable	2,388,596	3,092,704
(Increase) Decrease in Prepaid Expenses	(88,952)	55,118
(Decrease) Increase in Accounts Payable	(453,238)	(209,176)
(Decrease) Increase in Claims Payable	(4,647,892)	5,524,852
Net Cash Provided By (Used In) Operating Activities	$ 7,997,820	$ (7,012,447)
Noncash Investing Activities:		
Unrealized gain in market values of investments	$ 1,425,373	$ 1,850,156

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, 2020, there were 16 participating members. ICRMA was created to provide risk management 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 must participate in the Liability and Cyber programs. Members may elect to participate in all other pooled or group-purchased programs: Workers' Compensation, Property, Auto Physical Damage (APD), Crime, Earthquake & Flood, and Terrorism. A member may elect to withdraw from ICRMA at the end of a given fiscal year by providing written notice by July 1 of the prior year. 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, 2020, membership and selected retained limits were as follows:

Member	General Liability Program	Workers' Compensation Program	Property Program	Auto Physical Damage Program	Crime Program [1]	Cyber Program [1]	Earthquake & Flood Program [1]	Terrorism Program [1]
City of Adelanto	$ 250,000	$ 350,000	●	●	●	●		●
City of Bell	$ 250,000	$ -				●		●
City of Downey	$ 2,000,000	$ -	●	●	●	●	●	●
City of El Monte	$ 250,000	$ -	●		●	●		●
City of El Segundo	$ 750,000	$ 500,000	●	●	●	●		●
City of Fullerton	$ 8,000,000	$ -	●	●	●	●		●
City of Glendora	$ 300,000	$ 500,000	●	●	●	●	●	●
City of Hawthorne	$ 500,000	$ -	●	●	●	●		●
City of Hermosa Beach	$ 250,000	$ 500,000	●	●	●	●		●
City of Huntington Park	$ 500,000	$ 500,000	●	●	●	●	●	●
City of Inglewood	$ 1,750,000	$ 1,000,000				●		●
City of Lynwood	$ 500,000	$ 500,000	●	●	●	●	●	●
City of Monterey Park	$ 500,000	$ 500,000	●	●	●	●		●
City of San Fernando	$ 250,000	$ 500,000	●	●	●	●	●	●
City of Santa Ana	$ 3,000,000	$ 2,000,000	●	●	●	●		
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 underwriting and inspections by ICRMA and its excess carriers/reinsurers. 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 contain admission and termination provisions.

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 of the preceding year.

C. DESCRIPTION OF PROGRAMS

Liability Program

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

July 1, 2019 to June 30, 2020	
Member Retentions:	Ranges from $250,000 to $8,000,000
ICRMA's Retention:	$3,000,000 less the Member Retention
Reinsurance:	$37,000,000 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 reinsurance for the $5 million excess $3 million layer, Markel and Pennsylvania shared the $12 million excess $8 million layer (with Pennsylvania taking $7 million of the layer and Markel taking $5 million of the layer), ScorRe reinsured the $10 million excess $20 million layer, and Hallmark reinsured the $10 million excess $30 million layer.

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 and settlements, excess and reinsurance costs, 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, 2019 to June 30, 2020	
Member Retentions:	Range from $350,000 to $2,000,000
ICRMA's Retention:	$1,500,000 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 $2,000,000. 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, 2020. The annual contributions paid by each member to ICRMA for the Workers' Compensation Program are approved by the Governing Board and are calculated to cover ICRMA's forecasted claim expenses and settlements, excess and reinsurance costs, and operating costs.

Property/Auto Physical Damage (APD) Programs

ICRMA had a combined Property/APD program (including equipment breakdown coverage) from July 1, 2017 through June 30, 2019. These programs were separated into independent, pooled programs on July 1, 2019. The combined program included a $250 million limit, a $250,000 pool deductible, a $10,000 member deductible, and an aggregate stop loss attachment point of $500,000 in 2017/18 and $430,000 in 2018/19. Starting on July 1, 2019, the stand-alone Property program (including equipment breakdown coverage) had a $250 million limit, a $250,000 pool deductible, a $10,000 member deductible, and an aggregate stop loss attachment point of $619,844. On July 1, 2019, the stand-alone APD program had a $10 million limit, a $25,000 pool deductible, and a $10,000 member deductible. Funding for the pool's $15,000 excess of $10,000 layer is actuarially determined. The annual contributions paid by each member to ICRMA for the APD Program are approved by the Governing Board and are calculated to cover ICRMA's forecasted claim expenses and settlements, excess and reinsurance costs, and operating costs.

Earthquake and Flood, Crime, Cyber, & Terrorism Programs

ICRMA also provides its members Earthquake and Flood, Crime, Cyber, and Terrorism Programs. These are group purchased, non-risk sharing, fully insured all-risk programs. Program deductibles are the individual member's responsibility. The annual contributions paid by each member to ICRMA for the Earthquake and Flood, Crime, Cyber, and Terrorism programs are approved by the Governing Board and are calculated to cover purchased insurance costs and operating costs.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Measurement Focus

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.

The accounting records of ICRMA are reported as an enterprise fund. 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. 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.

B. 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.

C. 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.

D. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

F. Accounts Receivable

As of June 30, 2020, ICRMA reported $923,555 of receivables related to amounts due from members and former members for various reimbursements 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.

G. 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, as ICRMA believes all assessments to be fully collectable. Refer to Note 4 for further details regarding the assessments approved, and related activity.

H. 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 the Workers' Compensation Program, and undiscounted for the APD 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

I. 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, 2020 and 2019, the ULAE was $1,270,164 and $1,141,922, respectively.

J. 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 an expected confidence level for the Liability Program, Workers' Compensation Program, and APD Program. This is a change from the previous year, which used a 70% and 75% confidence level for the Liability and Workers' Compensation Programs, respectively. Further, this is the first year the APD program presented an estimated claims liability. Member contribution rates for losses were set to provide funding for the fiscal year as follows: 1) 70% confidence level for the Liability Program self-insured layer from the members' retained limit to $3 million, with a 2% discount applied, 2) 75% confidence level for the Workers' Compensation Program self-insured layer from the members' retained limit to $1.5 million, with a 2% discount applied 3) 70% confidence level for the APD Program self-insured layer from the members' retained limit to $25 thousand, undiscounted.

K. 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.

L. 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, 2019, 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:

	2020	2019
Cash Per Bank Statement	$ 1,177,150	$ 2,270,400
Add: Deposits in Transit	340	-
Less: Outstanding Checks	(107,754)	(309,516)
Balance Per Books	1,069,736	1,960,884
LAIF	3,183,285	4,072,341
Total Cash and Cash Equivalents	$ 4,253,021	$ 6,033,225

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. ICRMA accounts are fully collateralized in accordance with these provisions.

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 1.93% interest annually and has a weighted average to maturity of 191 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	30%	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	$75M	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 government code, ICRMA has authorized certain investments up to 10 years maximum maturity

ICRMA held the following investments as of June 30:

	2020	2019
Investments, Current	$ 6,855,908	$ 4,251,972
Investments, Noncurrent	65,716,209	54,702,913
Total Investments	$72,572,117	$58,954,885

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, 2020:

Interest Rate Risk		Remaining Maturity (in months)		
	Fair Value	12 months or less	13 to 24 months	25 to 60 months
U.S. Treasury Notes	$ 28,305,033	$ -	$ 10,859,648	$ 17,445,385
Supranational Debentures	953,909	-	277,108	676,801
Asset Backed Securities	3,138,892	96,845	266,162	2,775,885
U.S. Agency Securities	16,099,492	67,115	-	16,032,377
Medium Term Corporate Notes	16,014,256	2,918,898	3,067,691	10,027,667
Municipal Bond	2,564,249	595,922	-	1,968,327
Certificate of Deposit	5,361,990	3,042,832	563,478	1,755,680
Money Market Mutual Funds	134,296	134,296	-	-
Total	$ 72,572,117	$ 6,855,908	$ 15,034,087	$ 50,682,122

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 at June 30, 2020:

Name of Issuer	Investment Type	Reported Amount	% of Portfolio
Federal Home Loan Banks	U.S. Agency Securities	$ 6,237,725	8.6%
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	$ 5,792,861	8.0%
Federal National Mortgage Association	U.S. Agency Securities	$ 4,068,906	5.6%

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	$ 28,305,033	Exempt	n/a
Supranational Debentures	953,909	AAA	AA
Asset Backed Securities *	3,138,892	AAA	AA
U.S. Agency Securities	16,099,492	AA+	AA
Medium Term Corporate Notes **	15,496,528	A or Better	A
Medium Term Corporate Notes ***	517,728	BBB+	A
Municipal Bond ****	2,564,249	A or Better	n/a
Certificate of Deposit	5,361,990	A or Better	A
Money Market Mutual Funds	134,296	AAA	n/a
Total	$ 72,572,117		

* $980,980 of securities are rated as Aaa by Moody's, but not rated by S&P.

** $1,067,872 of securities are rated as A by Fitch, but rated BBB+ by S&P.
$1,631,037 of securities are rated as A2 by Moody's, but rated BBB+ by S&P.

*** The is rated as BBB+ by Fitch, but rated BBB by S&P. The security was downgraded by Fitch from A- to BBB+ on 4/22/2020.

**** $420,788 of securities are rated as Aaa by Moody's, but not rated by S&P.

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. For example, municipal bonds, corporate bonds and notes, and government securities for which quoted prices are not readily available; Level 3 inputs are significant unobservable inputs. Investments fair value measurements at June 30, 2020 are as follows:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ -	$ 28,305,033	$ -	$ 28,305,033
Supranational Debentures	-	953,909	-	953,909
Asset Backed Securities	-	3,138,892	-	3,138,892
U.S. Agency Securities	-	16,099,492	-	16,099,492
Medium Term Corporate Notes	-	16,014,256	-	16,014,256
Municipal Bond	-	2,564,249	-	2,564,249
Certificate of Deposit	-	5,361,990	-	5,361,990
Total	$ -	$ 72,437,821	$ -	$ 72,437,821

*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 of $134,296 at June 30, 2020 are recorded at amortized cost and also not subject to the fair value hierarchy and are uncategorized.

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 or a 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. For the cities on the payment plan, payments are approximately $3 million a year, with final payment due in fiscal year 2026-27.

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 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, 2020, payments of $3,045,223 were made from the members related to the multi-year payment plans. As of June 30, 2020, $23,361,233 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 $744,370 in penalties and interest as of June 30, 2020 related to the unpaid assessment, reported within accounts receivable in the Statement of Net Position.

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, 2020.

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 the workers' compensation program, and undiscounted for the APD program. The following represents the changes in the claims liabilities for the years ended June 30, 2020 and 2019:

	2020	2019
Unpaid claims and claims adjustment expenses at beginning of fiscal year	$ 65,932,000	$ 60,407,148
Incurred claim and claims adjustment expenses:		
Provision for insured events of the current fiscal year	10,122,940	8,140,357
(Decrease) Increase in provision for insured events of prior fiscal years	(9,804,089)	17,575,027
Total incurred claims and claims adjustment expenses	318,851	25,715,384
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	4,966,743	20,190,532
Total payments	4,966,743	20,190,532
Total unpaid claims and claim adjustment expenses at end of fiscal year	$ 61,284,108	$ 65,932,000
Claims reserves	$ 30,151,676	$ 25,872,012
Claims incurred but not reported (IBNR)	29,862,268	38,918,066
Unallocated loss adjustment expenses (ULAE)	1,270,164	1,141,922
Total	$ 61,284,108	$ 65,932,000
Current Portion	$ 10,955,133	$ 12,752,000
Noncurrent Portion	50,328,975	53,180,000
Total Claims Liabilities	$ 61,284,108	$ 65,932,000

As of June 30, 2020 and 2019, the undiscounted unpaid claims and claims adjustment expenses were $67,882,000 and $73,248,000, respectively.

7. CONTINGENCIES

Various claims and suits have been filed in the normal course of operations. The probable amount of loss associated with these cases have been estimated by contracted actuarial consultants and reflected in the accompanying financial statements as claims payable liabilities. Although the outcome of these claims and lawsuits is uncertain, management does not expect that the resolution of these cases will have an adverse effect on ICRMA that is materially 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, 2020. However, the carrier has denied payment and coverage for this claim, and has 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, 2020.

COVID-19 pandemic – In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their clients, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations.

ICRMA's administration has been closely monitoring the impact of COVID-19 on the entity's operations, including the impact on its funding, contracts, and staff. The duration of the pandemic is uncertain but may influence its fundings and contributions.

8. RELATED PARTY TRANSACTION

ICRMA's financial team, Artex, and executive management, Risk Pool Administrators (RPA), are subsidiaries of Arthur J. Gallagher & Co., who is ICRMA's insurance broker. During the year, Artex and RPA approved payments to be made to Artex, RPA, and Arthur J. Gallagher. ICRMA paid $177,847 to Artex for financial administration services, $1,221,873 to RPA for program administration fees, and $275,000 to Arthur J. Gallagher for insurance brokerage fees in fiscal year 2019/2020.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

RECONCILIATION OF CLAIM LIABILITY BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 2020

	General Liability		Workers' Compensation		Auto Physical Damage		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Unpaid loss and loss adjustment expenses at beginning of year beginning of the year	$ 43,200,000	$ 45,840,160	$ 22,732,000	$ 14,566,988	$ -	$ -	$ 65,932,000	$ 60,407,148
Incurred losses and loss adjustment expenses:								
Provision for insured events of current year	8,698,227	6,991,701	1,288,605	1,148,656	136,108	-	10,122,940	8,140,357
Provision for insured events of prior years	(4,952,525)	10,168,572	(4,851,564)	7,406,455	-	-	(9,804,089)	17,575,027
Total incurred loss and loss adjustment expenses	3,745,702	17,160,273	(3,562,959)	8,555,111	136,108	-	318,851	25,715,384
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	3,943,702	19,800,433	1,023,041	390,099	-	-	4,966,743	20,190,532
Total payments of loss and loss adjustment expenses	3,943,702	19,800,433	1,023,041	390,099	-	-	4,966,743	20,190,532
Unpaid loss and loss adjustment expenses at end of year	$ 43,002,000	$ 43,200,000	$ 18,146,000	$ 22,732,000	$ 136,108	$ -	$ 61,284,108	$ 65,932,000
Reserve for known claims	$ 22,924,527	$ 18,517,660	$ 7,098,175	$ 7,354,352	$ 128,974	$ -	$ 30,151,676	$ 25,872,012
Reserve for incurred but not reported (IBNR)	19,107,474	23,806,269	10,754,794	15,111,797	-	-	29,862,268	38,918,066
Reserve for unallocated loss adjustment expenses (ULAE)	969,999	876,071	293,031	265,851	7,134	-	1,270,164	1,141,922
Total claims payable as of end of year	$ 43,002,000	$ 43,200,000	$ 18,146,000	$ 22,732,000	$ 136,108	$ -	$ 61,284,108	$ 65,932,000

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – LIABILITY PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2020 (In Thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Contributions and investment income:										
Earned	$ 11,691	$ 11,126	$ 10,499	$ 11,665	$ 12,367	$ 15,448	$ 16,260	$ 15,074	$ 15,560	$ 19,087
Assessment	-	4,150	13,620	16,940	1,239	-	-	-	-	-
Ceded	(4,074)	(2,149)	(1,846)	(1,771)	(1,891)	(2,442)	(4,414)	(4,479)	(4,207)	(5,580)
Net earned and investment income	7,617	13,127	22,273	26,834	11,715	13,006	11,846	10,595	11,353	13,507
2. Unallocated expenses	1,278	1,124	1,050	1,119	1,146	1,415	1,385	1,328	1,589	1,652
3. Estimated incurred claims and expenses, end of policy year	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400	7,383	9,363
4. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	21	454	1,602	4,802	-	-	297	-	-	-
Two years later	386	4,806	2,689	15,569	352	3,547	3,023	881	-	-
Three years later	3,858	5,974	12,110	18,730	1,350	12,815	3,964	-	-	-
Four years later	4,323	8,729	16,714	13,162	9,285	14,939	-	-	-	-
Five years later	4,324	8,827	18,964	20,388	10,657	-	-	-	-	-
Six years later	5,634	8,846	18,395	20,397	-	-	-	-	-	-
Seven years later	5,635	8,963	19,691	-	-	-	-	-	-	-
Eight years later	5,636	8,963	-	-	-	-	-	-	-	-
Nine years later	5,642	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	209	2,808	403	23,433	-	3,340	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400	7,383	9,363
One year later	3,995	5,871	6,427	26,216	10,887	9,840	11,000	7,298	7,742	-
Two years later	6,037	5,689	11,997	25,707	7,190	23,000	10,437	6,809	-	-
Three years later	5,840	8,188	21,612	22,510	8,100	18,359	13,382	-	-	-
Four years later	5,059	11,419	20,980	15,500	14,232	19,121	-	-	-	-
Five years later	5,062	10,145	18,964	25,355	14,227	-	-	-	-	-
Six years later	5,730	8,870	18,495	25,021	-	-	-	-	-	-
Seven years later	5,750	9,044	19,775	-	-	-	-	-	-	-
Eight years later	5,882	9,018	-	-	-	-	-	-	-	-
Nine years later	5,667	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ (580)	$ 2,906	$ 12,882	$ 11,334	$ 5,245	$ 8,405	$ 1,882	$ (591)	$ 359	$ -

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, 2020 (In Thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Contributions and investment income:										
Earned	$ 4,226	$ 2,865	$ 3,017	$ 3,879	$ 4,121	$ 3,786	$ 4,092	$ 4,231	$ 4,807	$ 5,494
Ceded	(402)	(311)	(294)	(302)	(473)	(365)	(430)	(449)	(383)	(617)
Net earned and investment income	3,824	2,554	2,723	3,577	3,648	3,421	3,662	3,782	4,424	4,877
2. Unallocated expenses	1,134	994	1,283	1,322	1,378	1,524	1,347	1,759	1,615	1,829
3. Estimated incurred claims and expenses, end of policy year	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110	1,394	1,585
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	-	-	-	187	-	-	-
Four years later	656	467	14	-	-	-	-	-	-	-
Five years later	1,130	1,594	99	-	-	-	-	-	-	-
Six years later	1,130	1,551	73	396	-	-	-	-	-	-
Seven years later	1,189	1,591	114	-	-	-	-	-	-	-
Eight years later	1,192	2,155	-	-	-	-	-	-	-	-
Nine years later	1,706	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110	1,394	1,585
One year later	2,539	1,372	1,605	1,806	1,913	3,111	2,390	1,559	1,191	-
Two years later	2,114	1,322	1,237	1,626	2,402	1,900	1,871	1,372	-	-
Three years later	3,049	1,945	1,547	2,109	1,560	1,824	1,620	-	-	-
Four years later	2,012	1,886	1,869	1,550	2,067	1,562	-	-	-	-
Five years later	2,424	2,608	1,460	1,516	2,022	-	-	-	-	-
Six years later	2,260	2,810	1,497	1,829	-	-	-	-	-	-
Seven years later	2,320	2,810	1,422	-	-	-	-	-	-	-
Eight years later	2,320	4,870	-	-	-	-	-	-	-	-
Nine years later	2,590	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ 1,138	$ 2,870	$ (305)	$ (51)	$ 53	$ (847)	$ (1,452)	$ (738)	$ (203)	$ -

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – AUTO PHYSICAL DAMAGE PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2020 (In Thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Contributions and investment income:										
Earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,165	$ 1,042	$ 330
Ceded	-	-	-	-	-	-	-	(563)	(490)	(191)
Net earned and investment income	-	-	-	-	-	-	-	602	552	139
2. Unallocated expenses	-	-	-	-	-	-	-	118	(31)	13
3. Estimated incurred claims and expenses, end of policy year	-	-	-	-	-	-	-	-	-	136
4. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	13
One year later	-	-	-	-	-	-	-	-	370	-
Two years later	-	-	-	-	-	-	-	67	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	-	-	-	-	-	-	-	-	-	136
One year later	-	-	-	-	-	-	-	-	-	-
Two years later	-	-	-	-	-	-	-	-	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

*ICRMA introduced the APD program with Property beginning July 1, 2017. Starting on July 1, 2019, the APD program was separated. As such, combined APD/Property information is disclosed for 2018 and 2019, while separated info is provided beginning 2020. The 10 year schedule will be completed as future information becomes available.

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, workers' compensation, and auto physical damage programs. The schedules are presented on a fiscal year basis, which is the same as the policy year.

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, 2020

ASSETS	Liability	Workers' Compensation	Property	Auto Physical Damage	Group Purchased Insurance Programs	Total
Current Assets:						
Cash and Cash Equivalents	$ 981,802	$ 2,530,812	$ 615,976	$ 116,795	$ 7,636	$ 4,253,021
Investments	3,928,942	2,926,966	-	-	-	6,855,908
Accounts Receivable	824,882	72,063	10,255	5,518	10,837	923,555
Assessment Receivable, Current Portion	3,045,223	-	-	-	-	3,045,223
Interest Receivable	232,299	147,002	-	-	-	379,301
Prepaid Expenses	64,454	50,483	120	-	764	115,821
Total Current Assets	9,077,602	5,727,326	626,351	122,313	19,237	15,572,829
Noncurrent Assets:						
Investments	37,660,244	28,055,965	-	-	-	65,716,209
Assessment Receivable	20,316,010	-	-	-	-	20,316,010
Total Noncurrent Assets	57,976,254	28,055,965	-	-	-	86,032,219
Total Assets	67,053,856	33,783,291	626,351	122,313	19,237	101,605,048
LIABILITIES						
Current Liabilities:						
Accounts Payable	410,654	172,457	4,502	360	15,593	603,566
Claims Payable - Current Portion	7,621,202	3,215,998	-	117,933	-	10,955,133
Total Current Liabilities	8,031,856	3,388,455	4,502	118,293	15,593	11,558,699
Noncurrent Liabilities:						
Claims Payable - Long-term Portion	35,380,798	14,930,002	-	18,175	-	50,328,975
Total Liabilities	43,412,654	18,318,457	4,502	136,468	15,593	61,887,674
NET POSITION						
Net Position - Unrestricted (deficit)	$ 23,641,202	$ 15,464,834	$ 621,849	$ (14,155)	$ 3,644	$ 39,717,374

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Liability	Workers' Compensation	Property	Auto Physical Damage	Group Purchased Insurance Programs	Total
OPERATING REVENUES:						
Member Premiums	$ 16,962,667	$ 3,746,235	$ 1,305,136	$ 329,887	$ 1,564,931	$ 23,908,856
Total Operating Revenues	16,962,667	3,746,235	1,305,136	329,887	1,564,931	23,908,856
OPERATING EXPENSES:						
Claims Expense	3,745,702	(3,562,959)	472,080	136,108	-	790,931
Insurance Expense	5,580,425	616,968	728,122	191,151	1,349,688	8,466,354
Broker Fees	123,750	96,250	8,250	-	46,750	275,000
Claims Administration	453,031	1,008,545	50,906	-	-	1,512,482
Program Administration	630,826	443,726	25,036	12,509	207,308	1,319,405
General & Administrative Expense	443,895	280,230	17,084	57	4,112	745,378
Total Operating Expenses	10,977,629	(1,117,240)	1,301,478	339,825	1,607,858	13,109,550
Operating Income (Loss)	5,985,038	4,863,475	3,658	(9,938)	(42,927)	10,799,306
NONOPERATING REVENUES:						
Investment Income	2,124,645	1,748,025	-	-	-	3,872,670
Change in Net Position	8,109,683	6,611,500	3,658	(9,938)	(42,927)	14,671,976
Net Position, Beginning of Year (deficit)	15,531,519	8,853,334	618,191	(4,217)	46,571	25,045,398
Net Position, End of Year (deficit)	$ 23,641,202	$ 15,464,834	$ 621,849	$ (14,155)	$ 3,644	$ 39,717,374

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Liability	Workers' Compensation	Property	Auto Physical Damage	Group Purchased Insurance Programs	Total
Cash Flows from Operating Activities:						
Cash Received from Members for Deposit Premiums	$ 20,007,890	$ 3,746,235	$ 1,305,136	$ 329,887	$ 1,564,931	$ 26,954,079
Cash Payments to Suppliers for Services	(7,949,524)	(1,468,586)	(779,617)	(203,369)	(1,603,858)	(12,004,954)
Cash Payments Relating to Claims and Claim Administration	(4,396,733)	(2,031,586)	(522,986)	-	-	(6,951,305)
Net Cash Provided By (Used For) Operating Activities	7,661,633	246,063	2,533	126,518	(38,927)	7,997,820
Cash Flows from Investing Activities:						
Purchases of Investments	(33,315,359)	(17,500,042)	-	-	-	(50,815,401)
Proceeds from Investment Sales and Maturities	22,538,076	16,790,318	-	-	-	39,328,394
Interest Income Received	970,576	738,407	-	-	-	1,708,983
Net Cash Provided By Investing Activities	(9,806,707)	28,683	-	-	-	(9,778,024)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,145,074)	274,746	2,533	126,518	(38,927)	(1,780,204)
Cash and Cash Equivalents, Beginning of Year	3,126,876	2,256,066	613,443	(9,723)	46,563	6,033,225
Cash and Cash Equivalents, End of Year	$ 981,802	$ 2,530,812	$ 615,976	$ 116,795	$ 7,636	$ 4,253,021
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	$ 5,985,038	$ 4,863,475	$ 3,658	$ (9,938)	$ (42,927)	$ 10,799,306
Adjustment to net cash used by operating activities:						
(Increase) Decrease in Accounts/Assessment Receivable	2,460,371	(62,101)	1,175	(12)	(10,837)	2,388,596
(Increase) Decrease in Prepaid Expenses	(49,876)	(40,405)	299	-	1,030	(88,952)
(Decrease) Increase in Accounts Payable	(535,900)	71,094	(2,599)	360	13,807	(453,238)
(Decrease) Increase in Claims Payable	(198,000)	(4,586,000)	-	136,108	-	(4,647,892)
Net Cash Provided By (Used For) Operating Activities	$ 7,661,633	$ 246,063	$ 2,533	$ 126,518	$ (38,927)	$ 7,997,820
Noncash Investing Activities:						
Unrealized gain (loss) in market values of investments	$ 755,448	$ 669,925	$ -	$ -	$ -	$ 1,425,373

Report of Independent Auditors 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*

The 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Independent Cities Risk Management Authority ("Authority") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Independent Cities Risk Management Authority's basic financial statements, and have issued our report thereon dated March 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Independent Cities Risk Management Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent Cities Risk Management Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Independent Cities Risk Management 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent Cities Risk Management 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 financial statements. 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*.

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.

Moss Adams LLP

Irvine, California
March 16, 2021

Communication with the Board of Directors

Independent Cities Risk Management Authority

June 30, 2020

MOSSADAMS

Communication with the Board of Directors

To the Board of Directors
Independent Cities Risk Management Authority

We have audited the financial statements of the Independent Cities Risk Management Authority ("Authority"), as of and for the year ended June 30, 2020, and have issued our report thereon dated March 16, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated October 8, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we considered the Authority's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and planning discussions.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Independent Cities Risk Management Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

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 estimate affecting the financial statements were:

Management's estimate of the unpaid claim and reserve liability is based on losses reported, estimates of losses incurred but not yet reported (IBNR), and allocated loss adjustment expense reserves (ULAE), and are established on the basis of actuarial assumptions and management judgments. We evaluated the key factors and assumptions used to develop the unpaid claims and reserve liability in determining that it is reasonable in relation to the financial statements as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> Disclosure of confidence level used by ICRMA in Note 2 to the financial statements – the liability for unpaid claims is measured in terms of confidence level. This note describes the confidence level used to estimate the claims liability and member contribution rates.
>
> Disclosure of assessment receivables in Note 4 to the financial statements – the Authority's assessment receivables is a significant balance in the statement of net position. This note discusses the Board approved assessments and amounts outstanding at June 30, 2020.
>
> Disclosure of claims liability in Note 6 - the claims liability is a significant estimate in the financial statements. This note presents the claims liability activity, which includes incurred claims and claims adjustment expenses and payments made.
>
> Disclosure of contingencies in Note 7 – this note provides information related to litigation and contingencies that existed at June 30, 2020. This note includes information related to the outstanding assessment receivable from the City of Redondo Beach, contingency amount due from carrier and the impact of COVID-19 on the Authority.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements to the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 March 16, 2021.

Management Consultation 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 auditor's 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.

Independence

We are required to disclose to those charged with governance, in writing, all relationships between the auditors and the Authority, in the auditor's professional judgment that may reasonably be thought to bear on our independence. We know of no such relationships and confirm that, in our professional judgment, we are independent of the Authority within the meaning of professional standards.

Other Significant 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.

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

Moss Adams LLP

Fresno, California
March 16, 2021

MOSSADAMS