Independent Cities Risk Management Authority

ICRMA

# FINANCIAL STATEMENTS

**FISCAL YEAR ENDED JUNE 30, 2021**
**(With Independent Auditor's Report)**

# Independent Cities Risk Management Authority

*— Governmental Joint Powers Authority —*

**INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY**

**JUNE 30, 2021**

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# Report of Independent Auditors

To 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, 2021, 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 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 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 opinion.

### *Opinion*

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, 2021, 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, 2021, approximately $3.1 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, 2021 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 27 through 31 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 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 were 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.

***Report on Summarized Comparative Information***

We have previously audited Independent Cities Risk Management Authority's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022, 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
January 21, 2022

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

# MANAGEMENT DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED JUNE 30, 2021

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, 2021. 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 earth movement/flood, crime, cyber liability, terrorism, and public crisis response 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, 2021

| | | |
|---|---|---|
| Revenues | $26.4 million | Operating revenues increased $2.3 million (9%) over the prior year. The increase was due to an increase in member contributions largely caused by increased insurance/excess insurance/reinsurance premium costs and increased costs to fund the claim liability tied to funding ICRMA's Liability Program. No additional assessments were made in 2020/21. Nonoperating revenues (investment income) decreased from the prior year due to a persistent low interest rate environment. |
| Expenses | $28.4 million | Operating expenses increased $15.3 million (117%) over the prior year due primarily to a $11.1 million net increase in claims expense consisting of a $4.9 million increase in claims paid and a $6.2 million increase in the reserve projected by the actuary at fiscal year-end. |
| Assets | $103.2 million | Assets increased $1.6 million from the prior year largely due to greater cash and cash equivalents and investment resources, largely associated with an additional year's collection of the outstanding Assessment Receivable. |
| Liabilities | $65.5 million | Liabilities increased $3.6 million due to the increase 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, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Current Assets | $ 16,187,763 | $ 15,572,829 |
| Noncurrent Assets | 86,968,010 | 86,032,219 |
| Total Assets | 103,155,773 | 101,605,048 |
| **Liabilities** | | |
| Current Liabilities | 11,701,314 | 11,558,699 |
| Noncurrent Liabilities | 53,759,654 | 50,328,975 |
| Total Liabilities | 65,460,968 | 61,887,674 |
| **Net Position** | | |
| Net Position - Unrestricted | $ 37,694,805 | $ 39,717,374 |

***Current and Noncurrent Assets***

*2020/21 Fiscal Year*
Total assets increased approximately $1.6 million which can be attributed to an increase in cash and cash equivalents and investments ($3.1 million) related to the collection of the assessment receivable ($2.9 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 by PFM Asset Management LLC in accordance with ICRMA's investment policy and the California Government Code.

The asset allocation at June 30, 2021, remained generally consistent with the prior year. The increase in total investments is due largely to the collection of the 4th annual installment of a Liability Program special assessment (approved in 2016-17).

***Current and Noncurrent Liabilities***
2020/21 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 $3.6 million over the prior year. The Liability Program claim liability experienced an $2.4 million increase, the Workers' Compensation Program claim liability experienced an $1.1 million increase, and the Auto Physical Damage (APD) Program claim liability experienced an $33 thousand decrease over the prior year, as calculated by ICRMA's third-party actuary.

***Revenues and Expenses***

| | **2021** | **2020** |
|---|---|---|
| Operating Revenues | $ 26,179,795 | $ 23,908,856 |
| Operating Expenses | 28,434,985 | 13,109,550 |
| Operating Income (Loss) | (2,255,190) | 10,799,306 |
| Nonoperating Revenues | 232,621 | 3,872,670 |
| Change in Net Position | (2,022,569) | 14,671,976 |
| Beginning Net Position | 39,717,374 | 25,045,398 |
| Ending Net Position | $ 37,694,805 | $ 39,717,374 |

2020/21 Fiscal Year
Total operating revenues increased $2.3 million (9%) over the prior year due to an increase in member contributions. Liability and Worker's Compensation premiums increased by approximately 9%, while the remaining programs increased 13% over the prior year for a 9% increase in total contributions. The premium costs are passed through to the members and collected as member contributions.

Expenses increased $15.3 million (117%) over the prior year as a result of a $11.1 million increase in claim expenses. As claims expense is a combination of both claims expense, and the change in the claims liability balance. The increase in claims expense was mainly attributable to a $4.9 million increase 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 $4.2 million (34%) 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 $2 million and $1.5 million, respectively. Excess and reinsurance premiums for both the Liability and Workers' Compensation Programs increased by $3.4 million for the 2020/21 fiscal year. Additional excess insurance is purchased for the property and APD pooled programs and other fully-insured group-purchase programs.

### *Net Position*

The Liability Program net position was $21.9 million at June 30, 2021, an $1.7 million decrease from the prior year. The Workers' Compensation net position was $14.5 million at the end of the current fiscal year, an decrease of $976 thousand to the prior year net position of $15.5 million. The Property Program net position was $1.2 million and the Auto Physical Damage Program net position was $91 thousand at June 30, 2021, an increase of $563 thousand and $105 thousand, respectively. The Group Purchased Insurance Programs net position was $19 thousand at June 30, 2021, an $15 thousand increase from the prior year.

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 less than optimal margin exists, if 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. These margins are necessary to offset the potential for adverse loss development, particularly for "long-tail risks" characterized by long gaps (measured in years or – for Workers' Compensation - decades) between the inception of the exposure and the subsequent manifestation of the loss or damage resulting from the exposure. The Property and APD programs are both considered "short-tail risks" where claims are most typically made during the term of the policy or shortly after the policy has expired, markedly reducing the need for a margin and rendering the ratio calculations for these lines substantially less significant.

| | Liability Program | | Workers' Compensation Program | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net Contributions Received | $ 9,830,408 | $ 11,382,242 | $ 3,169,981 | $ 3,129,267 |
| Net Position as of June 30 | $ 21,911,363 | $ 23,641,202 | $ 14,488,942 | $ 15,464,834 |
| **Net Contributions to Net Position Ratio (Target: <2:1)** | **0.45:1** | **0.48:1** | **0.22:1** | **0.2:1** |
| Net Position as of June 30 | $ 21,911,363 | $ 23,641,202 | $ 14,488,942 | $ 15,464,834 |
| Program SIR as of June 30 | $ 2,000,000 | $ 3,000,000 | $ 1,500,000 | $ 1,500,000 |
| **Net Position to Self-Insured Retention Ratio (Target: >5:1)** | **10.96:1** | **7.88:1** | **9.66:1** | **10.31:1** |

| | Property Program | | Auto Physical Damage Program | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net Contributions Received | $ 666,830 | $ 577,014 | $ 125,168 | $ 138,736 |
| Net Position as of June 30 | $ 1,184,635 | $ 621,849 | $ 90,750 | $ (14,155) |
| **Net Contributions to Net Position Ratio (Target: <2:1)** | **0.56:1** | **0.93:1** | **1.38:1** | **-9.8:1** |
| Net Position as of June 30 | $ 1,184,635 | $ 621,849 | $ 90,750 | $ (14,155) |
| Program SIR as of June 30 | $ 250,000 | $ 250,000 | $ 25,000 | $ 25,000 |
| **Net Position to Self-Insured Retention Ratio (Target: >5:1)** | **4.74:1** | **2.49:1** | **3.63:1** | **-0.57:1** |

### 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, 2021, 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*. Participation in the Liability Program is a condition of membership and provides access to all other ICRMA insurance programs. The same reinsurance partners (QBE Specialty, Safety National, Markel, Pennsylvania, ScorRe, and Hallmark) remained on the Liability Program, collectively providing a $35 million/occurrence limit above ICRMA's self-insured retention.

- *Self-insured retention was reduced to $2 million from $3 million in the previous year.*
- *$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 reinsurance partner of ICRMA, providing coverage above ICRMA's self-insured retention to the California statutory limit.

- *$1.5 million self-insured retention was maintained.*
- *$10,000 loss control funds were offered by Safety National.*

<u>Property:</u>
The 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>
The APD program includes a $10 million limit, a $25,000 deductible, and funding for the pool's actuarially determined $15,000 excess of $10,000/occurrence self-insurance layer.

- *$10,000 member deductible.*

<u>Earthquake and Flood, Crime, Cyber, & Terrorism Programs:</u>
Members may elect to participate in these programs, except for Cyber Liability which is required. All are group purchased, non-risk sharing, fully insured 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.

**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, 2021**

**(With comparative totals for June 30, 2020)**

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 7,158,161 | $ 4,253,021 |
| Investments | 3,381,239 | 6,855,908 |
| Accounts Receivable | 2,310,416 | 923,555 |
| Assessment Receivable, Current Portion | 2,913,989 | 3,045,223 |
| Interest Receivable | 290,742 | 379,301 |
| Prepaid Expenses | 133,216 | 115,821 |
| Total Current Assets | 16,187,763 | 15,572,829 |
| Noncurrent Assets: | | |
| Investments | 69,434,754 | 65,716,209 |
| Assessment Receivable | 17,533,256 | 20,316,010 |
| Total Noncurrent Assets | 86,968,010 | 86,032,219 |
| Total Assets | 103,155,773 | 101,605,048 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable | 489,648 | 603,566 |
| Member Deposits | 271,624 | - |
| Claims Payable - Current Portion | 10,940,042 | 10,955,133 |
| Total Current Liabilities | 11,701,314 | 11,558,699 |
| Noncurrent Liabilities: | | |
| Claims Payable - Long-term Portion | 53,759,654 | 50,328,975 |
| Total Noncurrent Liabilities | 53,759,654 | 50,328,975 |
| Total Liabilities | 65,460,968 | 61,887,674 |
| **NET POSITION** | | |
| Net Position - Unrestricted | $ 37,694,805 | $ 39,717,374 |

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, 2021**

**(With comparative totals for year ended June 30, 2020)**

| | 2021 | 2020 |
|---|---|---|
| OPERATING REVENUES | | |
| Member Premiums | $ 26,179,795 | $ 23,908,856 |
| Total Operating Revenues | 26,179,795 | 23,908,856 |
| OPERATING EXPENSES | | |
| Claims Expense | 11,875,571 | 790,931 |
| Insurance Expense | 12,171,712 | 8,466,354 |
| Broker Fees | 275,000 | 275,000 |
| Claims Administration | 1,914,664 | 1,512,482 |
| Program Administration | 1,240,613 | 1,319,405 |
| General & Administrative Expense | 957,425 | 745,378 |
| Total Operating Expenses | 28,434,985 | 13,109,550 |
| Operating Income (Loss) | (2,255,190) | 10,799,306 |
| NONOPERATING REVENUES: | | |
| Investment Income | 227,299 | 3,872,670 |
| Other Income | 5,322 | - |
| Total Nonoperating Revenues | 232,621 | 3,872,670 |
| Change in Net Position | (2,022,569) | 14,671,976 |
| Beginning Net Position | 39,717,374 | 25,045,398 |
| Ending Net Position | $ 37,694,805 | $ 39,717,374 |

See accompanying notes to financial statements.

**INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2021**

**(With comparative totals for year ended June 30, 2020)**

| | 2021 | 2020 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Cash Received from Members for Premiums | $ 29,093,784 | $ 26,954,079 |
| Cash Payments to Suppliers for Services | (14,493,191) | (12,004,954) |
| Cash Payments Relating to Claims and Claim Administration | (11,772,757) | (6,951,305) |
| Net Cash Provided By Operating Activities | 2,827,836 | 7,997,820 |
| Cash Flows from Investing Activities: | | |
| Purchases of Investments | (61,020,838) | (50,815,401) |
| Proceeds from Investment Sales and Maturities | 59,740,507 | 39,328,394 |
| Interest Income Received | 1,357,635 | 1,708,983 |
| Net Cash Provided By (Used In) Investing Activities | 77,304 | (9,778,024) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,905,140 | (1,780,204) |
| Cash and Cash Equivalents, Beginning of Year | 4,253,021 | 6,033,225 |
| Cash and Cash Equivalents, End of Year | $ 7,158,161 | $ 4,253,021 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities: | | |
| Operating Income (loss) | $ (2,255,190) | $ 10,799,306 |
| Adjustment to net cash provided by operating activities: | | |
| (Increase) Decrease in Accounts/Assessment Receivable | 1,527,127 | 2,388,596 |
| (Increase) Decrease in Prepaid Expenses | (17,395) | (88,952) |
| (Decrease) Increase in Accounts Payable | (113,918) | (453,238) |
| (Decrease) Increase in Member Deposits | 271,624 | - |
| (Decrease) Increase in Claims Payable | 3,415,588 | (4,647,892) |
| Net Cash Provided By Operating Activities | $ 2,827,836 | $ 7,997,820 |
| Noncash Investing Activities: | | |
| Unrealized gain (loss) in fair values of investments | $ (1,406,242) | $ 1,425,373 |

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, 2021, 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, 2021, 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 they give written notice of their 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, 2020 to June 30, 2021 | |
|---|---|
| Member Retentions: | Ranges from $250,000 to $8,000,000 |
| ICRMA's Retention: | $2,000,000 less the Member Retention |
| Reinsurance: | $33,000,000 excess of $2,000,000 |

Each ICRMA member pays for its own losses up to the retention it selects. ICRMA provides coverage that exceeds the Member Retentions up to $2,000,000 each. QBE Specialty provided a $1 million liability buffer excess $2 million layer. 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 $5 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, 2020 to June 30, 2021 | |
|---|---|
| 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, 2021. 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, 2020, 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 $619,884. On July 1, 2020, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### D. Investments

Generally accepted accounting principles require that public agencies report investments in their financial statements at fair value. 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.

### 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, 2021, ICRMA reported $2,310,416 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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, 2021 and 2020, the ULAE was $1,672,756 and $1,270,164, 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. 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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, 2020, 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:

| | 2021 | 2020 |
|---|---|---|
| Cash Per Bank Statement | $ 7,000,405 | $ 1,177,150 |
| Add: Deposits in Transit | - | 340 |
| Less: Outstanding Checks | (31,987) | (107,754) |
| Balance Per Books | 6,968,418 | 1,069,736 |
| LAIF | 189,743 | 3,183,285 |
| Total Cash and Cash Equivalents | $ 7,158,161 | $ 4,253,021 |

*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.

## 3. CASH AND INVESTMENTS (continued)

### A. Cash and Cash Equivalents (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. As of June 30, 2021, this fund yields approximately 0.5% interest annually and has a weighted average to maturity of 291 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 Notes | 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 | None*** | 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 may authorize certain investments up to 10 years maximum maturity.
***$75 million limit in total.

ICRMA held the following investments as of June 30:

| | 2021 | 2020 |
|---|---|---|
| Investments, Current | $ 3,381,239 | $ 6,855,908 |
| Investments, Noncurrent | 69,434,754 | 65,716,209 |
| Total Investments | $ 72,815,993 | $ 72,572,117 |

## 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, 2021:

| | | Remaining Maturity (in months) | | |
|---|---|---|---|---|
| | Fair Value | 12 months or less | 13 to 24 months | 25 to 60 months |
| U.S. Treasury Notes | $ 26,939,965 | $ 598,464 | $ 13,462,248 | $ 12,879,253 |
| Supranational Debentures | 1,890,557 | - | 670,742 | 1,219,815 |
| Asset Backed Securities | 3,031,200 | - | 356,784 | 2,674,416 |
| U.S. Agency Securities | 17,519,094 | - | 3,757,681 | 13,761,413 |
| Medium Term Corporate Notes | 13,121,934 | 1,307,008 | 1,744,775 | 10,070,151 |
| Municipal Bonds | 6,123,507 | - | - | 6,123,507 |
| Certificate of Deposit | 3,879,311 | 1,165,342 | 2,713,969 | - |
| Money Market Mutual Funds | 310,425 | 310,425 | - | - |
| Total | $ 72,815,993 | $ 3,381,239 | $ 22,706,199 | $ 46,728,555 |

### 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, 2021:

| Name of Issuer | Investment Type | Reported Amount | % of Portfolio |
|---|---|---|---|
| Federal Home Loan Banks | U.S. Agency Securities | $ 5,433,557 | 7.5% |
| Federal Home Loan Mortgage Corporation | U.S. Agency Securities | $ 7,128,653 | 9.8% |
| Federal National Mortgage Association | U.S. Agency Securities | $ 4,956,884 | 6.8% |

## 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.

| | Amount | Ratings as of June 30, 2021 | Minimum Legal Rating |
|---|---|---|---|
| U.S. Treasury Notes | $ 26,939,965 | Exempt | n/a |
| Supranational Debentures | 1,890,557 | AAA | AA |
| Asset Backed Securities * | 3,031,200 | AAA | AA |
| U.S. Agency Securities | 17,519,094 | AA+ | AA |
| Medium Term Corporate Notes ** | 12,611,187 | A or Better | A |
| Medium Term Corporate Notes *** | 510,747 | BBB+ | A |
| Municipal Bonds **** | 6,123,507 | A or Better | n/a |
| Certificate of Deposit | 3,879,311 | A or Better | A |
| Money Market Mutual Funds | 310,425 | AAA | n/a |
| Total | $ 72,815,993 | | |

* $1,030,825 of securities are rated as Aaa by Moody's, but not rated by S&P.

** $2,719,709 of securities are rated as A3-A1 by Moody's, but rated BBB+ by S&P.

*** The security 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.

**** $319,552 of securities are rated as Aa2 by Moody's and $418,664 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, 2021 are as follows:

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| U.S. Treasury Notes | $ - | $ 26,939,965 | $ - | $ 26,939,965 |
| Supranational Debentures | - | 1,890,557 | - | 1,890,557 |
| Asset Backed Securities | - | 3,031,200 | - | 3,031,200 |
| U.S. Agency Securities | - | 17,519,094 | - | 17,519,094 |
| Medium Term Corporate Notes | - | 13,121,934 | - | 13,121,934 |
| Municipal Bonds | - | 6,123,507 | - | 6,123,507 |
| Certificate of Deposit | - | 3,879,311 | - | 3,879,311 |
| Total | $ - | $ 72,505,568 | $ - | $ 72,505,568 |

*LAIF are transacted on a basis of $1 in or out, and therefore are not subject to the fair value hierarchy and are uncategorized. Money market mutual funds of $310,425 at June 30, 2021 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 made one assessment payment (approximately one-seventh of their allocated share) of the $12.5 million original assessment. Subsequent to that payment, the City of Redondo Beach has not made any further payments toward either assessment. In September 2017, the City of Redondo Beach filed suit claiming the assessment was not properly calculated and approved. The City of Redondo Beach's unpaid share of the assessment is $2,044,670. ICRMA believes these amounts were properly calculated and assessed.

## 4. ASSESSMENT RECEIVABLE (continued)

The City of Baldwin Park's share of the assessment is a total of $1,312,348, of which the City has paid their first three assessment multi-year payments. As of June 30, 2021, the City of Baldwin Park has not paid their fourth installment payment of $131,235. As described above, all other members have either paid their balance or entered into multi-year payment plans.

During the year ended June 30, 2021, payments of $2,913,989 were made from the members related to the multi-year payment plans. As of June 30, 2021, $20,447,245 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 and the City of Baldwin Park's balances as ICRMA deems these amounts collectible. The City of Redondo Beach and the City of Baldwin Park have also accrued $1,036,996 and $16,152, respectively, in penalties and interest as of June 30, 2021 related to the unpaid assessments, 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, 2021.

## 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, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Unpaid claims and claims adjustment expenses at beginning of fiscal year | $ 61,284,108 | $ 65,932,000 |
| Incurred claim and claims adjustment expenses: | | |
| Provision for insured events of the current fiscal year | 7,920,094 | 10,122,940 |
| (Decrease) Increase in provision for insured events of prior fiscal years | 5,323,430 | (9,804,089) |
| Total incurred claims and claims adjustment expenses | 13,243,524 | 318,851 |
| 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 | 9,827,936 | 4,966,743 |
| Total payments | 9,827,936 | 4,966,743 |
| Total unpaid claims and claim adjustment expenses at end of fiscal year | $ 64,699,696 | $ 61,284,108 |
| Claims reserves | $ 30,762,691 | $ 30,151,676 |
| Claims incurred but not reported (IBNR) | 32,264,249 | 29,862,268 |
| Unallocated loss adjustment expenses (ULAE) | 1,672,756 | 1,270,164 |
| Total | $ 64,699,696 | $ 61,284,108 |
| Current Portion | $ 10,940,042 | $ 10,955,133 |
| Noncurrent Portion | 53,759,654 | 50,328,975 |
| Total Claims Liabilities | $ 64,699,696 | $ 61,284,108 |

As of June 30, 2021 and 2020, the undiscounted unpaid claims and claims adjustment expenses were $71,282,696 and $67,882,000, 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 arose 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 continues to be reflected as a receivable by ICRMA as of June 30, 2021. 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, 2021.

**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 funding and contributions.

## 8. RELATED PARTY TRANSACTION

ICRMA's executive management, Risk Pool Administrators (RPA), is a subsidiary of Arthur J. Gallagher & Co., who is ICRMA's insurance broker. During the year, RPA approved payments to be made to RPA and Arthur J. Gallagher. ICRMA paid $1,165,279 to RPA for program administration fees and $275,000 to Arthur J. Gallagher for insurance brokerage fees in fiscal year 2020/2021.

# REQUIRED SUPPLEMENTARY INFORMATION

# INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

# RECONCILIATION OF CLAIM LIABILITY BY PROGRAM

# FOR THE YEAR ENDED JUNE 30, 2021

| | General Liability | | Workers' Compensation | | Auto Physical Damage | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Unpaid loss and loss adjustment expenses at beginning of year beginning of the year | $ 43,002,000 | $ 43,200,000 | $ 18,146,000 | $ 22,732,000 | $ 136,108 | $ - | $ 61,284,108 | $ 65,932,000 |
| Incurred losses and loss adjustment expenses: | | | | | | | | |
| Provision for insured events of current year | 6,338,604 | 8,698,227 | 1,441,586 | 1,288,605 | 139,904 | 136,108 | 7,920,094 | 10,122,940 |
| Provision for insured events of prior years | 2,943,626 | (4,952,525) | 2,512,129 | (4,851,564) | (132,325) | - | 5,323,430 | (9,804,089) |
| Total incurred loss and loss adjustment expenses | 9,282,230 | 3,745,702 | 3,953,715 | (3,562,959) | 7,579 | 136,108 | 13,243,524 | 318,851 |
| 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 | 6,932,230 | 3,943,702 | 2,855,605 | 1,023,041 | 40,101 | - | 9,827,936 | 4,966,743 |
| Total payments of loss and loss adjustment expenses | 6,932,230 | 3,943,702 | 2,855,605 | 1,023,041 | 40,101 | - | 9,827,936 | 4,966,743 |
| Unpaid loss and loss adjustment expenses at end of year | $ 45,352,000 | $ 43,002,000 | $ 19,244,110 | $ 18,146,000 | $ 103,586 | $ 136,108 | $ 64,699,696 | $ 61,284,108 |
| Reserve for known claims | $ 21,661,754 | $ 22,924,527 | $ 9,004,107 | $ 7,098,175 | $ 96,830 | $ 128,974 | $ 30,762,691 | $ 30,151,676 |
| Reserve for incurred but not reported (IBNR) | 22,221,246 | 19,107,474 | 10,043,003 | 10,754,794 | - | - | 32,264,249 | 29,862,268 |
| Reserve for unallocated loss adjustment expenses (ULAE) | 1,469,000 | 969,999 | 197,000 | 293,031 | 6,756 | 7,134 | 1,672,756 | 1,270,164 |
| Total claims payable as of end of year | $ 45,352,000 | $ 43,002,000 | $ 19,244,110 | $ 18,146,000 | $ 103,586 | $ 136,108 | $ 64,699,696 | $ 61,284,108 |

See notes to required supplementary information.

## INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

## CLAIMS DEVELOPMENT INFORMATION – LIABILITY PROGRAM

## FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2021 (In Thousands)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Contributions and investment income: | | | | | | | | | | |
| Earned | $ 11,126 | $ 10,499 | $ 11,665 | $ 12,367 | $ 15,448 | $ 16,260 | $ 15,074 | $ 15,560 | $ 19,087 | $ 18,831 |
| Assessment | 4,150 | 13,620 | 16,940 | 1,239 | - | - | - | - | - | - |
| Ceded | (2,149) | (1,846) | (1,771) | (1,891) | (2,442) | (4,414) | (4,479) | (4,207) | (5,580) | (8,886) |
| Net earned and investment income | 13,127 | 22,273 | 26,834 | 11,715 | 13,006 | 11,846 | 10,595 | 11,353 | 13,507 | 9,945 |
| 2. Unallocated expenses | 1,124 | 1,050 | 1,119 | 1,146 | 1,415 | 1,385 | 1,328 | 1,589 | 1,652 | 2,398 |
| 3. Estimated incurred claims and expenses, end of policy year | 6,112 | 6,893 | 13,687 | 8,982 | 10,716 | 11,500 | 7,400 | 7,383 | 9,363 | 6,935 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | - | - | - | - | - | - | - | - | - | 7 |
| One year later | 454 | 1,602 | 4,802 | - | - | 297 | - | - | 2,911 | - |
| Two years later | 4,806 | 2,689 | 15,569 | 352 | 3,547 | 3,023 | 881 | 757 | - | - |
| Three years later | 5,974 | 12,110 | 18,730 | 1,350 | 12,815 | 3,964 | 4,809 | - | - | - |
| Four years later | 8,729 | 16,714 | 13,162 | 9,285 | 14,939 | 4,989 | - | - | - | - |
| Five years later | 8,827 | 18,964 | 20,388 | 10,657 | 15,803 | - | - | - | - | - |
| Six years later | 8,846 | 18,395 | 20,397 | 10,879 | - | - | - | - | - | - |
| Seven years later | 8,963 | 19,691 | 21,312 | - | - | - | - | - | - | - |
| Eight years later | 8,963 | 19,691 | - | - | - | - | - | - | - | - |
| Nine years later | 8,963 | - | - | - | - | - | - | - | - | - |
| 5. Reestimated ceded claims and expenses | 2,808 | 403 | 26,153 | - | 3,340 | 13,283 | 4,768 | - | 9,100 | - |
| 6. Reestimated claims and expenses: | | | | | | | | | | |
| End of policy year | 6,112 | 6,893 | 13,687 | 8,982 | 10,716 | 11,500 | 7,400 | 7,383 | 9,363 | 6,935 |
| One year later | 5,871 | 6,427 | 26,216 | 10,887 | 9,840 | 11,000 | 7,298 | 7,742 | 10,510 | - |
| Two years later | 5,689 | 11,997 | 25,707 | 7,190 | 23,000 | 10,437 | 6,809 | 8,365 | - | - |
| Three years later | 8,188 | 21,612 | 22,510 | 8,100 | 18,359 | 13,382 | 12,618 | - | - | - |
| Four years later | 11,419 | 20,980 | 15,500 | 14,232 | 19,121 | 14,174 | - | - | - | - |
| Five years later | 10,145 | 18,964 | 25,355 | 14,227 | 19,720 | - | - | - | - | - |
| Six years later | 8,870 | 18,495 | 25,021 | 11,002 | - | - | - | - | - | - |
| Seven years later | 9,044 | 19,775 | 25,032 | - | - | - | - | - | - | - |
| Eight years later | 9,018 | 19,691 | - | - | - | - | - | - | - | - |
| Nine years later | 8,963 | - | - | - | - | - | - | - | - | - |
| 7. Increase (decrease) in estimated incurred claims and expenses from end of year | $ 2,851 | $ 12,798 | $ 11,345 | $ 2,020 | $ 9,004 | $ 2,674 | $ 5,218 | $ 982 | $ 1,147 | $ - |

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, 2021 (In Thousands)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Contributions and investment income: | | | | | | | | | | |
| Earned | $ 2,865 | $ 3,017 | $ 3,879 | $ 4,121 | $ 3,786 | $ 4,092 | $ 4,231 | $ 4,807 | $ 5,494 | $ 3,955 |
| Ceded | (311) | (294) | (302) | (473) | (365) | (430) | (449) | (383) | (617) | (673) |
| Net earned and investment income | 2,554 | 2,723 | 3,577 | 3,648 | 3,421 | 3,662 | 3,782 | 4,424 | 4,877 | 3,282 |
| 2. Unallocated expenses | 994 | 1,283 | 1,322 | 1,378 | 1,524 | 1,347 | 1,759 | 1,615 | 1,829 | 1,703 |
| 3. Estimated incurred claims and expenses, end of policy year | 2,000 | 1,727 | 1,880 | 1,969 | 2,409 | 3,072 | 2,110 | 1,394 | 1,585 | 1,767 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | - | - | - | - | - | - | - | - | - | 27 |
| One year later | - | - | - | - | - | - | - | - | 71 | - |
| Two years later | 151 | 5 | - | - | - | - | - | 72 | - | - |
| Three years later | 299 | 14 | - | - | - | 187 | 81 | - | - | - |
| Four years later | 467 | 14 | - | - | - | 269 | - | - | - | - |
| Five years later | 1,594 | 99 | - | - | 76 | - | - | - | - | - |
| Six years later | 1,551 | 73 | 396 | 92 | - | - | - | - | - | - |
| Seven years later | 1,591 | 114 | 1,087 | - | - | - | - | - | - | - |
| Eight years later | 2,155 | 182 | - | - | - | - | - | - | - | - |
| Nine years later | 2,270 | - | - | - | - | - | - | - | - | - |
| 5. Reestimated ceded claims and expenses | - | - | - | - | - | - | - | - | - | - |
| 6. Reestimated claims and expenses: | | | | | | | | | | |
| End of policy year | 2,000 | 1,727 | 1,880 | 1,969 | 2,409 | 3,072 | 2,110 | 1,394 | 1,585 | 1,767 |
| One year later | 1,372 | 1,605 | 1,806 | 1,913 | 3,111 | 2,390 | 1,559 | 1,191 | 1,446 | - |
| Two years later | 1,322 | 1,237 | 1,626 | 2,402 | 1,900 | 1,871 | 1,372 | 1,173 | - | - |
| Three years later | 1,945 | 1,547 | 2,109 | 1,560 | 1,824 | 1,620 | 1,333 | - | - | - |
| Four years later | 1,886 | 1,869 | 1,550 | 2,067 | 1,562 | 1,730 | - | - | - | - |
| Five years later | 2,608 | 1,460 | 1,516 | 2,022 | 1,527 | - | - | - | - | - |
| Six years later | 2,810 | 1,497 | 1,829 | 1,956 | - | - | - | - | - | - |
| Seven years later | 2,810 | 1,422 | 2,199 | - | - | - | - | - | - | - |
| Eight years later | 4,870 | 1,392 | - | - | - | - | - | - | - | - |
| Nine years later | 4,186 | - | - | - | - | - | - | - | - | - |
| 7. Increase (decrease) in estimated incurred claims and expenses from end of year | $ 2,186 | $ (335) | $ 319 | $ (13) | $ (882) | $ (1,342) | $ (777) | $ (221) | $ (139) | $ - |

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, 2021 (In Thousands)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Contributions and investment income: | | | | | | | | | | |
| Earned | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,165 | $ 1,042 | $ 330 | $ 341 |
| Ceded | - | - | - | - | - | - | (563) | (490) | (191) | (216) |
| Net earned and investment income | - | - | - | - | - | - | 602 | 552 | 139 | 125 |
| 2. Unallocated expenses | - | - | - | - | - | - | 118 | (31) | 13 | 13 |
| 3. Estimated incurred claims and expenses, end of policy year | - | - | - | - | - | - | - | - | 136 | 100 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | - | - | - | - | - | - | - | - | 13 | 15 |
| One year later | - | - | - | - | - | - | - | 370 | 190 | - |
| Two years later | - | - | - | - | - | - | 67 | 370 | - | - |
| Three years later | - | - | - | - | - | - | 67 | - | - | - |
| 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 | 100 |
| One year later | - | - | - | - | - | - | - | - | 264 | - |
| Two years later | - | - | - | - | - | - | - | 370 | - | - |
| Three years later | - | - | - | - | - | - | 67 | - | - | - |
| 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 | $ - | $ - | $ - | $ - | $ - | $ - | $ 67 | $ 370 | $ 128 | $ - |

*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, 2021

| ASSETS | Liability | Workers' Compensation | Property | Auto Physical Damage | Group Purchased Insurance Programs | Total |
|---|---|---|---|---|---|---|
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | $ 3,056,176 | $ 2,723,274 | $ 1,172,552 | $ 188,972 | $ 17,187 | $ 7,158,161 |
| Investments | 1,937,212 | 1,444,027 | - | - | - | 3,381,239 |
| Accounts Receivable | 2,185,226 | 91,198 | 12,325 | 5,518 | 16,149 | 2,310,416 |
| Assessment Receivable, Current Portion | 2,913,989 | - | - | - | - | 2,913,989 |
| Interest Receivable | 176,719 | 114,023 | - | - | - | 290,742 |
| Prepaid Expenses | 78,218 | 54,621 | 22 | 21 | 334 | 133,216 |
| Total Current Assets | 10,347,540 | 4,427,143 | 1,184,899 | 194,511 | 33,670 | 16,187,763 |
| Noncurrent Assets: | | | | | | |
| Investments | 39,781,229 | 29,653,525 | - | - | - | 69,434,754 |
| Assessment Receivable | 17,533,256 | - | - | - | - | 17,533,256 |
| Total Noncurrent Assets | 57,314,485 | 29,653,525 | - | - | - | 86,968,010 |
| Total Assets | 67,662,025 | 34,080,668 | 1,184,899 | 194,511 | 33,670 | 103,155,773 |
| **LIABILITIES** | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | 127,038 | 347,616 | 264 | 175 | 14,555 | 489,648 |
| Member Deposits | 271,624 | - | - | - | - | 271,624 |
| Claims Payable - Current Portion | 9,188,112 | 1,655,000 | - | 96,930 | - | 10,940,042 |
| Total Current Liabilities | 9,586,774 | 2,002,616 | 264 | 97,105 | 14,555 | 11,701,314 |
| Noncurrent Liabilities: | | | | | | |
| Claims Payable - Long-term Portion | 36,163,888 | 17,589,110 | - | 6,656 | - | 53,759,654 |
| Total Liabilities | 45,750,662 | 19,591,726 | 264 | 103,761 | 14,555 | 65,460,968 |
| **NET POSITION** | | | | | | |
| Net Position - Unrestricted | $ 21,911,363 | $ 14,488,942 | $ 1,184,635 | $ 90,750 | $ 19,115 | $ 37,694,805 |

## INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

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

## FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | Liability | Workers' Compensation | Property | Auto Physical Damage | Group Purchased Insurance Programs | Total |
|---|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | | |
| Member Premiums | $ 18,715,914 | $ 3,842,627 | $ 1,502,213 | $ 340,773 | $ 1,778,268 | $ 26,179,795 |
| Total Operating Revenues | 18,715,914 | 3,842,627 | 1,502,213 | 340,773 | 1,778,268 | 26,179,795 |
| OPERATING EXPENSES: | | | | | | |
| Claims Expense | 9,282,230 | 2,555,605 | 30,157 | 7,579 | - | 11,875,571 |
| Insurance Expense | 8,885,506 | 672,646 | 835,383 | 215,605 | 1,562,572 | 12,171,712 |
| Broker Fees | 134,250 | 96,250 | 4,125 | 4,125 | 36,250 | 275,000 |
| Claims Administration | 974,557 | 912,245 | 22,037 | 5,825 | - | 1,914,664 |
| Program Administration | 609,026 | 437,198 | 32,109 | 2,555 | 159,725 | 1,240,613 |
| General & Administrative Expense | 680,366 | 257,014 | 15,616 | 179 | 4,250 | 957,425 |
| Total Operating Expenses | 20,565,935 | 4,930,958 | 939,427 | 235,868 | 1,762,797 | 28,434,985 |
| Operating Income (Loss) | (1,850,021) | (1,088,331) | 562,786 | 104,905 | 15,471 | (2,255,190) |
| NONOPERATING REVENUES: | | | | | | |
| Investment Income | 114,860 | 112,439 | - | - | - | 227,299 |
| Other Income | 5,322 | - | - | - | - | 5,322 |
| Total Nonoperating Revenues | 120,182 | 112,439 | - | - | - | 232,621 |
| Change in Net Position | (1,729,839) | (975,892) | 562,786 | 104,905 | 15,471 | (2,022,569) |
| Net Position, Beginning of Year (deficit) | 23,641,202 | 15,464,834 | 621,849 | (14,155) | 3,644 | 39,717,374 |
| Net Position, End of Year | $ 21,911,363 | $ 14,488,942 | $ 1,184,635 | $ 90,750 | $ 19,115 | $ 37,694,805 |

## INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

## COMBINING STATEMENT OF CASH FLOWS

## FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | Liability | Workers' Compensation | Property | Auto Physical Damage | Group Purchased Insurance Programs | Total |
|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | | | |
| Cash Received from Members for Premiums | $ 21,629,903 | $ 3,842,627 | $ 1,502,213 | $ 340,773 | $ 1,778,268 | $ 29,093,784 |
| Cash Payments to Suppliers for Services | (11,695,249) | 86,888 | (893,443) | (222,670) | (1,768,717) | (14,493,191) |
| Cash Payments Relating to Claims and Claim Administration | (7,906,787) | (3,767,850) | (52,194) | (45,926) | - | (11,772,757) |
| Net Cash Provided By Operating Activities | 2,027,867 | 161,665 | 556,576 | 72,177 | 9,551 | 2,827,836 |
| Cash Flows from Investing Activities: | | | | | | |
| Purchases of Investments | (32,337,207) | (28,683,631) | - | - | - | (61,020,838) |
| Proceeds from Investment Sales and Maturities | 31,662,469 | 28,078,038 | - | - | - | 59,740,507 |
| Interest Income Received | 721,245 | 636,390 | - | - | - | 1,357,635 |
| Net Cash Provided By Investing Activities | 46,507 | 30,797 | - | - | - | 77,304 |
| Net Increase in Cash and Cash Equivalents | 2,074,374 | 192,462 | 556,576 | 72,177 | 9,551 | 2,905,140 |
| Cash and Cash Equivalents, Beginning of Year | 981,802 | 2,530,812 | 615,976 | 116,795 | 7,636 | 4,253,021 |
| Cash and Cash Equivalents, End of Year | $ 3,056,176 | $ 2,723,274 | $ 1,172,552 | $ 188,972 | $ 17,187 | $ 7,158,161 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | |
| Operating income (loss) | $ (1,850,021) | $ (1,088,331) | $ 562,786 | $ 104,905 | $ 15,471 | $ (2,255,190) |
| Adjustment to net cash used by operating activities: | | | | | | |
| (Increase) Decrease in Accounts/Assessment Receivable | 1,553,644 | (19,135) | (2,070) | - | (5,312) | 1,527,127 |
| (Increase) Decrease in Prepaid Expenses | (13,764) | (4,138) | 98 | (21) | 430 | (17,395) |
| (Decrease) Increase in Accounts Payable | (283,616) | 175,159 | (4,238) | (185) | (1,038) | (113,918) |
| (Decrease) Increase in Member Deposits | 271,624 | - | - | - | - | 271,624 |
| (Decrease) Increase in Claims Payable | 2,350,000 | 1,098,110 | - | (32,522) | - | 3,415,588 |
| Net Cash Provided By Operating Activities | $ 2,027,867 | $ 161,665 | $ 556,576 | $ 72,177 | $ 9,551 | $ 2,827,836 |
| Noncash Investing Activities: | | | | | | |
| Unrealized gain (loss) in fair values of investments | $ (752,615) | $ (653,627) | $ - | $ - | $ - | $ (1,406,242) |

# 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*

To 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 Independent Cities Risk Management Authority ("Authority") as of and for the year ended June 30, 2021, 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 January 21, 2022.

***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
January 21, 2022