Independent Cities Risk Management Authority

ICRMA

FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
(With Independent Auditors' Report)

Independent Cities Risk Management Authority

— Governmental Joint Powers Authority —

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

JUNE 30, 2017 AND 2016

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Independent Cities Risk Management Authority (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, reconciliation of claims liabilities by program on page 32, claims development information for the Liability and Workers' Compensation Programs on pages 33 through 34, and related notes on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows for the year ended June 30, 2017, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows for the year ended June 30, 2017 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2016, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 20, 2018

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, 2017. 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 18 cities in Los Angeles and Orange Counties, ICRMA offers pooled liability and workers' compensation coverage programs. Members also group purchase property/earthquake/flood insurance, along with auto physical damage, crime and cyber coverage. ICRMA provides its members with a wide range of tailored risk management services, including claims oversight, cost containment, training, and loss control services.

Financial Highlights for the Fiscal Year Ended June 30, 2017

Revenues	$50.3 million	Operating revenues increased $13.6 million, or (37%) over the prior year. A reduction in contribution due to several members' withdrawal was offset by an assessment of $25,337,691. Non-operating revenues (investment income) decreased from the prior year due to market valuation on the investment portfolio and sales of several investments.
Expenses	$8.2 million	Decreased $39.2 million (83%) over the prior year primarily as a result of a decrease in claims expense in the Liability Program driven by a reduction to the ultimate losses projected by the actuary for liability claims during the fiscal year, which offsets the prior year, where there was a $23 million increase.
Assets	$95.4 million	Increased $27.5 million from the prior year largely due to assessment receivable, offset by decrease in cash and investments.
Liabilities	$54.2 million	Decreased $14.5 million due to the reduction of claim estimates in the Liability Program.

Description of the Basic Financial Statements

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

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

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

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

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

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

Analysis of Overall Financial Position and Results of Operations

Condensed Statements of Net Position

June 30, 2017, 2016, and 2015

	2017	2016	2015
Assets			
Current assets	$ 22,214,115	$ 16,747,671	$ 15,836,754
Noncurrent assets	73,219,314	51,179,936	49,699,593
Total assets	95,433,429	67,927,607	65,536,347
Liabilities			
Current liabilities	10,137,252	11,573,769	8,069,684
Noncurrent liabilities	44,047,135	57,175,565	48,497,672
Total liabilities	54,184,387	68,749,334	56,567,356
Net position (Deficit)			
Unrestricted	$ 41,249,042	$ (821,727)	$ 8,968,991

Current and Non-Current Assets

2016/17 Fiscal Year

Total assets increased approximately $28 million which was driven by the increase of $25 million assessment receivable offset by a decrease in cash and investments. Liabilities decreased due to the decrease in claims liabilities.

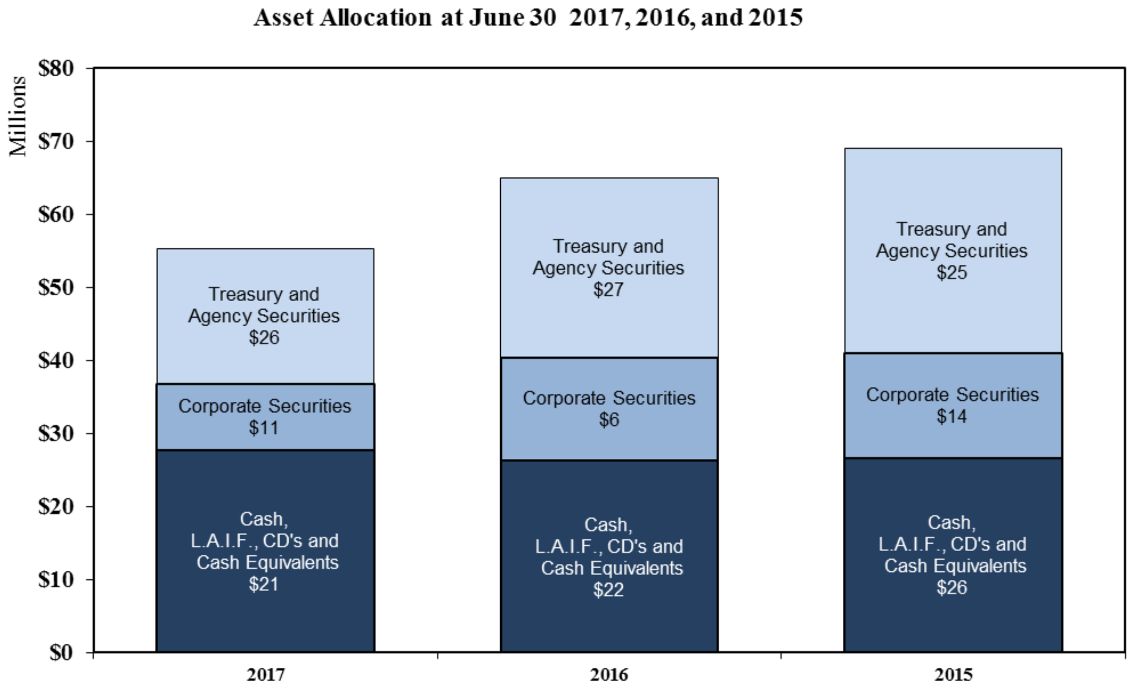
2015/16 Fiscal Year

Total assets increased approximately $2.4 million which was driven by the $12.5 million assessment receivable offset by decrease in cash and investments. Liabilities increased due to an increase in claims liabilities.

Cash and Investments

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

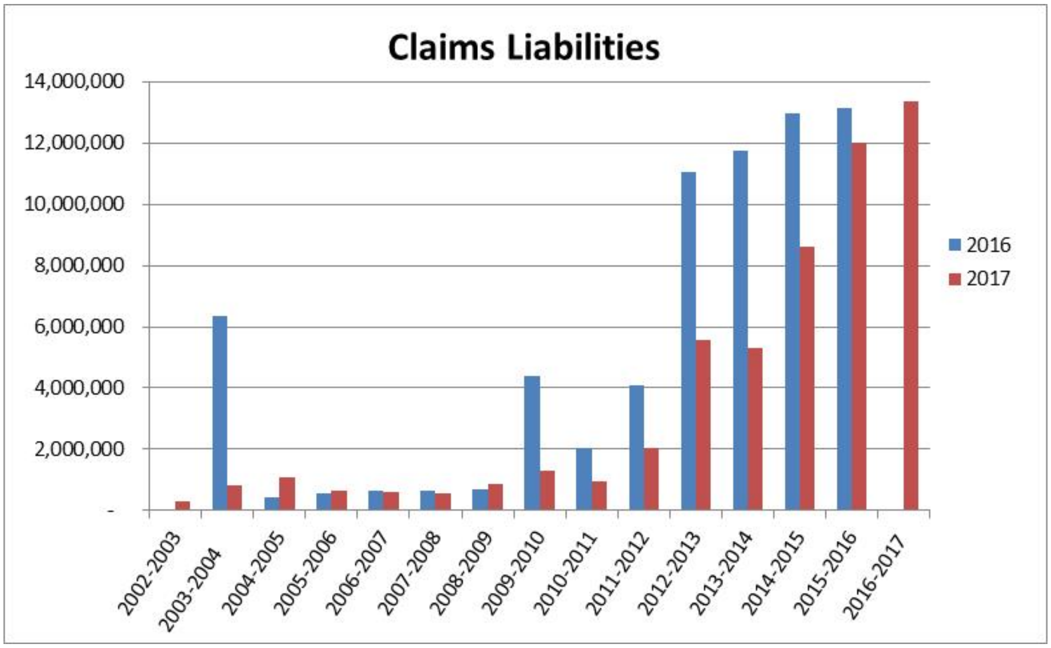
The asset allocation at June 30, 2017, remained generally consistent over prior years with a decrease in the deposits held in LAIF to match an expected decrease in projected expenses including claims payments. The following graph depicts the make-up of ICRMA's cash and investments at June 30, 2017, 2016, and 2015:



Current and Non-Current Liabilities

2016/17 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 $14.6 million over the prior year. While the Workers' Compensation claim costs were stable over the prior year, the Liability Program experienced a significant decrease in projected ultimate losses for the 2016/17 and prior fiscal years. The following chart presents a comparison of the ultimate loss estimates by program year valued at 6/30/17 and 6/30/16 for the Liability and the Workers Compensation programs. As shown in the chart, the ultimate estimated claim costs decreased in several program years, of which $54 million and $68.7 million remained unpaid as of June 30, 2017 and 2016, respectively.



2015/16 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 $12 million over the prior year. While the Workers' Compensation claim costs were stable over the prior year, the Liability Program experienced a significant increase in losses due to multiple large losses during the 2015/16 fiscal year. The increase in the incurred losses in the Liability Program resulted in both an increase in the case reserves established on these claims as well as the estimate of incurred but not reported liability.

Revenues and Expenses

	2017	2016	2015
Operating revenues	$ 50,270,104	$ 36,624,728	$ 23,080,193
Operating expenses	8,242,692	47,452,171	45,571,647
Operating income	42,027,412	(10,827,443)	(22,491,454)
Nonoperating revenues,			
investment income (loss)	43,357	1,236,725	718,719
Increase in net position	42,070,769	(9,590,718)	(21,772,735)
Net position, beginning of year	(821,727)	8,768,991	30,541,726
Net position, end of year	$ 41,249,042	$ (821,727)	$ 8,768,991

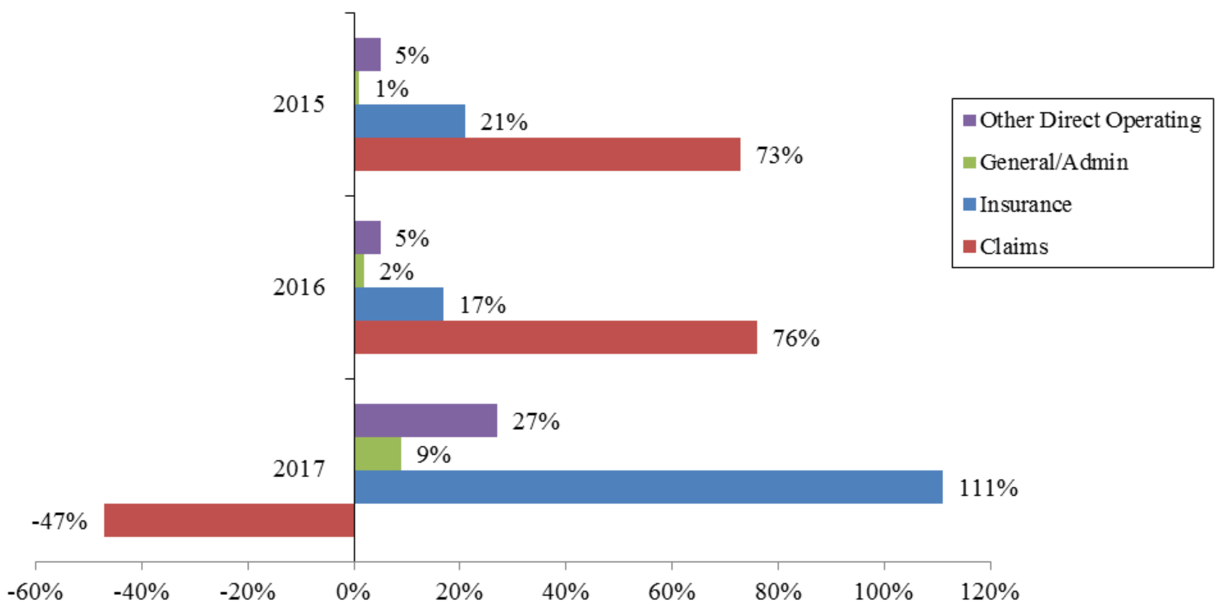
2016/17 Fiscal Year

Total operating revenues increased $13.5 million or 37% over the prior year which was driven primarily by the $25 million assessment approved by the Board on November 17, 2016. Liability and Worker's Compensation increased by around 10% and the remaining programs were stable over the prior year with contribution decreases of less than 20%.

Expenses decreased $39.2 million or 83% over the prior year as a result of the decrease in claim expenses. Professional fees, program operating expenses, regulatory assessments, and general and administrative expenses were stable with a 4% increase over the prior year.

The table below shows the distribution of the major expense categories for the fiscal years ended June 30, 2017, 2016, and 2015. The distribution shifted in 2017 due to the decrease in claim expense in the Liability Program and an increase in insurance.

2017, 2016, and 2015 Program Year Expenses, Excluding Dividends



2015/16 Fiscal Year

Total operating revenues increased $13.5 million or 59% over the prior year which was driven primarily by increased contributions in the Liability Program and the $12.5 million assessment. The other ICRMA's programs were stable over the prior year with contribution increases of less than 10%.

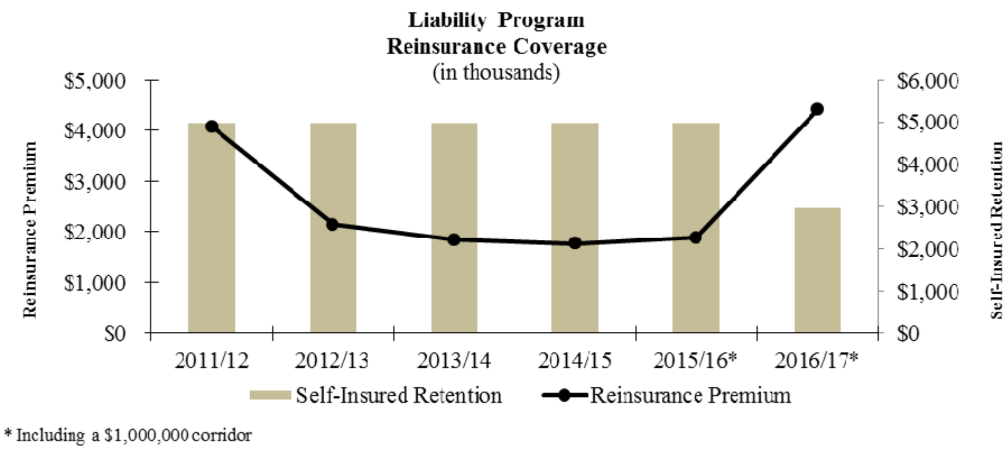
Expenses increased $1.8 million or 4% over the prior year as a result of the increased claim expenses. Professional fees, program operating expenses, regulatory assessments, and general and administrative expenses were stable with a 4% increase over the prior year.

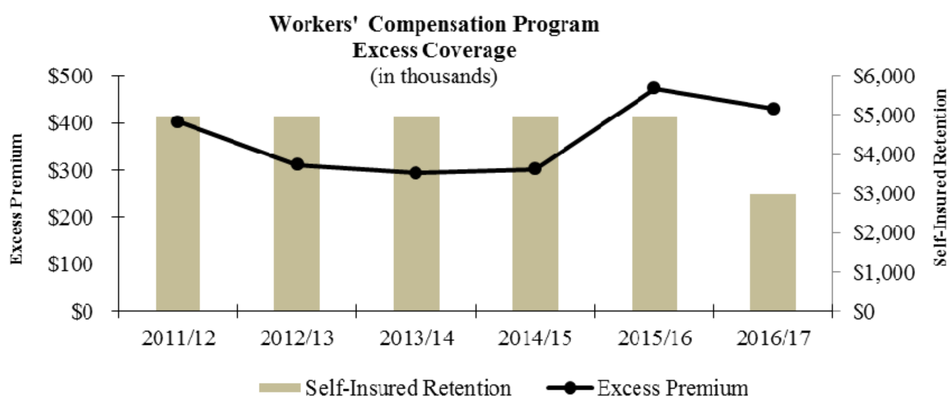
Provision for Insured Events

As discussed above, total claims expenses decreased $39.8 million from the prior year. The increase results from: 1) recognizing the initial estimates of claims costs for the 2016/17 program year, and 2) the effect of re-estimating the ultimate cost of claims of all older program years. The initial estimates of the 2016/17 claims were favorable in both programs. The re-estimated costs of claims incurred in older accident years decreased in the Liability Program due to favorable development of claims incurred within ICRMA's layer which was precipitated by the increase in prior year claims estimates. Additionally ICRMA paid claims decreased $13.6 million from 2015/16 to 2016/17.

Insurance Expense

ICRMA purchases liability reinsurance and workers' compensation excess insurance to cover losses in excess of its self-insured retentions of $3 million. The graphs below show ICRMA's historical excess insurance premiums and the respective self-insured retentions. Reinsurance premiums for both the Liability and Workers' Compensation Programs increased for the 2016/17 fiscal year due to the reduction of the Self-Insured Retention from $5 million to $3 million.



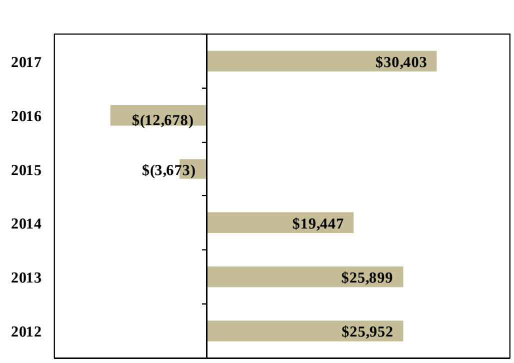


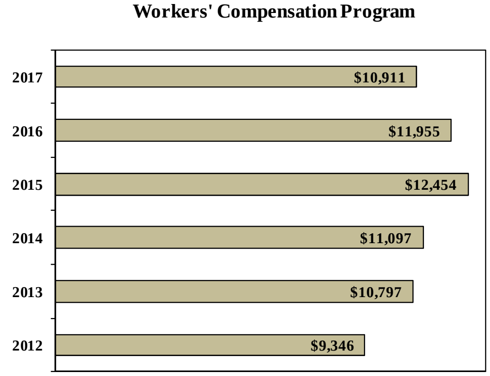
Net Position

The Liability Program net position was $30.4 million at June 30, 2017, which is an increase from the prior year deficit of $12.7 million due to the previously noted assessment of $25 million. The Workers' Compensation net position was $10.9 million at the end of the fiscal year, decreasing approximately $1 million over the prior year due to an increase in claims liabilities based on the latest actuarial report, and the change in discount rate from 3% to 2%.

The following charts display ICRMA's historical net position.

Historical Net Position
(In thousands)





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

	Liability Program		Workers' Compensation Program	
	2017	2016	2017	2016
Net contributions received	$ 11,805,015	$ 12,175,089	$ 3,660,141	$ 3,421,199
Net position as of June 30	$ 30,402,944	$ (12,677,830)	$ 10,910,903	$ 11,954,938
Net contribution to net position ratio (Target: <2:1)	**0.39:1**	**-0.96:1**	**0.34:1**	**0.29:1**
Net position as of June 30	$ 30,402,944	$ (12,677,830)	$ 10,910,903	$ 11,954,938
Program SIR as of June 30	$ 3,000,000	$ 5,000,000	$ 3,000,000	$ 5,000,000
Net position to self-insured retention ratio (Target: >5:1)	**10.13:1**	**-2.54:1**	**3.64:1**	**2.39:1**

Liability Program ratios were in a more favorable position compared to the previous year since the program was no longer experiencing a net deficit at June 30, 2017. The Workers' Compensation Program was stable over the prior year.

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, 2017, pool administration staff and the Governing 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.

The following is a brief overview of conditions in the insurance and fixed income investment markets.

Liability:
ICRMA's Liability Coverage 2016-17-

- *Lower self-insured retention successfully secured by adding a layer of $2M xs $3M, underwritten on a quota shared basis, by Brit and Berkeley.*
- *Drone coverage was added in addition to many other Memorandum of Coverage updates.*
- *Clash coverage intent for multiple members being involved in single occurrences was again provided by all carriers.*
- *Law Enforcement Liability pricing options were explored for insuring the liability and related law enforcement automobile liability separately. This confirmed that the current structure offered the best pricing.*

Workers' Compensation

Excess Workers' Compensation Coverage- Safety National Casualty Corporation continues to provide the most competitive program in the market. They are a strong partner of ICRMA and provided the below enhancements to the 2016-17 program.

- *Lowered the self-insured retention from $5M to $3M.*
- *Risk Control Services Fund of $10,000 provided by the carrier for pool risk control services and training*
- *MAP Client Services are offered by Safety National consisting of both risk control and claim service resources*
- *Safety National provides workplace safety tools to enhance safety and health programs*

Property:

Property including Earth Movement & Flood Coverage 2016-17- Comprehensive Property and Earthquake/Earth Movement coverage is placed for certain Members and is supported by a manuscript policy form which offers broader coverage offered than the commercial markets. A full marketing effort was conducted this year, as with every year, to assure the broadest market terms and most competitive price. With approximately 65% of the program having buildings over 50 years old, this is not a placement all markets are interested in writing. Program highlights include:

- Flat rate achieved, despite a 20% reduction in Total Insured Values (TIV)
- Property / All Risk Limit of $125M maintained
- Earthquake broadened to Earth Movement which now includes landslide, mine subsidence, earth sinking/rising/shift or sinkhole collapse.
- Flood Limit of $75M maintained
- Wave Wash definition added with $50,000 Deductible (Flood Deductible $100,000)
- Equipment Breakdown Coverage maintained at flat rate for $250M limits

Property Only Program. Broad coverage provides All Risk Property, Equipment Breakdown and Earthquake Sprinkler Leakage coverage. Affiliated FM offers a program rate for ICRMA that is about half what could be achieved in the standard market. Recent enhancements include:

- Slight Rate Reduction of 1% achieved based on Total Insured Values (TIV)
- Property / All Risk Limit of $700M maintained
- Business Interruption Limit Increased from $10M to $15M
- Trees, Shrubs & Plants Limit Increased from $250k max / $10k per item to $2M max / $25k per item

Investments:

The past year has been characterized by a rising interest rate environment, with yields generally higher compared to a year ago. Yields surged in the post-U.S. presidential election period as expectations for U.S. economic growth and inflationary expectations rose. In addition, strong economic data in the beginning months of 2017 drove decision-making by the Federal Reserve to hike interest rates. As a result, the 2-year Treasury yield ended Fiscal Year 16/17 at 1.38% compared to 0.58% at the start of the fiscal year. While the outlook for U.S. economic growth remains modestly strong, the future path of Fed tightening has become less certain as fiscal policy initiatives have stalled and inflation has trended lower.

Rising interest rates have provided opportunities to invest at higher yields thereby increasing the portfolio's overall yield but have temporarily resulted in market value depreciation as the portfolio adjusts to current interest rate levels. Among the permitted investment types, federal agency yield spreads (the differential between Treasury and federal agency yields) have tightened over the year; as a result, the portfolio's allocation to federal agency has decreased. However, as part of the effort to increase the portfolio's return, the portfolio's allocation to credit (corporate notes, certificates of deposit, commercial paper, and asset-backed securities) has increased. In particular, money market reforms toward the end of 2016 created an opportunity to add value to the Authority's portfolio. The reforms caused significant changes in the supply/demand dynamic in short-term markets, which increased the yields on short-term credit instruments held by the Authority. Overall, the Authority has continued to meet its goals of safety, liquidity, and return through execution of an actively-managed strategy.

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, it closely monitors market changes that place upward pressure on interest rates for buying opportunities as well as for any negative effects on the fair market value of its holdings. Additionally, all investments are carefully analyzed and monitored to ensure that the portfolio maintains safety and liquidity, and all holdings continue to be appropriate for the Authority's goals. ICRMA's investment advisor will continue to monitor the markets for new risks and opportunities, assessing the investment marketplace and its impact on the portfolio in light of these current market forces.

Request for Information:

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

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

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BASIC FINANCIAL STATEMENTS

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 9,471,282	$8,493,650
Investments	3,598,039	5,866,560
Accounts Receivable	150,686	322,011
Assessment Receivable	8,647,405	1,785,714
Interest Receivable	233,721	195,082
Prepaid Expenses	112,982	84,654
Total Current Assets	$22,214,115	$16,747,671
Noncurrent Assets:		
Investments	45,694,281	40,465,650
Assessment Receivable	27,525,033	10,714,286
Total Noncurrent Assets	73,219,314	51,179,936
Total Assets	95,433,429	67,927,607
LIABILITIES		
Current Liabilities:		
Accounts Payable	137,252	51,769
Claims Payable - Current Portion	10,000,000	11,522,000
Total Current Liabilities	10,137,252	11,573,769
Noncurrent Liabilities:		
Claims Payable - Long-term Portion	44,047,135	57,175,565
Total Current Liabilities	44,047,135	57,175,565
Total Liabilities	54,184,387	68,749,334
NET POSITION		
Net Position (Deficit) - Unrestricted	$ 41,249,042	$ (821,727)

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Member premiums	$ 24,932,413	24,124,728
Assessments	25,337,691	12,500,000
Total Operating Revenues	50,270,104	36,624,728
OPERATING EXPENSES		
Claims expense	(3,922,691)	35,899,161
Insurance expense	9,175,278	8,332,206
Broker fees	200,000	287,334
Claims administration	235,000	306,632
CA division of workers comp. assessment	654,301	729,548
Structured return to work program	187,620	250,272
Program administration	963,710	679,183
General & administrative expense	749,474	967,835
Total Operating Expenses	8,242,692	47,452,171
Operating Income (Loss)	42,027,412	(10,827,443)
NONOPERATING REVENUES:		
Investment income	43,357	1,236,725
Change in Net Position	42,070,769	(9,590,718)
Beginning Net Position	(821,727)	8,768,991
Ending Net Position (Deficit)	$ 41,249,042	$ (821,727)

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Cash Received from Members for Deposit Premiums	$ 26,769,206	$ 23,991,924
Cash Payments to Suppliers for Services	(11,872,648)	(11,163,707)
Cash Payments Relating to Claims and Claim Administration	(10,963,535)	(24,224,901)
Net Cash Provided By (Used For) Operating Activities	3,933,023	(11,396,684)
Cash Flows from Investing Activities:		
Purchases of Investments	(99,525,126)	(39,035,825)
Sales of Investments	95,804,342	45,346,898
Interest Income Received	765,392	745,628
Net Cash Provided By (Used For) Investing Activities	(2,955,392)	7,056,701
Net Increase (Decrease) in Cash and Cash Equivalents	977,632	(4,339,983)
Cash and Cash Equivalents, Beginning of Year	8,493,650	12,833,633
Cash and Cash Equivalents, End of Year	$ 9,471,282	$ 8,493,650

	2017	2016
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 42,027,412	$ (10,827,442)
Adjustment to net cash used by operating activities:		
(Increase) Decrease in Accounts/Assessment Receivable	(23,501,113)	(12,632,804)
(Increase) Decrease in Prepaid Expenses	(28,328)	81,584
(Decrease) Increase in Accounts Payable	85,482	1,085
(Decrease) Increase in Claims Liabilities	(14,650,430)	11,980,893
Net Cash Provided By (Used For) Operating Activities	$ 3,933,023	$ (11,396,684)
Non-cash investing activities		
Unrealized gain (loss) in market values of investments	$ 557,542	$ (382,489)

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, 2017, there were 18 participating members. ICRMA was created to provide risk treatment programs to protect its members, their officers and employees, and property against unavoidable losses through pooling of losses, self-insurance and purchasing insurance. ICRMA is governed by a Governing Board of Directors, consisting of one voting member appointed by each member agency.

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

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

A. MEMBERSHIP

As of June 30, 2017 membership and selected retained limits were as follows:

Member	General Liability Program	Workers' Compensation Program	Property Program[1]	Auto Physical Damage Program[1]	Crime Program[1]	Cyber Program[1]
City of Alhambra	$250,000	$500,000	●	●	●	●
City of Baldwin Park	300,000	500,000	●	●	●	●
City of Bell	250,000	--				●
City of Downey	2,000,000	--	●	●	●	●
City of El Monte	250,000	--	●		●	●
City of El Segundo	750,000	350,000	●			●
City of Fullerton	6,000,000	--	●	●	●	●
City of Glendora	300,000	500,000	●	●	●	●
City of Hawthorne	250,000	--	●		●	●
City of Hermosa Beach	250,000	500,000	●	●	●	●
City of Huntington Park	250,000	500,000	●	●	●	●
City of Inglewood	1,500,000	1,000,000				●
City of Lynwood	100,000	500,000	●	●	●	●
City of Manhattan Beach	500,000	750,000	●		●	●
City of Monterey Park	300,000	500,000	●	●	●	●
City of Redondo Beach	500,000	750,000	●	●	●	●
City of San Fernando	250,000	500,000	●	●	●	●
City of South Gate	250,000	--	●	●	●	●

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

1. GENERAL INFORMATION (continued)

B. ADMISSION AND WITHDRAWAL OF MEMBERS

Admission

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

Withdrawal

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

C. DESCRIPTION OF PROGRAMS

Liability Program

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

July 1, 2016 to June 30, 2017

Member Retentions:	Ranges from \$100,000 to \$6,000,000
ICRMA's Retention:	\$3,000,000 less the Member Retention
Corridor:	\$5,000,000 to \$6,000,000
Reinsurance:	\$30,000,000 excess of \$3,000,000

Each ICRMA member pays for its own losses up to the retention it selects. ICRMA provides coverage that exceeds the Member Retentions up to \$3,000,000 each. Brit and Berkley provided quota share reinsurance for the \$2 million excess \$3 million layer, while Markel, Lexington, and ScorRe reinsured the layers between \$5 million and \$30 million. The pool fully funded a \$1 million corridor between \$5 million and \$6 million. For the 2016/2017 program year, one member's retention was \$6,000,000.

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

1. GENERAL INFORMATION (continued)

C. DESCRIPTION OF PROGRAMS (continued)

Workers' Compensation Program

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

July 1, 2016 to June 30, 2017

Member Retentions:	Range from \$350,000 to \$1,000,000
ICRMA's Retention:	\$3,000,000 less the Member Retention
Excess Insurance:	Excess of \$3,000,000 to Statutory Limits

Within ICRMA's retention, a risk sharing pool arrangement has been established whereby each member selects its own self-insured retention level from \$350,000 to \$1,000,000. Each member of ICRMA then assumes its own losses up to its selected retention. Any losses between its retention and \$3,000,000 are shared by participating members. A commercial insurance company provides coverage in excess of ICRMA's retained limit up to statutory limits. Twelve members participated in the Workers' Compensation Program during the fiscal year ended June 30, 2017.

Property, Auto Physical Damage, Crime, & Cyber Programs

ICRMA also provides its members a Property, Auto Physical Damage, Crime, and Cyber Program. These are group purchased, non-risk sharing, fully insured all-risk programs. The property program also includes boiler and machinery coverage. Program deductibles are the individual member's responsibility.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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.

B. Measurement Focus

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

C. Reporting Entity

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

For financial reporting purposes, ICRMA is considered to have one fund. Components of this fund are identified in the accounting records of ICRMA. Combining information concerning these components has been presented as supplementary information accompanying these basic financial statements.

D. Operating Revenues and Expenses

Operating revenues, such as charges for services (membership premiums) result from exchange transactions associated with the principal activity of ICRMA. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment income, result from nonexchange transactions or ancillary activities in which ICRMA gives (receives) value without directly receiving (giving) equal value in exchange.

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

E. Investments

Generally accepted accounting principles require that public agencies report investments in their financial statements at fair value, except for certain nonparticipating certificates of deposit and investment contracts 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)

F. Cash and Cash Equivalents

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

G. Accounts Receivable

Deferred Premiums - ICRMA allowed members to defer the portion of their annual contributions for the 2004/2005 and 2006/2007 program years. Members were required to pay the contribution at the central estimate but could defer the additional amount up to the required confidence level for that year. Interest accrues on the unpaid portion of the 2004/2005 deferred contribution. These amounts were called by the Governing Board during the 2014-2015 fiscal year and are being collected from members. The balance of deferred premiums at June 30, 2017 was $134,622. The remaining $16,064 in accounts receivable is due to additional coverage or other premium adjustments.

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 2% for the Workers' Compensation Program which was reduced from 3% in prior year as a conservative measure. 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, 2017 and 2016, the ULAE was $1,005,000 and $897,836, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Reclassification

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

K. Confidence Level Used by ICRMA

The liability for unpaid claims is measured in terms of a *confidence or probability level* because the actual development and outcome of claims (and of losses incurred but not reported as claims) cannot be known with absolute certainty. Confidence level measures the degree of certainty in estimating the liability for claims payable. For example, a 50% confidence level means that 50% of the time, the methodology and assumptions used by the actuary will produce an estimate of the liability for claims payable that is equal to (or greater than) the actual amount that will be paid for those claims and losses. The accompanying financial statements reflect the application of a central estimate. The central estimate is a representation of the statistical distribution, which approximates the mean or average value. Member contribution rates for losses were set to provide funding for the fiscal year as follows: 1) 70% probability level for the Liability Program self-insured layer from the members' retained limit to $3 million, 2) 57% confidence level for the Workers' Compensation Program self-insured layer from the members' retained limit to $3 million.

L. 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.

M. 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, 2016, 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:

	2017	2016
Cash Per Bank Statement	$ 2,240,324	$ 5,411,850
Less: Outstanding Checks	(26,101)	(4,130,651)
Balance Per Books	2,214,223	1,281,199
LAIF	7,257,059	7,212,451
Total Cash and Cash Equivalents	9,471,282	8,493,650

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.

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 .93% interest annually and has a weighted average to maturity of 194 days. The monies held in the LAIF are not subject to categorization by risk category and fair value hierarchy. 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 Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	30 days	None	None
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Corporate Notes	Yes	5 years	30%	None
Supranational Debt	Yes	5 years	15%	None
Asset Backed Securities	Yes	5 years	20%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	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.

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, 2017:

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	$ 16,396,768	$ -	$ 1,189,564	$ 15,207,204
Supranational Debentures	1,351,394	-	623,297	728,098
Asset Backed Securities	2,059,104	-	-	2,059,104
U.S. Agency Securities	9,178,902	401,250	734,550	8,043,102
Medium Term Corporate Notes	11,337,223	-	768,986	10,568,237
Municipal Bond	924,896	924,896	-	-
Certificate of Deposit	6,891,651	1,119,512	5,772,139	-
Commercial Paper	1,090,327	1,090,327	-	-
Money Market Mutual Funds	62,054	62,054		
Total	$ 49,292,320	$ 3,598,039	$ 9,088,536	$ 36,605,745

D. Concentration of Credit Risk

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

Name of Issuer	Investment Type	Reported Amount	% of Portfolio
Federal National Mortgage Association	U.S. Agency Securities	$ 6,771,934	14%

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
U.S. Treasury Obligations	$ 16,396,768	Exempt
U.S. Agency Securities	9,178,902	AA or Better
Asset Backed Securities	2,059,104	AA or Better
Medium Term Corporate Notes	2,113,036	AA or Better
Medium Term Corporate Notes	6,353,149	AA- to A
Medium Term Corporate Notes	2,871,037	A-
Commercial Paper	1,090,327	A-1
Municipal Bond	924,896	AA or Better
Certificate of Deposit	1,732,206	AA-
Certificate of Deposit	4,037,744	A+
Certificate of Deposit	1,121,702	A
Supranational Debt	1,351,394	AAA
Money Market Mutual Funds	62,054	AAA
Total	$ 49,292,320	

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and ICRMA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All amounts were collateralized as described above.

3. CASH AND INVESTMENTS (continued)

G. Fair Value Measurement

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments fair value measurements at June 30, 2017 are as follows:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ -	$16,396,768	$ -	$16,396,768
Supranational Debentures	-	1,351,394	-	1,351,394
Asset Backed Securities	-	2,059,104	-	2,059,104
U.S. Agency Securities	-	9,178,902	-	9,178,902
Medium Term Corporate Notes	-	11,337,223	-	11,337,223
Municipal Bond	-	924,896	-	924,896
Certificate of Deposit	-	6,891,652	-	6,891,652
Commercial Paper	-	1,090,327	-	1,090,327
Total	$ -	$49,230,266	$ -	$49,230,266

*

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

4. ASSESSMENT RECEIVABLE

An assessment of $25 million was approved by the ICRMA Board of Directors on November 17, 2016. On November 17, 2016, the assessment was recorded as receivable, increasing the total assessments receivable to $38 million. The assessment begins with the 2017/18 budget cycle and members were able to choose between a lump sum payment and the 10 year payment plan. In 2017-18, 7 cities chose the lump sum payment option for a total of $3.7 million and 18 cities chose the 10 year payment plan with the first year payments totaling $3 million. The City of Redondo Beach has not made any payments towards the assessment as further discussed in note 9. No allowance for uncollectable has been recorded regarding this assessment receivable.

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, 2017 and 2016.

6. CLAIMS LIABILITIES

ICRMA establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of losses, related claim adjustment expenses and unallocated loss adjustment expenses. Claims payable are presented at their net present value, discounted at 2% for the liability program and 2% for the workers' compensation program. The following represents the changes in the claims liabilities for the years ended June 30 2017 and 2016:

	2017	2016
Unpaid claims and claims adjustment expenses at beginning of fiscal year	68,697,565	56,716,672
Incurred claim and claims adjustment expenses:		
Provision for insured events of the current fiscal year	13,342,020	13,124,110
Increase (decrease) in provision for insured events of prior fiscal years	(17,264,711)	22,775,051
Total incurred claims and claims adjustment expenses	(3,922,691)	35,899,161
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	10,727,739	23,918,268
Total payments	10,727,739	23,918,268
Total unpaid claims and claim adjustment expenses at end of fiscal year	54,047,135	68,697,565
Claims reserves	17,032,660	28,234,836
Claims incurred but not reported (IBNR)	36,009,475	39,564,893
Unallocated loss adjustment expenses (ULAE)	1,005,000	897,836
Total	54,047,135	68,697,565
Current Portion	10,000,000	11,522,000
Noncurrent Portion	44,047,135	57,175,565
Total Claims Liabilities	54,047,135	68,697,565

As of June 30, 2017 and 2016, the undiscounted unpaid claims and claims adjustment expenses were $60,489,376 and $77,725,549, respectively.

7. CONTINGENCIES

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

8. LIABILITY PROGRAM NET POSITION AND MANAGEMENTS PLAN

As indicated in the accompanying financial statements, ICRMA's net positon shows a net position of $41,249,043 as of June 30, 2017. This is a result of claim liabilities decreasing and the additional assessment.

ICRMA has taken additional steps to reduce volatility in future program years. The Board has:

- Reduced the pool exposure from $5 million per claim to $3 million starting with the 2016/2017 policy year through the purchase of additional insurance
- Approved change to underwriting
- Approved funding core retention layer and corridor layer at the 70% confidence level
- Approved contract in 2016/17 for a new litigation manager and implementation of a new litigation control program.

9. SUBSEQUENT EVENTS

The cities of Manhattan Beach and Redondo Beach withdrew from ICRMA for the 2017/2018 policy year.

As described in note 4 to the financial statements, the board approved an assessment related to calculated deficits in five policy years. The pooled assessment of $25,755,688, which is in addition to the $12.5M assessment in the prior year, was approved November 17, 2016 unanimously by all members present including the board representative from the City of Redondo Beach. Subsequent to year-end, the City of Redondo Beach has filed suit claiming that assessment was not properly calculated and approved. The City of Redondo Beach has not paid its share of the current $1,948,037 assessment nor its payment of $96,633 due on the prior year assessment; for a total of $2,044,670. ICRMA believes these amounts were properly calculated and assessed. All other members have either paid their balance or entered into multi-year payment plans. No allowance for uncollectable has been recorded regarding this assessment receivable.

According to ICRMA program bylaws, a participant may withdraw from ICRMA if, by December 1, a notice to terminate participation is provided to ICRMA in accordance with the Bylaws. Any such timely notice to terminate may be revoked by the participant by providing written notice by January 15. As of December 1, 2017 the cities of Alhambra, Downey, and Hermosa Beach submitted withdrawal notices for the 2018/2019 policy year.

<u>REQUIRED SUPPLEMENTARY INFORMATION</u>

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

RECONCILIATON OF CLAIMS LIABILTIES BY PROGRAM

FOR YEARS ENDED JUNE 30, 2017 AND 2016

	General Liability		Workers' Compensation		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Unpaid loss and loss adjustment expenses at beginning of year beginning of the year	$ 54,352,924	$ 44,445,440	$ 14,344,641	$ 12,271,232	$ 68,697,565	$ 56,716,672
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	11,071,574	10,715,593	2,270,446	2,408,517	13,342,020	13,124,110
Provision for insured events of prior years	(18,353,984)	22,380,137	1,089,273	394,914	(17,264,711)	22,775,051
Total incurred loss and loss adjustment expenses	(7,282,410)	33,095,730	3,359,719	2,803,431	(3,922,691)	35,899,161
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	9,524,259	23,188,246	1,203,480	730,022	10,727,739	23,918,268
Total payments of loss and loss adjustment expenses	9,524,259	23,188,246	1,203,480	730,022	10,727,739	23,918,268
Unpaid loss and loss adjustment expenses at end of year	$ 37,546,255	$ 54,352,924	$ 16,500,880	$ 14,344,641	$ 54,047,135	$ 68,697,565
Reserve for known claims	$ 13,642,456	$ 25,328,560	$ 3,390,204	$ 2,906,276	$ 17,032,660	$ 28,234,836
Reserve for incurred but not reported (IBNR)	22,976,799	28,177,719	13,032,676	11,387,174	36,009,475	39,564,893
Reserve for unallocated loss adjustment expenses (ULAE)	927,000	846,645	78,000	51,191	1,005,000	897,836
Total claims payable as of end of year	$ 37,546,255	$ 54,352,924	$ 16,500,880	$ 14,344,641	$ 54,047,135	$ 68,697,565

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – LIABILITY PROGRAM

FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2017 (In Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Contributions and investment income:										
Earned	$ 12,623	$ 10,642	$ 9,005	$ 11,691	$ 11,126	$ 10,499	$ 11,665	$ 12,367	$ 15,448	$ 16,260
Assessment	-	-	-	-	4,150	13,620	16,940	1,239	-	-
Ceded	(1,800)	(1,546)	(1,548)	(4,074)	(2,149)	(1,846)	(1,771)	(1,891)	(2,442)	(4,414)
Net earned and investment income	10,823	9,096	7,457	7,617	13,127	22,273	26,834	11,715	13,006	11,846
2. Unallocated expenses	1,224	1,214	1,261	1,278	1,124	1,050	1,119	1,146	1,415	1,385
3. Estimated incurred claims and expenses, end of policy year	4,441	4,448	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500
4. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	4	15	7	21	454	1,602	4,802	-	-	
Two years later	1,133	1,571	29	386	4,806	2,689	15,569	352		
Three years later	3,788	3,956	48	3,858	5,974	12,110	18,730			
Four years later	5,208	4,194	1,515	4,323	8,729	16,714				
Five years later	5,255	4,215	2,533	4,324	8,827					
Six years later	5,148	4,602	1,334	5,634						
Seven years later	5,376	4,940	1,334							
Eight years later	5,361	4,940								
Nine years later	5,361									
5. Reestimated ceded claims and expenses	1,819	91	-	-	21	2,446	975	91	-	-
6. Reestimated claims and expenses:										
End of policy year	4,441	4,448	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500
One year later	4,267	5,115	5,156	3,995	5,871	6,427	26,216	10,887	9,840	
Two years later	8,011	4,472	2,348	6,037	5,689	11,997	25,707	7,190		
Three years later	6,071	5,256	2,278	5,840	8,188	21,612	22,510			
Four years later	6,357	5,484	2,081	5,059	11,419	20,980				
Five years later	6,393	5,278	2,911	5,062	10,145					
Six years later	6,287	5,810	4,985	5,730						
Seven years later	5,376	5,105	1,810							
Eight years later	5,376	5,120								
Nine years later	5,361									
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ 920	$ 672	$ (2,837)	$ (517)	$ 4,033	$ 14,087	$ 8,823	$ (1,792)	$ (876)	$ -

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, 2017 (In Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Contributions and investment income:										
Earned	$ 3,790	$ 3,975	$ 3,916	$ 4,226	$ 2,865	$ 3,017	$ 3,879	$ 4,121	$ 3,786	$ 4,092
Ceded	(525)	(412)	(415)	(402)	(311)	(294)	(302)	(473)	(365)	(430)
Net earned and investment income	3,265	3,563	3,501	3,824	2,554	2,723	3,577	3,648	3,421	3,662
2. Unallocated expenses	982	1,129	1,136	1,134	994	1,283	1,322	1,378	1,524	1,347
3. Estimated incurred claims and expenses, end of policy year	940	1,129	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072
4. Paid (cumulative) as of:										
End of policy year	-	-	-	199	-	-	-	-	-	-
One year later	-	-	-	400	-	-	-	-	-	
Two years later	60	-	-	432	151	5	-	-		
Three years later	70	-	-	519	299	14	-			
Four years later	115	-	2	656	467	14				
Five years later	147	67	2	1,130	1,594					
Six years later	159	103	2	1,130						
Seven years later	177	117	2							
Eight years later	188	128								
Nine years later	197									
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	940	1,045	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072
One year later	821	701	745	2,539	1,372	1,605	1,806	1,913	3,111	
Two years later	1,272	625	1,196	2,114	1,322	1,237	1,626	2,402		
Three years later	1,113	989	1,372	3,049	1,945	1,547	2,109			
Four years later	1,366	613	790	2,012	1,886	1,869				
Five years later	956	677	787	2,424	2,608					
Six years later	990	612	756	2,260						
Seven years later	947	652	1,106							
Eight years later	839	995								
Nine years later	920									
7. Increase (decrease) in estimated incurred claims and expenses from end of year	$ (20)	$ (134)	$ 164	$ 808	$ 608	$ 142	$ 229	$ 433	$ 702	$ -

See notes to required supplementary information

1. RECONCILIATION OF CLAIMS LIABILITIES BY PROGRAM

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

2. CLAIMS DEVELOPMENT INFORMATION

   The tables illustrate how ICRMA's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by ICRMA as of the end of the year. The rows of the table are defined as follows:

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

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

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

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

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

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

(7) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

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

SUPPLEMENTARY INFORMATION

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2017

ASSETS	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Total
Current Assets:							
Cash and Cash Equivalents	$ 5,285,522	$ 4,298,988	$ (89,300)	$ (18,336)	$ (629)	$ (4,963)	$ 9,471,282
Investments	2,311,363	1,286,676	-	-	-	-	3,598,039
Accounts Receivable	116,308	13,477	6,073	14,828	-	-	150,686
Assessment Receivable	8,647,405	-	-	-	-	-	8,647,405
Interest Receivable	154,288	79,433	-	-	-	-	233,721
Prepaid Expenses	53,972	30,343	28,667	-	-	-	112,982
Total Current Assets	16,568,858	5,708,917	(54,560)	(3,508)	(629)	(4,963)	22,214,115
Noncurrent Assets:							
Assessment Receivable	27,525,033	-	-	-	-	-	27,525,033
Investments	23,949,531	21,744,750	-	-	-	-	45,694,281
Total Noncurrent Assets	51,474,564	21,744,750	-	-	-	-	73,219,314
Total Assets	68,043,422	27,453,667	(54,560)	(3,508)	(629)	(4,963)	95,433,429
LIABILITIES							
Current Liabilities:							
Accounts Payable	94,223	41,884	1,146	-	-	-	137,252
Claims Payable - Current Portion	9,000,000	1,000,000	-	-	-	-	10,000,000
Total Current Liabilities	9,094,223	1,041,884	1,146	-	-	-	10,137,252
Noncurrent Liabilities:							
Claims Payable - Long-term Portion	28,546,255	15,500,880	-	-	-	-	44,047,135
Total Liabilities	37,640,478	16,542,764	1,146	-	-	-	54,184,387
NET POSITION							
Net Position - Unrestricted (deficit)	$ 30,402,944	$ 10,910,903	$ (55,706)	$ (3,508)	$ (629)	$ (4,963)	$ 41,249,042

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Total
OPERATING REVENUES:							
Member Premiums	$ 16,218,704	$ 4,090,086	$ 4,231,696	$ 259,312	$ 39,616	$ 92,999	$ 24,932,413
Assessment	25,337,691	-	-	-	-	-	25,337,691
Total Operating Revenues	$ 41,556,395	$ 4,090,086	$ 4,231,696	$ 259,312	$ 39,616	$ 92,999	$ 50,270,104
EXPENSES:							
Claims expense	(7,282,410)	3,359,719	-	-	-	-	(3,922,691)
Insurance Expense	4,413,689	429,945	3,974,033	239,177	32,526	85,908	9,175,278
Broker Fees	100,000	14,000	86,000	-	-	-	200,000
Claims Administration	162,228	72,772	-	-	-	-	235,000
CA Division of Workers Comp. Assessment	-	654,301	-	-	-	-	654,301
Structured Return To Work Program	-	187,620	-	-	-	-	187,620
Program Administration	691,276	110,139	133,952	14,162	7,090	7,091	963,710
General & Administrative Expense	431,911	307,909	9,654	-	-	-	749,474
Total Expenses	(1,483,306)	5,136,405	4,203,639	253,339	39,616	92,999	8,242,692
Operating Income (Loss)	43,039,701	(1,046,319)	28,057	5,973	-	-	42,027,412
NONOPERATING REVENUES:							
Investment Income	41,073	2,284	-	-	-	-	43,357
Change in Net Position	43,080,774	(1,044,035)	28,057	5,973	-	-	42,070,769
Net Position, Beginning of Year	(12,677,830)	11,954,938	(83,763)	(9,481)	(629)	(4,963)	(821,727)
Net Position, End of Year	$ 30,402,944	$ 10,910,903	$ (55,706)	$ (3,508)	$ (629)	$ (4,963)	$ 41,249,042

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Total
Cash Flows from Operating Activities:							
Cash Received from Members for Deposit Premiums	$ 18,055,497	$ 4,090,086	$ 4,231,696	$ 259,312	$ 39,616	$ 92,999	$ 26,769,206
Cash Payments to Suppliers for Services	(5,579,999)	(1,689,185)	(4,203,685)	(267,164)	(39,616)	(92,999)	(11,872,648)
Cash Payments Relating to Claims and Claim Administration	(9,687,283)	(1,276,252)	-	-	-	-	(10,963,535)
Net Cash Provided By (Used For) Operating Activities	2,788,215	1,124,649	28,011	(7,852)	-	-	3,933,023
Cash Flows from Investing Activities:							
Purchases of Investments	(50,546,113)	(48,979,013)	-	-	-	-	(99,525,126)
Sales of Investments	51,804,519	43,999,823	-	-	-	-	95,804,342
Interest Income Received	458,632	306,760	-	-	-	-	765,392
Net Cash Provided By (Used For) Investing Activities	1,717,038	(4,672,430)	-	-	-	-	(2,955,392)
Net Increase (Decrease) in Cash and Cash Equivalents	4,505,254	(3,547,781)	28,011	(7,852)	-	-	977,632
Cash and Cash Equivalents, Beginning of Year	780,268	7,846,769	(117,311)	(10,484)	(629)	(4,963)	8,493,650
Cash and Cash Equivalents, End of Year	$ 5,285,522	$ 4,298,988	$ (89,300)	$ (18,336)	$ (629)	$ (4,963)	$ 9,471,282

	Liability	Workers' Compensation	Property	Auto Physical Damage	Crime	Cyber	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:							
Operating income (loss)	$ 43,039,701	$ (1,046,319)	$ 28,057	$ 5,973	$ -	$ -	$ 42,027,412
Adjustment to net cash used by operating activities:							
(Increase) Decrease in Accounts/Assessment Receivable	(23,501,113)	-	-	-	-	-	(23,501,113)
(Increase) Decrease in Prepaid Expenses	(9,225)	(19,103)	-	-	-	-	(28,328)
(Decrease) Increase in Accounts Payable	65,521	33,832	(46)	(13,825)	-	-	85,482
(Decrease) Increase in Claims Liabilities	(16,806,669)	2,156,239	-	-	-	-	(14,650,430)
Net Cash Provided By (Used For) Operating Activities	$ 2,788,215	$ 1,124,649	$ 28,011	$ (7,852)	$ -	$ -	$ 3,933,023
Non-cash investing activities							
Unrealized gain (loss) in market values of investments	$ 283,652	$ 273,890	$ -	$ -	$ -	$ -	$ 557,542

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

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

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Independent Cities Risk Management Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

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

Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 20, 2018

FINANCIAL STATEMENT FINDINGS

<u>Finding 2017-001</u>

ACTUARIAL DATA AND USE OF SPECIALISTS

Criteria:

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

Condition:

Significant Deficiency – During our testwork over the claims liabilities balance, we identified a claim where the Authority had reserved for a claim in the prior year that was believed to have been a covered claim. During the current year, it was subsequently determined to be a non-covered claim of the Authority, and the balance was corrected by management during the current year. The Authority has historically compiled the underlying data as of a point in time, and projected results to the fiscal year end to reflect significant changes. For the audit of June 30, 2017, the Authority compiled underlying data as of December 31, 2016, and projected forward to June 30, 2017, resulting in six months of data projections.

Context:

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

Effect:

Inconsistencies of data reported by the TPAs, and the variability of data, led to a higher reserve established for a claim that was a non-covered claim of the Authority. Management has corrected such information during the current year. Further, as a result of the manual process whereby management compiles the data for the actuary, the timing of the actuarial valuation is currently established at six months prior to year end.

Cause:

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

Recommendation:

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

Views of Responsible Officials:

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

Background

ICRMA is an excess pool with member retentions varying from $100,000 - $8 million. Each member city is responsible for managing their claims and their claims data. ICRMA finances the claim amounts above the member retention but does not manage the underlying claim or claims data. Historically the membership had used up to five (5) different liability Third Party Administrators (TPAs). This led to a variety of inconsistencies in how the members and TPAs manage claims and data.

- The ICRMA Board has adopted policies and standards to resolve those issues and ensure data integrity and consistency, including:
  - Third Party Administrator Performance Standards
  - Litigation Management Policies and Procedures
- The Board retains an independent claim auditor to perform liability claim audits every other year.
- In 2016, the Board approved funding to license the Origami claim management software. This software will assist ICRMA in compiling and maintaining, in a claim system format, the data collected from the member TPAs.
- The Board has taken steps to resolve claim inconsistencies and correct data issues at the primary TPA level.

Board of Directors
Independent Cities Risk Management Authority
Irvine, California

We have audited the financial statements of the Independent Cities Risk Management Authority (Authority) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Amounts related to the claims liabilities are based on actuarial valuations, using a central estimate. The actuarial valuations are based on claims loss data maintained by each City, and submitted, through their respective Third Party Administrators (TPAs), to the Authority. This data provides the actuary and management the information necessary to project ultimate losses, and is subject to ongoing changes in the underlying data as cases progress and more information is available, or through the variability and consistency of the reporting of such data.
- The Board-approved assessment of $25 million is an estimate based on deficit balances associated with specific program years. The deficit balances are estimated using the projected ultimate losses associated with a specific program year, which is subject to changes of the underlying data as described above.
- Fair value measurements for investments are based on observable market inputs and information from the Authority's safekeeping custodian banks and investment pool administrators.

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

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

Notes 2 and 6 to the financial statements disclose the significant accounting policies and other required disclosures related to the estimated claims liabilities.

Note 4 to the financial statements discloses the assessment receivable and related collection period associated with the Board-approved assessment.

Note 8 to the financial statements discloses the liability program's net position and management's plans to address the volatility in the program, including the assessment.

Note 9 to the financial statements discloses subsequent events, including the City of Redondo Beach's withdrawal from the Authority, and its unpaid assessments and lawsuit.

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

Difficulties Encountered in Performing the Audit

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

Corrected Misstatements

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

- Reclassification of $6.9 million of assessment receivable from noncurrent to current for portions expected to be collected during FY 2017-18.
- Reclassification of $2.3 million of investments from current to noncurrent based on maturity dates of investment holdings as of June 30, 2017.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 20, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 20, 2018