

BIG INDEPENDENT CITIES EXCESS POOL
Financial Statements and
Supplementary Information
With Independent Auditor's Report
June 30, 2015 and 2014

BIG INDEPENDENT CITIES EXCESS POOL

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BIG INDEPENDENT CITIES EXCESS POOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The management of the Big Independent Cities Excess Pool (BICEP) is pleased to present the following discussion and analysis of the operating results, financial condition, and liquidity of BICEP for the fiscal year ended June 30, 2015. This discussion should be read in conjunction with the financial statements and notes to the financial statements included with this report.

General Program Highlights

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

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

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

BICEP recently celebrated its 25th Anniversary and is extremely proud that the Program has performed exceptionally in that it has: 1) stabilized liability insurance premiums; 2) attracted cost-effective liability reinsurance from "A" rated carriers; and 3) provided a predictable long-term risk financing solution for the pool members.

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

BIG INDEPENDENT CITIES EXCESS POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Financial Highlights for the Fiscal Year Ended June 30, 2015

Revenues	\$4.0 million	Total revenues, operating and non-operating, increased 5.2% due to an increase in operating premium revenue of 8.5%, and a decrease in non-operating investment income of 30.1%.
Expenses	\$3.4 million	Increased 12.8% over the prior year primarily due to an increase in excess liability premiums to the excess carrier.
Assets	\$16.2 million	Decreased \$2.4 million, or 12.7%, resulting primarily from a decrease in cash and investments due to the payments of claims incurred in a prior program year.
Liabilities	\$2.2 million	Decreased \$3.0 million or 57.5%, due to a corresponding decrease in claims reserves.

Description of the Basic Financial Statements

BICEP's financial statements are prepared in conformity with generally accepted accounting principles and include certain amounts based upon reliable estimates and judgments. The financial statements include the Balance Sheets; the Statement of Operations and Changes in Net Assets; and the Statement of Cash Flows; along with accompanying Notes to Financial Statements.

The **Balance Sheets** present information on BICEP's assets and liabilities and the difference between the two representing net assets, or pool equity.

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

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

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

Robert Eichel and Associates, Certified Public Accountants, has performed an independent audit of the accompanying financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report. Aon provided an independent actuarial review to value the amounts recorded as outstanding claims liabilities for the program.

BIG INDEPENDENT CITIES EXCESS POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Analysis of Overall Financial Position and Results of Operations

BICEP Balance Sheets			
	June 30, 2015	June 30, 2014	Percentage Change
Cash and cash equivalents	\$551,850	\$186,155	196.4%
Investments at market Value	15,527,865	18,293,153	-15.1%
Other assets	150,224	116,704	28.7%
Total Assets	\$16,229,939	\$18,596,012	-12.7%
Current Liabilities	\$79,765	\$115,702	-31.1%
Claims Liabilities	2,147,194	5,121,651	-58.1%
Total Liabilities	2,226,959	5,237,353	-57.5%
Net Assets	14,002,980	13,358,659	4.8%
Total Liabilities & Net Assets	\$16,229,939	\$18,596,012	-12.7%

BICEP Pool Assets

Total assets decreased \$2.4 million, attributable to a decrease in cash and investments due to the payment for claims for prior program years in the amount of \$2.3 million.

BICEP maintains a small balance, approximately \$8,000, in the Local Agency Investment Fund (LAIF), which is administered by the State Treasurer's Office in Sacramento. These funds are available, should they be needed, on a same-day notice basis.

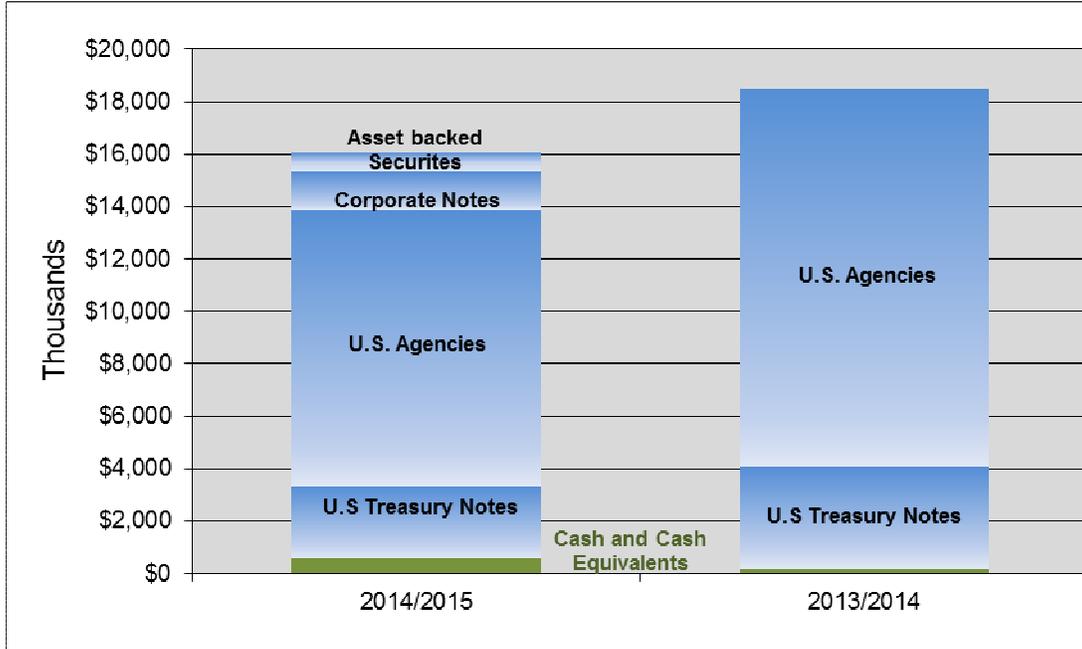
BICEP's excess funds are invested in a portfolio managed by Chandler Asset Management. Custodial services are provided by Bank of New York Mellon. Holdings in BICEP's portfolio were \$15.5 million at June 30, 2015. Holdings are maintained in treasury and agency securities, U.S. Government supported corporate debt, corporate notes, and asset backed securities. BICEP's investment earnings decreased 30.1% from the prior year. Actual interest income decreased by \$170,300, while the market value of investments increased by \$38,800. The investment environment is described in detail in the **Description of Facts or Conditions that are Expected to have a Significant Effect on Financial Position or Results of Operations** in the last section of this report. At June 30, 2015, the fair value of BICEP's investments was \$370,800 more than the book value.

**BIG INDEPENDENT CITIES EXCESS POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2015

The chart below depicts the make-up of BICEP's cash assets at June 30, 2015 and 2014.

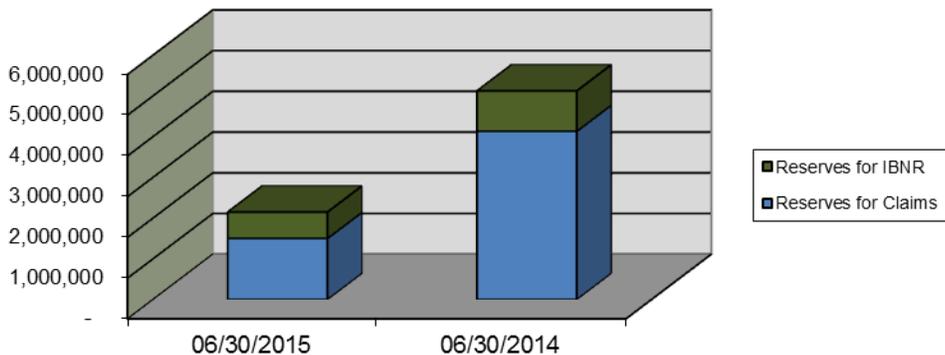
Total Cash by Category at June 30, 2015, and June 30, 2014



BICEP Pool Liabilities

As shown below, claim liabilities decreased by \$3.0 million from the prior year. Reserves for known claims decreased by \$2.6 million, and reserves for anticipated future claims (IBNR) decreased by \$343,800. This is directly attributable to the actuary's reduction in the projection of outstanding claims liability from \$5.6 million the prior year to the current projection of \$2.1 million.

Comparison of Pool Liabilities at June 30, 2015, and June 30, 2014



BIG INDEPENDENT CITIES EXCESS POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

BICEP Revenues and Expenses

BICEP Statement of Operations and Changes in Net Assets			
	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	Percentage Change
Revenues:			
Deposit premiums	\$3,642,976	\$3,357,996	8.5%
Investment income	304,698	436,183	-30.1%
Misc income	56,726	12,261	362.7%
Total Revenues	\$4,004,400	\$3,806,440	5.2%
Expenses:			
Excess insurance	3,773,018	3,452,482	9.3%
Claims Payments	2,275,810	703,615	223.4%
Change in Claims Liabilities	(2,974,457)	(1,428,277)	108.3%
General and Administrative Expenses	285,708	251,297	13.7%
Total Operating Expenses	3,360,079	2,979,117	12.8%
Excess of Revenues over expenses	644,321	827,323	-22.1%
Net Position, Beginning of Year	13,358,659	12,531,336	6.6%
Net Position, End of Year	\$14,002,980	\$13,358,659	4.8%

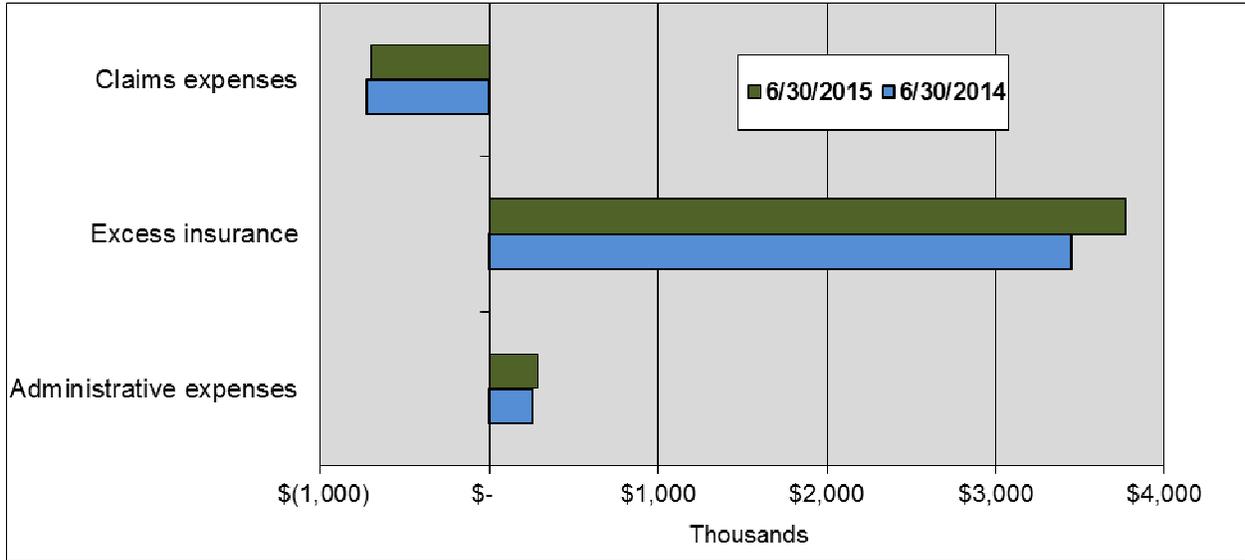
Total revenues, operating and non-operating, increased by 5.2%, or \$131,500, over the prior year. Operating revenues consist primarily of net deposit premiums that include excess liability reinsurance, administration, and pass through revenue offset by a corresponding expense reflected in administration expense. Current year premium was reduced by a Board authorized return of equity to the members via a reduction in current year premium for program years 2005/06 through 2008/09 in the amount of \$460,000. Premiums collected for excess workers' compensation and property totaling \$1.9 million are netted against the premiums paid to the broker for the insurance carriers, and are not reflected in BICEP's financial statements. Net deposit premiums in 2014/2015 increased by 8.5%, or \$285,000. Investment income decreased 30.1%, as discussed in a previous section. BICEP earned interest income of \$361,757 with market depreciation on investments of \$57,059, reducing overall investment income to \$304,698.

Operating expenses increased 12.8%, or \$381,000, over the prior year, due primarily to an increase in excess liability reinsurance premium and general and administrative expenses. The difference in total claims expense from the prior year was negligible. Although claims payments increased by \$1.6 million over the prior year, changes in actuarially determined claims reserves decreased by \$1.5 million. As discussed in the prior section, the actuary's revaluation of the estimated outstanding liability for prior program years during the current year yielded a projection of \$2.1 million as compared to the prior year's projection of \$5.6 million. Changes in actuarial projections of ultimate loss exposure have a direct result on claims expense. As BICEP has reinsured the \$1 million to \$2 million layer the past two years, only reserves for program years prior to 2013/2014 are reflected.

BIG INDEPENDENT CITIES EXCESS POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Expenses for the Years Ended June 30, 2015, and June 30, 2014



Insurance Expense

BICEP provides various coverage options for its members as follows:

Pooled Program

- General Liability (\$1 million x \$1 million)
 - From 2004/2005 through 2012/2013

Purchased Programs through BICEP (Individually by Member)

- General Liability to \$27 million (since 2013/2014)
- Governmental Crime
- Property
- Special Events Liability
- Special Liability Insurance Program (SLIP)
- Workers Compensation (CSAC-EIA)

Member Optional Programs Invoiced through BICEP (by Member)

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

BIG INDEPENDENT CITIES EXCESS POOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Provision for Insured Events

BICEP contracts with Aon for an actuarial valuation of its outstanding claims liability as well as a recommendation of a funding rate for its historically pooled layer for the coming year. Although pooling rates were provided in the study, the Board elected to reinsure the \$1 million to \$2 million layer in 2014/2015, as it had the prior year. For financial statement purposes, the liability for claims has been recorded at the undiscounted expected confidence level.

General Administrative Expenses

Total general administrative and other operating expenses increased 13.7% over the prior year. Total general administrative expenses represent 7.8% and 7.5% respectively of the total premiums for each of the fiscal years ended June 30, 2015 and June 30, 2014.

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

BICEP, through its investment advisor, Chandler Asset Management, continues to pursue a policy of diversification of issuers, credit, bond market sectors, and maturities. Likewise, it monitors closely 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. BICEP'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.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the Big Independent Cities Excess Pool (BICEP) at June 30, 2015 and 2014 and the related statements of operations and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of BICEP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2015 and 2014 financial statements referred to above present fairly, in all material respects, the financial position of the Big Independent Cities Excess Pool at June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is a required part of the annual report. Although it is not a part of the auditor's opinion, the financial information contained therein has been subjected to all of the tests applicable to the underlying basic financial statements.

BICEP has 21 years of historical data for use in its estimates of incurred but not reported claims and the corresponding premium adjustments. Although BICEP considers its experience and industry data in determining such amounts, assertions and projections as to future events are necessary and ultimate losses may be higher or lower than amounts projected.

The comparative schedule of Claims Development, on page 12 not a required part of the basic financial statements which cover the prior ten years but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Pasadena, California
January 15, 2016



Robert Eichel & Associates
Certified Public Accountants

**BIG INDEPENDENT CITIES EXCESS POOL
BALANCE SHEETS
JUNE 30, 2015 AND 2014**

	ASSETS	
	2015	2014
Cash and cash equivalents (Notes 1 and 2)	\$ 551,850	\$ 186,155
Investments, at market (Note 2)	15,527,865	18,293,153
Accrued interest receivable	90,660	116,704
Accounts receivable	32,064	---
Prepaid expenses	27,500	---
Total assets	\$ 16,229,939	\$ 18,596,012

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 79,765	\$ 115,702
Unpaid losses and loss adjustment expenses (Note 3)	1,500,000	4,130,590
Actuarial determination of projected ultimate losses including losses incurred but not reported:	647,194	991,061
Total loss and loss adjustment expenses	2,147,194	5,121,651
Total liabilities	2,226,959	5,237,353

Net Assets

Unrestricted	14,002,980	13,358,659
	14,002,980	13,358,659
Total Liabilities and Net Assets	\$ 16,229,939	\$ 18,596,012

The accompanying notes are an integral part of these financial statements.

BIG INDEPENDENT CITIES EXCESS POOL
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Revenues:		
Deposit premiums earned	\$ 3,642,976	\$ 3,357,996
Other	56,726	12,261
	3,699,702	3,370,257
Expenses:		
Claims expense	2,275,810	703,615
Net (Decrease) in actuarially determined unpaid losses and loss adjustment expenses (Note 3)	(2,974,457)	(1,428,277)
Purchased liability insurance and reinsurance	3,773,018	3,452,482
General and administrative expenses	285,708	251,297
	3,360,079	2,979,117
Excess revenues over expenses before net investment income (loss)	339,622	391,140
Net investment income:		
Interest earned:	361,757	532,049
Increase (decline) in market value of investments including gain (loss) on sale or redemption:	(57,059)	(95,866)
Net investment income (loss)	304,698	436,183
Excess of revenues over expenses	644,321	827,323
Net Assets at beginning of year	13,358,659	12,531,336
Net Assets at end of year	\$ 14,002,980	\$ 13,358,659

The accompanying notes are an integral part of these financial statements.

**BIG INDEPENDENT CITIES EXCESS POOL
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
Cash flows from operating activities:		
Excess of revenues over expenses before net investment income	\$ 339,622	\$ 391,140
Adjustment to reconcile excess of revenues over expenses before net investment income to net cash provided by operations:		
Increase in other assets	(59,564)	---
Increase (Decrease) in accounts payable	(35,937)	4,054
Decrease in unpaid losses and loss adjustment expenses (affecting cash flow)	(271,560)	(883,235)
Net cash flow (used by) operating activities	(27,439)	(488,041)
Cash flows from investing activities:		
Interest received	354,604	530,989
Net (purchases) sales of long-term investments and market value changes	38,530	(461,573)
	393,134	69,416
Net increase (decrease) in cash and cash equivalents	365,695	(418,625)
Cash and cash equivalents at beginning of year	186,155	604,780
Cash and cash equivalents at end of year	\$ 551,850	\$ 186,155

The accompanying notes are an integral part of these financial statements

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations

Big Independent Cities Excess Pool (BICEP) was created effective September 23, 1988, by a joint powers agreement among five cities organized and operating under the laws of the State of California. BICEP is organized pursuant to the provisions of the California Government Code for the purpose of providing joint insurance coverage and related risk-management services for member cities. The extension of joint insurance coverage to member cities began October 1, 1988.

BICEP's liability program has offered a combination of pooled and commercially purchased public auto and general liability coverages, plus errors and omissions coverage for losses in excess of the member cities' specified self-insurance retention levels of one million dollars. Individual and aggregate claims in excess of specified levels are covered by reinsurance and excess insurance policies purchased from commercial insurance carriers which, combined with the program's self-funded layers, offer a total of \$27 million in coverage limits. Additionally, through its broker, Alliant Insurance Services, it enables its members to higher liability limits through Catastrophe Liability Insurance Program (CLIP), Workers Compensations coverage, Crime coverage and Pollution Liability coverage as a group or individually as a BICEP member.

BICEP is a nonprofit California public agency, thus, it is tax-exempt. It is also considered a "Special District" by the Office of the State Controller, Division of Local Government Fiscal Affairs, for the purpose of filing an Annual Report of Financial Transactions of Special Districts.

Basis of Accounting

Defined as an Enterprise Fund the accounting records of BICEP are maintained on the accrual basis of accounting.

Cash and Cash Equivalents

BICEP considers money market funds and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Deposit Premium Revenue

Premiums are recognized as earned over the periods covered by the policies.

Under the terms of the Liability Risk Coverage Agreement, between BICEP and its member cities, premium adjustments resulting in additional premium assessments or refunds were to commence in February 1992, covering the experience of BICEP from inception. Premium adjustments are subject to change as the ultimate cost of claims becomes known, investment income and expenses are realized, and BICEP's costs are allocated to each Policy Year. Presentation of premium adjustments has been changed to show the net favorable adjustments as equity, but, as noted, that amount can change as ultimate outcomes are realized.

Unpaid Losses and Loss Adjustment Expenses

Estimated unpaid losses and loss adjustment expenses include an amount for losses incurred but not reported (IBNR).

Liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. The previously noted claims and ultimate recoveries will be deducted from the gross amount of unpaid losses.

Claims which have been incurred but not reported to the claims administrator at June 30, 2015 have been estimated through an independent actuarial analysis based on loss development experience of BICEP and the member cities and available industry loss development data. Incurred losses have to be estimated until ultimate outcome is determined. Unpaid loss and loss adjustment and estimated unreported claims expenses have been reduced because BICEP's \$1,000,000 to \$2,000,000 layer has been handled by an outside carrier.

BICEP's recognition of losses incurred but not reported is in conformity with Government Accounting Standards Board (GASB 10), Accounting and Financial Reporting for Risk Financing and Related Insurance Issues and the Risk Finance Omnibus (GASB 30) and the American Institute of Certified Public Accountants (AICPA) Statement of Position 94-5.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Use of Estimates

Certain assets and liabilities are not subject to precise determination. Specifically, unpaid loss and loss adjustment expense must be estimated. Those losses that have occurred and not been reported can only be estimated by actuarial methods. From year ended June 30, 1995 to year ended June 30, 2000 the \$1,000,000 to \$2,000,000 loss layer originally carried by BICEP was insured by outside carriers, reducing both the premiums and the risks to the participating cities. Those losses in the \$1,000,000 to \$2,000,000 layer prior to July 1, 1994 generally have been reported but there is always the possibility of ultimate cost exceeding original estimates. Additionally, as noted previously, there can be the risk of denial of coverage in borderline circumstances. In the years ended after 2002 and 2003 BICEP shared the \$1,000,000 to \$2,000,000 layer due to increased costs of outside carriers. In years 2004 through 2013 BICEP was fully responsible for the \$1 million to \$2 million layer. In July of 2013 through June of 2015 the \$1 to \$2 million layer is fully reinsured by an insurance carrier.

Valuation of Investments

Investments prior to year ended June 30, 1998 were recorded at cost. Those investment securities are now valued at market as required by Governmental Accounting Standards Board Statements (GASB 31), resulting in restatement of carrying values of investments and changes in previously reported investment income prior to year ended June 30, 1998. The cumulative effects of these adjustments are reflected in retained earnings.

Note 2 CASH AND INVESTMENTS

Under provisions of the California Government Code (Code), BICEP is authorized to invest in:

- A variety of federal and state treasury obligations (including local California agencies)
- Obligations or other instruments of or issued by a federal agency or government sponsored enterprise
- Bankers' acceptances which are eligible for purchase by the federal reserve system (subject to certain limitations)
- Prime quality commercial paper (subject to certain limitations)
- Negotiable certificates of deposit issued by nationally or state chartered banks, savings and loan associations and credit unions

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 2 CASH AND INVESTMENTS (continued):

- Repurchase agreements or reverse repurchase agreements of any securities authorized by the Code
- Medium-term Corporate Notes
- Asset Backed Securities

Cash and Cash Equivalents, Unrestricted

At June 30, 2015, the net carrying amount and deposit balance was \$551,850 of which \$8,196 was invested in the Local Agency Investment Fund, an investment pool maintained by the State Treasurer.

At June 30, 2014, the net carrying amount and deposit balance was \$186,155 of which \$8,173 was invested in the Local Agency Investment Fund, an investment pool maintained by the State Treasurer.

Cash Equivalents and Investments

BICEP invests only in investments that are insured or registered, or for which the securities are held by BICEP or its agent in BICEP's name. Investments held by the Trustee consist of:

Cash equivalent-repurchase agreements and cash	<u>2015</u> \$551,850	<u>2014</u> \$186,155
U.S. Treasury and Federal agency securities	<u>15,527,865</u>	<u>18,293,153</u>
	<u>\$16,079,715</u>	<u>\$ 18,479,308</u>

Deposits and investments by governmental agencies are categorized in three classes depending upon the relative level of risk.

Category 1 - Cash or investments fully insured or registered or where the securities are held by the unit or its agent in the unit's name.

Category 2 - Uninsured and unregistered instruments held by the broker or advisor's trust department or an agent in the unit's name.

Category 3 - Uninsured and unregistered investments held by the broker or dealer or by its trust department or by an agent but not in the unit's name.

All of Bicep's cash and investments are in category 1, excepting deposits with the Local Agency Investment Fund (LAIF), which cannot be categorized.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 3 UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES:

The following represents changes in the unpaid losses and loss adjustment expenses for BICEP for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Unpaid losses and loss adjustment expenses at beginning of year	\$5,121,651	\$ 6,004,886
Payments of claims reported or accrued	(2,275,810)	(218,669)
Increase (decrease) in funding levels	<u>(698,647)</u>	<u>(664,566)</u>
Total unpaid losses and loss adjustment expenses at end of year	<u>\$ 2,147,194</u>	<u>\$5,121,651</u>

Note 4 ESTIMATED FUTURE PREMIUM ADJUSTMENTS (RETAINED EARNINGS):

Until year ended June 20, 2002 BICEP's accounting had consistently charged or credited annually results of operations to the participant cities because as a group they are accountable for the benefits or lack thereof of the pool's operations. GASB 31 became effective for years ended June 30, 1998 with retroactive adjustment of prior years' results preferred.

At June 30, 2015 and June 30, 2014 investment securities are valued at market.

BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)

Note 5 EXCESS INSURANCE:

Historically BICEP has purchased commercial excess liability insurance to transfer its exposure on any one loss or group of losses. BICEP is contingently liable for losses and loss adjustment expenses related to ceded business to the extent that its excess carriers are unable to fulfill their commitments. Management believes that its excess carriers are and will continue to be able to satisfy their obligations under excess liability policies. There have been instances in which BICEP has paid claims in excess of its layer of coverage or on ceded coverages due to special circumstances and coverage issues.

For the years beginning in the year beginning July 1, 1994, and continuing through June 30, 2001, because of substantial reductions in rates, BICEP placed all of its liability coverages with private insurance carriers. This included the \$1 million to \$2 million layer, which was previously retained. In years after July 1, 2001 BICEP either shared the \$1,000,000 to \$2,000,000 layer on a 50 percent basis with excess carriers or completely self-funded this layer.

BICEP's liabilities for unpaid losses and loss adjustment expenses as of June 30, 2015 and June 30, 2014, have been estimated net of amounts that would be recoverable from the excess insurer. For the years beginning July 1, 1994 through June 30, 2001 BICEP had no direct liability having placed all of its coverages with outside carriers, except in those rare instances that there was a reason to go beyond the coverage limitations. In the years ended June 30, 2014 and 2015 the \$1,000,000 to \$2,000,000 layer was placed with an outside carrier.

Note 6 ADJUSTMENTS IN PRIOR YEARS' PREMIUMS:

Pursuant to a Board decision in April, 2009 relating to available 2004-2005 excess equity the member Cities were given the option to apply their available portion to 2010-2011 liability premiums or to receive a cash distribution. Santa Ana and San Bernardino elected to receive cash, which was paid respectively in December 2009 and July 2010. The premium adjustments for the remaining cities, including a partial adjustment for Santa Ana amounted to \$451,577 shown as a net asset reduction in year ended June 30, 2011. For years ended June 30, 2005, 2006, 2007 and 2008 the amounts were computed at \$830,693 and \$645,752 and reduced liability premiums for year ended June 30, 2013 and will do the same for year ending June 30, 2015. Premium adjustments relating to fiscal years ended June 30, 2006, 2007, 2008 and 2009 were approved amounting to a net deficit of \$460,039. Those amounts reduced the 2014-2015 liability premiums.

**BIG INDEPENDENT CITIES EXCESS POOL
NOTES TO FINANCIAL STATEMENTS
(continued)**

Note 7 ONGOING LITIGATION AND SETTLEMENT OF MAJOR CLAIMS

- a. Settlement of Major Claims years ended June 30, 2014 and June 30, 2015

At June 30, 2015 Unpaid Loss and Loss Adjustment Expenses consisted of two major claims which later were settled. Also, in the year ended June 30, 2013 the Pomona v BICEP matter became active again. The minutes of the July 19, 2014 Directors' Meeting reflects a settlement of Kline v Pomona for \$1.25 million. The effective date of settlement is July 15, 2014. The agreement settles all material claims between parties including those relating to the expulsion of Pomona from BICEP in August of 2003. It also provides that if the parties wish to file a collection action against Debra Kline the parties will split equally amounts received up to the \$1.25 billion BICEP paid. Thereafter, proceeds will be retained by Pomona.

Note 8 ADDITION TO THE POOL OF THE CITY OF SAN BUENAVENTURA (VENTURA)

Effective July 1, 2014 the City of Ventura became a member of the pool and its representatives now sits on the governing board.

Note 9 SAN BERNARDINO BANKRUPTCY FILING

- a. On August 1, 2012 San Bernardino, a BICEP member city, filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy code. The filing was with the U.S. Bankruptcy Court of the Central District of California. On September 13, 2013, the Court entered an order permitting the City to proceed with Chapter 9 relief. The City submitted a plan, which as of January 14, 2016 has not been approved. The City's proposed plan of adjustment covers all unsecured claims under the City's self-insured retention of \$1,000,000 to be paid at 1% of the amount of the claim. Those resolved claims exceeding \$1,000,000 coming within BICEP's Memorandum of Understanding in the \$1,000,000 to \$2,000,000 layer were to continue to be paid by BICEP. The court has rejected two disclosure statements and the City is proceeding with a third. As of now, the terms of the City's proposed program has not been approved and how BICEP will be affected is uncertain.

SUPPLEMENTARY INFORMATION

**BIG INDEPENDENT CITIES EXCESS POOL
CLAIMS DEVELOPMENT INFORMATION**

JUNE 30, 2015

	<u>2005/2006</u>	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
1. Contribution and investment revenue:										
Contribution revenue earned	\$4,264,561	\$3,802,281	\$3,494,271	\$3,401,737	\$3,503,469	\$3,868,744	\$3,340,987	\$3,270,969	\$3,357,996	\$3,642,976
Ceded	(2,263,525)	(2,019,257)	(1,843,400)	(1,870,536)	(1,928,214)	(1,800,115)	(1,840,364)	(2,192,461)	(3,452,482)	(3,773,018)
Net Earned before interest	2,001,036	1,783,024	1,650,871	1,531,201	1,575,255	2,068,629	1,500,623	1,078,508	(94,486)	(130,042)
Interest earned	7,050	741,142	1,355,533	1,331,227	1,048,063	574,467	1,113,861	(165,737)	436,183	304,698
Total net earned:	2,008,086	2,524,166	3,006,404	2,862,428	2,623,318	2,643,096	2,614,484	912,771	341,697	174,656
2. Unallocated expenses	225,411	191,383	203,496	249,751	240,811	303,078	250,895	256,223	239,036	228,983
3. Estimated incurred claims and expenses,										
End of policy year	1,332,960	1,409,191	1,377,968	1,488,591	1,591,013	1,707,330	1,533,000	1,557,000	--	--
4. Paid claims (cumulative as of:										
End of policy year	--	--	--	--	--	--	--	--	--	--
One year later	--	--	--	--	--	--	--	--	--	--
Two years later	1,000,215	--	--	1,148	1,000,000	1,003,811	--	--	--	--
Three years later	1,000,215	--	--	1,148	1,000,000	1,003,811	--	1,000,000	--	--
Four years later	1,002,289	--	--	1,148	1,000,000	1,003,811	--	--	--	--
Five years later	1,002,289	1,000,000	--	1,148	1,000,000	--	--	--	--	--
Six years later	1,002,289	2,000,000	--	1,148	--	--	--	--	--	--
Seven years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
Eight years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
Nine years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
5. Re-estimated incurred claims and expenses:										
End of policy year	184,268	152,301	144,203	156,505	1,025,356	538,743	528,703	448,243	--	--
One year later	1,200,000	83,242	86,077	532,008	1,200,000	241,546	254,527	1,466,539	--	--
Two years later	1,075,470	300,000	26,283	2,401,148	1,315,630	1,344,596	125,565	2,517,680	--	--
Three years later	1,000,215	--	1,200,000	1,201,148	1,201,648	1,207,621	49,614	--	--	--
Four years later	1,002,289	--	10,959	481,148	1,115,148	1,118,209	--	--	--	--
Five years later	1,182,289	2,200,000	2,315	481,148	1,051,911	--	--	--	--	--
Six years later	1,002,289	2,000,000	--	481,148	--	--	--	--	--	--
Seven years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
Eight years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
Nine years later	1,002,289	2,000,000	--	--	--	--	--	--	--	--
6. Increase (decrease) in estimated net incurred claims and expenses from end of program year:	(\$330,671)	\$590,809	(\$1,377,968)	(\$1,007,443)	(\$539,102)	(\$589,121)	(\$1,483,386)	\$960,680	--	--

**BIG INDEPENDENT CITIES EXCESS POOL
CLAIMS DEVELOPMENT INFORMATION**

Ten years' Calculation through June 30, 2015

Explanation of the Claims Development table on the preceding page

The table on the following - page illustrates how BICEP's earned revenues and investment income compare to related costs of loss and other expenses assumed by BICEP as of the end of each policy year. The rows of the table are defined as follows: 1. This line shows the total of each fiscal year's earned deposit premiums and investment income, net amounts earned for purchased excess insurance. 2. This line shows each fiscal year's other operating costs including overhead and claims expense not allocable to individual claims. 3. This line shows the estimated incurred losses and allocated loss adjustment expenses as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (both paid and accrued) net of loss assumed by excess insurers. 4. This line shows the cumulative amounts paid as of the end of successive years for each policy year. 5. This section of rows shows how each policy year's incurred claims and expenses increased or decreased as of the end of successive years. This annual re-estimation result from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. 6. This line compared the latest re-estimated incurred claims and expenses amount to the amount originally established (line 3) and shows whether this latest estimate of claims and expenses costs are greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated accounts is commonly used to evaluate this accuracy of incurred claims and expenses currently recognized in less mature policy years.