

**Independent Cities Risk Management
Authority**



FINANCIAL STATEMENTS

**FISCAL YEAR ENDED JUNE 30, 2019
(With Independent Auditor's Report)**

Independent Cities Risk
Management Authority
— *Governmental Joint Powers Authority* —

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

JUNE 30, 2019

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Financial Statements	16
Required Supplementary Information:	
Reconciliation of Claims Liabilities by Program	30
Claims Development Information – Liability Program	31
Claims Development Information – Workers' Compensation Program	32
Notes to Required Supplementary Information	33
Supplementary Information:	
Combining Statement of Net Position	34
Combining Statement of Revenues, Expenses and Changes in Net Position	35
Combining Statement of Cash Flows	36



Independent Auditor's 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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 4 and 9 to the financial statements, the City of Redondo Beach has filed a suit against the Authority claiming the assessment was not properly calculated and approved. As of June 30, 2019, approximately \$2 million of assessments and accrued interest is due from the City of Redondo Beach. Subsequent to year end, settlement discussions are in progress, but has not yet been finalized.

As described in Note 7 to the financial statements, the Authority is seeking reimbursement from its insurance carrier for approximately \$6.8 million for certain claims. The carrier has denied payment and coverage for the claim. A full allowance has been recorded as of June 30, 2019 in accordance with generally accepted accounting principles.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows for the year ended June 30, 2019, 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, 2019 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

The financial statements of the Authority as of and for the year ended June 30, 2018, were audited by Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP on July 22, 2019 and whose report dated May 24, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the printed name and date of the firm.

Laguna Hills, California
February 12, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019. 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 15 cities in Los Angeles and Orange Counties, ICRMA offers pooled liability and workers' compensation coverage programs. Members also group purchase property, auto physical damage, earthquake/flood, 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, 2019

Revenues	\$20.0 million	Operating revenues decreased \$2.7 million, or (12%) over the prior year. Member contributions decreased \$2.7 million due to the withdrawal of a member. No additional assessments were assessed in 2018/2019. Non-operating revenues (investment income) increased from the prior year due to market valuation on the investment portfolio and sales of several investments.
Expenses	\$35.5 million	Increased \$8.8 million (33%) over the prior year primarily as a result of \$10.1 million net increase consisting of an \$11.6 million increase in claims paid and a \$1.5 million decrease in the changes in reserves projected by the actuary during the fiscal year. The increase in claims was partly offset by a \$1.2 million decrease in excess insurance premium purchased.
Assets	\$92.0 million	Decreased \$7.1 million from the prior year largely due to a decrease in cash and cash equivalents (\$6.8 million) due to an increase in claims paid.
Liabilities	\$67.0 million	Increased \$5.3 million due to the increase of claim estimates in the Liability Program.

Description of the Basic Financial Statements

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets	\$ 13,970,036	\$ 19,527,117
Noncurrent assets	<u>78,064,166</u>	<u>79,616,358</u>
Total assets	<u>92,034,202</u>	<u>99,143,475</u>
Liabilities		
Current liabilities	13,808,804	13,262,980
Noncurrent liabilities	<u>53,180,000</u>	<u>48,410,148</u>
Total liabilities	<u>66,988,804</u>	<u>61,673,128</u>
Net position		
Unrestricted	<u>\$ 25,045,398</u>	<u>\$ 37,470,347</u>

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

Current and Non-Current Assets

2018/19 Fiscal Year

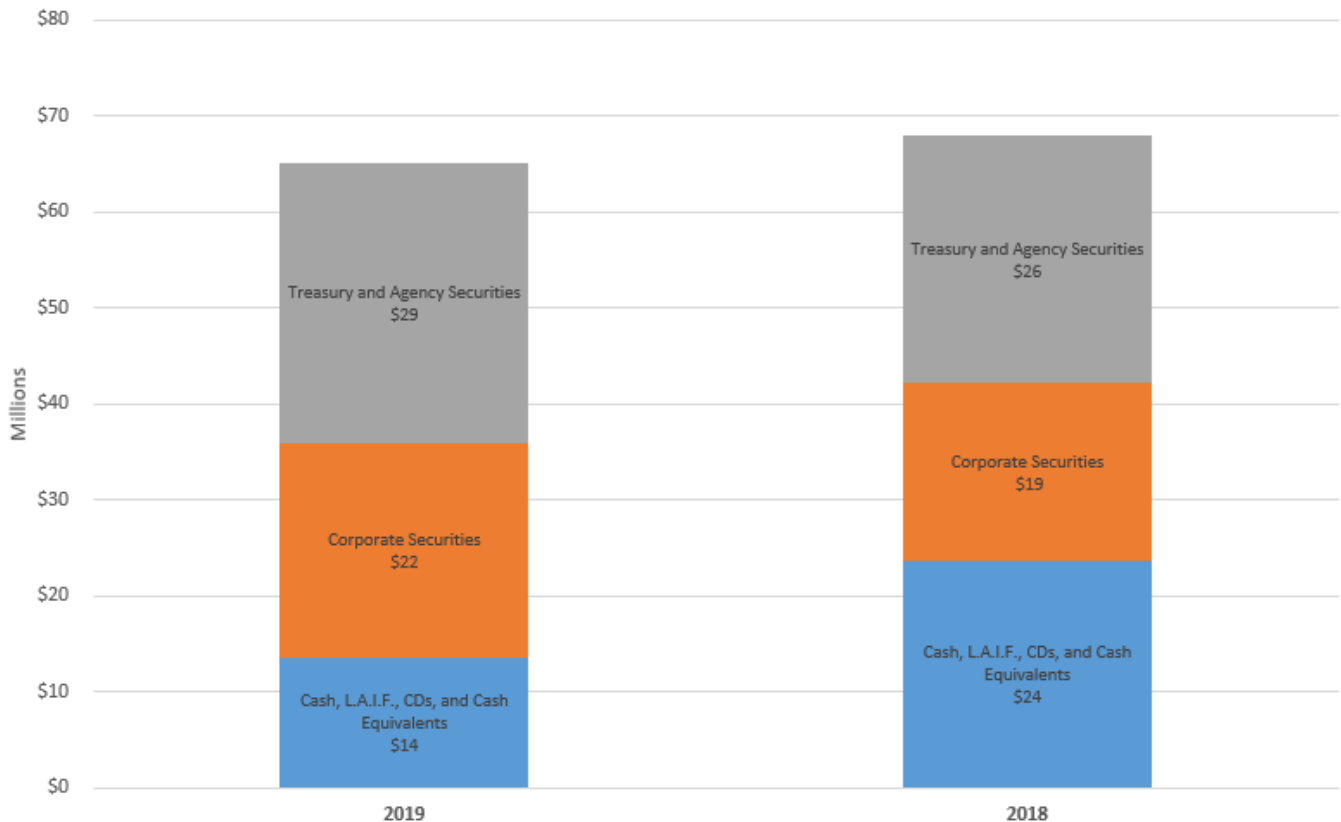
Total assets decreased approximately \$7.1 million which was driven by the decrease in cash & cash equivalents (\$6.8 million) and a decrease in the non-current assessment receivable (\$3.0 million). Liabilities increased due to the increase in claims liabilities.

Cash and Investments

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

The asset allocation at June 30, 2019, 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, 2019 and 2018:

Asset Allocation at June 30, 2019 and 2018

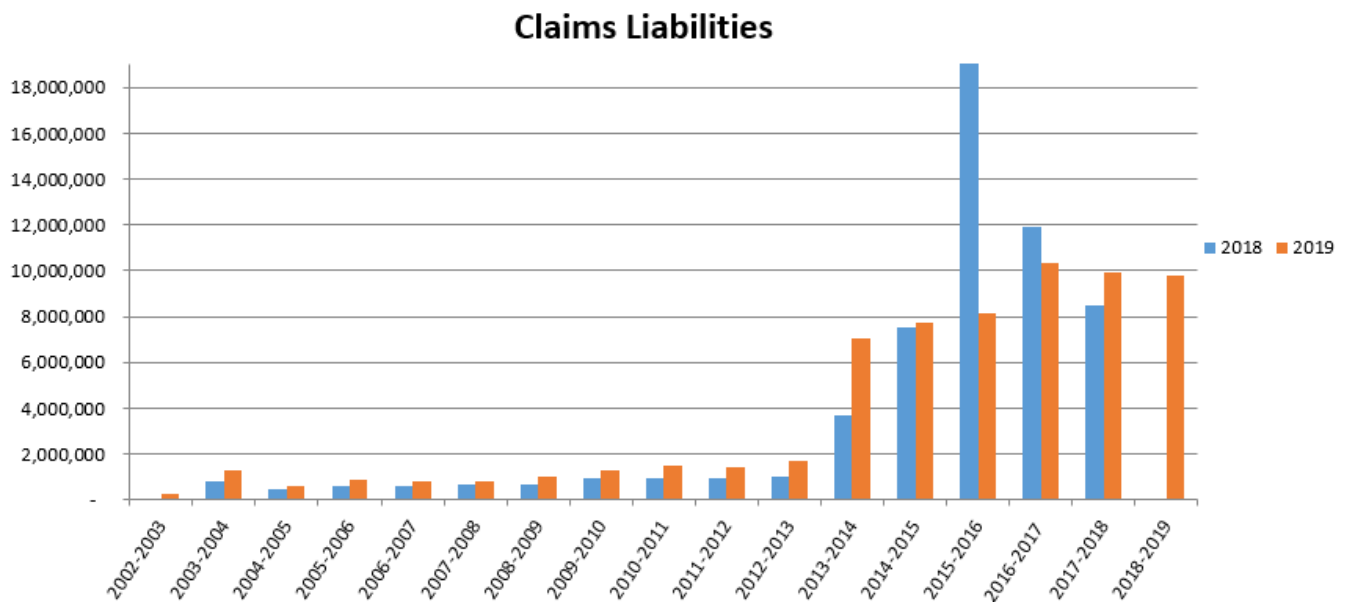


INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Current and Non-Current Liabilities

2018/19 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 \$5.5 million over the prior year. While the Liability Program claim costs showed a small decrease (6%) over the prior year, the Workers' Compensation program experienced a \$8.2 million increase in projected ultimate losses for the 2018/19 and prior fiscal years. The following chart presents a comparison of the ultimate loss estimates by program year valued at 6/30/19 and 6/30/18. As shown in the chart, the ultimate estimated claim costs decreased in several program years, of which \$65.9 million and \$60.4 million remained unpaid as of June 30, 2019 and 2018, respectively.



Revenues and Expenses

	2019	2018
Operating revenues	\$ 20,041,905	\$ 22,762,730
Operating expenses	35,517,850	26,686,635
Operating loss	(15,475,945)	(3,923,905)
Nonoperating revenues,		
Investment income	3,050,996	145,210
Change in net position	(12,424,949)	(3,778,695)
Net position, beginning of year	37,470,347	41,249,042
Net position, end of year	\$ 25,045,398	\$ 37,470,347

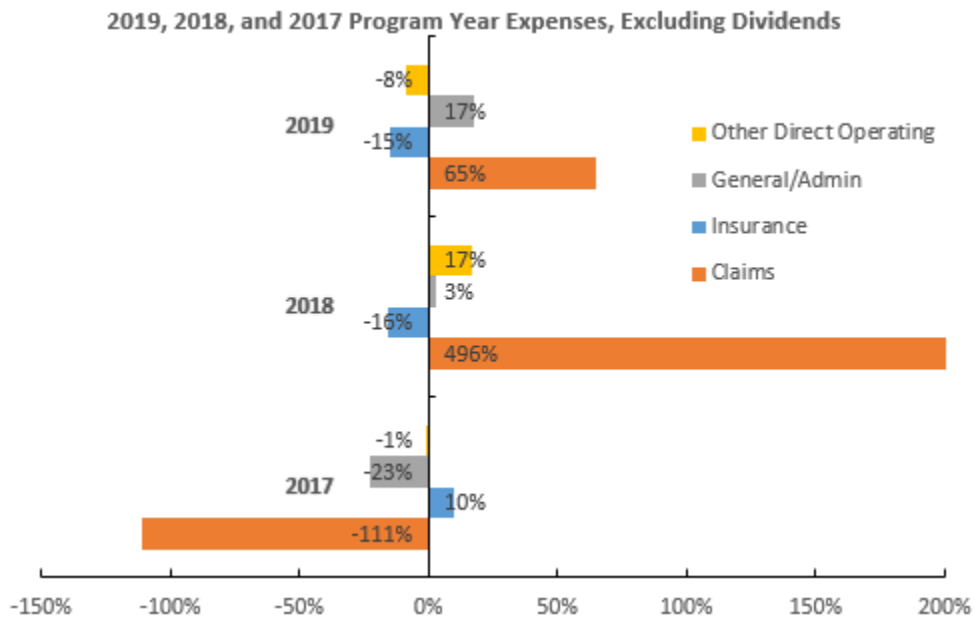
INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

2018/19 Fiscal Year

Total operating revenues decreased \$2.7 million or 12% over the prior year which was driven primarily by a decrease in member contributions. Liability and Worker’s Compensation premiums decreased by approximately 10% while the remaining programs decreased 24% over the prior year for a 12% decrease in total contributions.

Expenses increased \$8.8 million or 33% over the prior year as a result of a \$10.1 million increase in claim expenses. Professional fees, program operating expenses, regulatory assessments, and general and administrative expenses decreased 11% over the prior year primarily due to decreased insurance expense and other direct operating expenses.

The table below shows the distribution of the major expense categories for the fiscal years ended June 30, 2019 and 2018 and 2017.



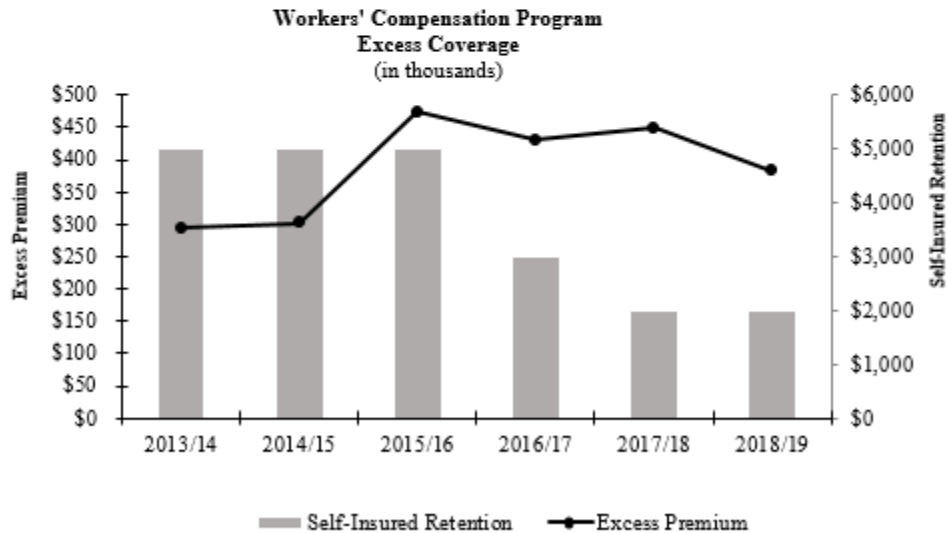
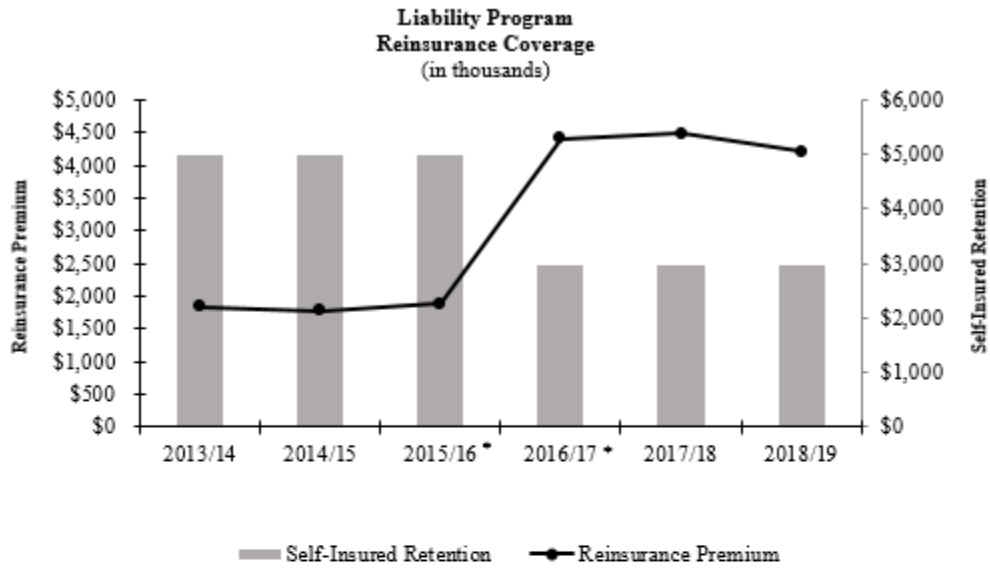
INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

Insurance Expense

ICRMA purchases liability reinsurance and workers' compensation excess insurance to cover losses in excess of its self-insured retentions of \$3 million and \$2 million respectively. The graphs below show ICRMA's historical excess insurance premiums and the respective self-insured retentions. Reinsurance premiums for both the Liability and Workers' Compensation Programs decreased slightly for the 2018/19 fiscal year.



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

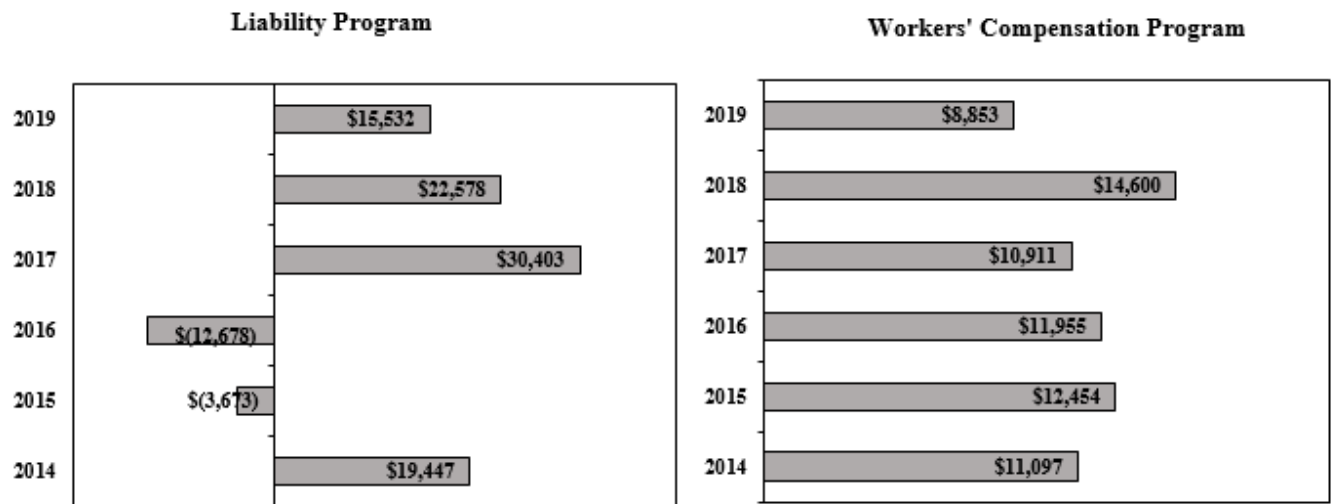
INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Net Position

The Liability Program net position was \$15.5 million at June 30, 2019, which is a decrease from the prior year net position of \$22.6 million. The Workers' Compensation net position was \$8.8 million at the end of the fiscal year, decreasing approximately \$5.7 million over the prior year due to an increase in claims liabilities based on the latest actuarial report.

The following charts display ICRMA's historical net position.

Historical Net Position
(In thousands)



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

	Liability Program		Workers' Compensation Program	
	2019	2018	2019	2018
Net contributions received	\$ 9,686,267	\$ 10,414,794	\$ 3,039,804	\$ 3,816,423
Net position as of June 30	\$ 15,531,519	\$ 22,577,805	\$ 8,853,334	\$ 14,599,622
Net contribution to net position ratio (Target: <2:1)	0.62:1	0.46:1	0.34:1	0.26:1
Net position as of June 30	\$ 15,531,519	\$ 22,577,805	\$ 8,853,334	\$ 14,599,622
Program SIR as of June 30	\$ 3,000,000	\$ 3,000,000	\$ 2,000,000	\$ 2,000,000
Net position to self-insured retention ratio (Target: >5:1)	5.18:1	7.53:1	4.43:1	7.3:1

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, pool administration staff and the Board took into account the factors that had significant potential to adversely affect the budgeted figures: primarily the claims, investment, and insurance environments. Projections for investment income took into consideration the trends in the interest income generated by ICRMA's invested cash and the resulting effect on the funding levels. Following is a brief overview of the major insurance programs and fixed income investment market.

Liability:

ICRMA's Liability Coverage. The same reinsurance partners (Safety National, Markel, Pennsylvania, and Scor) remained on the liability program.

- *\$3M self-insured retention was maintained.*
- *Public Crises Response coverage was again provided on a 1st dollar basis.*
- *\$10,000 loss control funds were offered by Safety National as well as Markel/Pennsylvania.*
- *Clash coverage intent for multiple members being involved in single occurrences was again provided by all carriers.*

Workers' Compensation

Excess Workers' Compensation Coverage. Safety National Casualty Corporation continues to be a strong partner of ICRMA.

- *\$2M self-insured retention was maintained.*
- *Risk Control Services Fund of \$10,000 provided by the carrier for pool risk control services and training*
- *Safety National provides risk control and claim service resources, a learning management system, workplace safety tools, and training to enhance safety and health programs*

Property and Auto Physical Damage:

ICRMA continued to offer a combined property and auto physical damage (APD) coverage with an element of self-insurance. The program includes \$250 million limits, \$250,000 pool deductible, and \$430,000 aggregate stop loss.

- *\$10,000 (property) and \$5,000 (APD) member deductibles*
- *Eliminated year-end audits*

Earth Movement & Flood Coverage:

Six members purchase \$100 million in earthquake/earth movement and flood coverage which is supported by a manuscript policy form which offers broader coverage than the commercial markets. Program highlights include:

- *Coverage includes landslide, mine subsidence, earth sinking/rising/shift or sinkhole collapse.*
- *Performed a Probable, Maximum Loss Study and determined \$100 million limits are appropriate*

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

Investments:

Interest rates began to reverse their upward trajectory in the first half of 2019 amid trade tensions and slowing global growth. Short-term rates (3-month and 6-month tenors) modestly increased or remained at the same level from June 2018, however, rates beyond 1-year fell by 20 to 100 basis points (0.20% to 1.00%) across the curve causing an inversion between the 3-month and 10-year. Lower growth expectations prompted the Federal Reserve to modify its stance such that its plan shifted from one of monetary tightening to one in which it will “act as appropriate to sustain the expansion.” While the Fed did not begin cutting rates until the second half of 2019, slowing economic growth, inflation below the Fed’s 2% target, and uncertainties around the economic outlook, prompted closer monitoring of economic conditions as they related to Fed policy and maintaining the current expansion. Despite elevated geopolitical risks, U.S. economic conditions remained strong with above-trend GDP growth, a healthy labor market with an unemployment rate at 3.7% as of June 2019, and strong performance in the U.S. equity market. While evaluating economic conditions and the current state of the expansion, the Federal Reserve maintained the target range of 2.25% - 2.50% through June 2019. During the fiscal year, the Federal Open Market Committee (FOMC) raised the federal funds target rate two times in second half of 2018, which represented four total hikes for calendar year 2018. Despite U.S. equities continuing to soar and economic conditions in the U.S. remaining favorable, we saw the 2-year Treasury yield fall to 1.75%, while it began the Fiscal Year at 2.53%. As interest rates fell dramatically during the fiscal year, the Fed saw it appropriate to cut rates three times in the latter half of 2019, with the third of three 0.25% cuts occurring in October 2019.

The initial rise in interest rates during the first half of the fiscal year provided opportunities to swap into higher-yielding securities. However, as rates began to reverse course, value-add opportunities were mostly found in credit securities, namely corporate notes. Among the permitted investment types, federal agency yield spreads (the differential between Treasury and federal agency yields) have remained extremely tight; as a result, the portfolio’s allocation to federal agency issues has remained relatively low. However, the portfolio’s allocation to credit (corporate notes, certificates of deposit, commercial paper, and asset-backed securities) has been additive to the performance of the portfolio. Overall, ICRMA 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, the investment advisor closely monitors current and expected market conditions for investment opportunities consistent with ICRMA’s long-term investment objectives. Furthermore, all investments are carefully analyzed and monitored to evaluate possible risks and to ensure that the portfolio remains in compliance with the Government Code and ICRMA’s investment policy.

Request for Information:

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

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

BASIC FINANCIAL STATEMENTS

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2019

(With comparative totals for June 30, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,033,225	\$ 12,841,989
Investments	4,251,972	2,875,500
Accounts Receivable	266,927	314,408
Assessment Receivable, Current Portion	3,045,204	3,045,223
Interest Receivable	345,839	368,011
Prepaid Expenses	26,869	81,986
Total Current Assets	<u>13,970,036</u>	<u>19,527,117</u>
Noncurrent Assets:		
Investments	54,702,913	53,209,901
Assessment Receivable	23,361,253	26,406,457
Total Noncurrent Assets	<u>78,064,166</u>	<u>79,616,358</u>
Total Assets	<u>92,034,202</u>	<u>99,143,475</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,056,804	1,265,980
Claims Payable - Current Portion	12,752,000	11,997,000
Total Current Liabilities	<u>13,808,804</u>	<u>13,262,980</u>
Noncurrent Liabilities:		
Claims Payable - Long-term Portion	53,180,000	48,410,148
Total Noncurrent Liabilities	<u>53,180,000</u>	<u>48,410,148</u>
Total Liabilities	<u>66,988,804</u>	<u>61,673,128</u>
NET POSITION		
Net Position - Unrestricted	<u>\$ 25,045,398</u>	<u>\$ 37,470,347</u>

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Member premiums	\$ 20,041,905	22,762,730
Total Operating Revenues	<u>20,041,905</u>	<u>22,762,730</u>
OPERATING EXPENSES		
Claims expense	25,632,095	15,553,115
Insurance expense	6,576,355	7,740,042
Broker fees	169,935	266,667
Claims administration	1,215,377	446,105
CA division of workers comp. assessment	-	884,004
Structured return to work program	-	50,375
Program administration	1,017,800	973,947
General & administrative expense	906,288	772,380
Total Operating Expenses	<u>35,517,850</u>	<u>26,686,635</u>
Operating (Loss)	(15,475,945)	(3,923,905)
NONOPERATING REVENUES:		
Investment income	<u>3,050,996</u>	<u>145,210</u>
Change in Net Position	(12,424,949)	(3,778,695)
Beginning Net Position	<u>37,470,347</u>	<u>41,249,042</u>
Ending Net Position	<u>\$ 25,045,398</u>	<u>37,470,347</u>

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

(With comparative totals for year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash Received from Members for Deposit Premiums	\$ 23,087,109	\$ 29,483,488
Cash Payments to Suppliers for Services	(8,426,936)	(10,007,035)
Cash Payments Relating to Claims and Claim Administration	(21,672,620)	(9,289,207)
	<u>(7,012,447)</u>	<u>10,187,246</u>
Cash Flows from Investing Activities:		
Purchases of Investments	(54,057,379)	(85,532,904)
Proceeds from Investment Sales and Maturities	53,310,654	77,631,177
Interest Income Received	950,408	1,085,188
	<u>203,683</u>	<u>(6,816,539)</u>
Net Cash Provided By (Used In) For Investing Activities		
	(6,808,764)	3,370,707
Cash and Cash Equivalents, Beginning of Year	<u>12,841,989</u>	<u>9,471,282</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,033,225</u>	<u>\$ 12,841,989</u>
Reconciliation of Operating (Loss) to Net Cash Provided By (Used In) Operating Activities:		
Operating (loss)	\$ (15,475,945)	\$ (3,923,905)
Adjustment to net cash used by operating activities:		
(Increase) Decrease in Accounts/Assessment Receivable	3,092,704	6,591,414
(Increase) Decrease in Prepaid Expenses	55,118	30,996
(Decrease) Increase in Accounts Payable	(209,176)	1,128,728
(Decrease) Increase in Claims Payable	5,524,852	6,360,013
	<u>(7,012,447)</u>	<u>10,187,246</u>
Unrealized gain (loss) in market values of investments	<u>\$ 1,850,156</u>	<u>\$ (708,468)</u>

See accompanying notes to financial statements.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, there were 15 participating members. ICRMA was created to provide risk treatment programs to protect its members, their officers and employees, and property against unavoidable losses through pooling of losses, self-insurance and purchasing insurance. ICRMA is governed by a Governing Board of Directors, consisting of one voting member appointed by each member agency.

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

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

A. MEMBERSHIP

As of June 30, 2019 membership and selected retained limits were as follows:

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

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. GENERAL INFORMATION (continued)

B. ADMISSION AND WITHDRAWAL OF MEMBERS

Admission

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

Withdrawal

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

C. DESCRIPTION OF PROGRAMS

Liability Program

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

July 1, 2018 to June 30, 2019

Member Retentions:	Ranges from \$250,000 to \$8,000,000
ICRMA's Retention:	\$3,000,000 less the Member Retention
Reinsurance:	\$30,000,000 excess of \$3,000,000

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

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.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2018 to June 30, 2019

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

Within ICRMA's retention, a risk sharing pool arrangement has been established whereby each member selects its own self-insured retention level from \$350,000 to \$1,000,000. Each member of ICRMA then assumes its own losses up to its selected retention. Any losses between its retention and \$2,000,000 are shared by participating members. A commercial insurance company provides coverage in excess of ICRMA's retained limit up to statutory limits. Nine members participated in the Workers' Compensation Program during the fiscal year ended June 30, 2019.

Property/Auto Physical Damage (APD) Programs

ICRMA's property/APD program began providing coverage July 1, 2018. The program includes \$250 million limits, a \$250,000 pool deductible, and a \$430,000 aggregate stop loss. Member deductibles are \$10,000 for property and \$5,000 for auto physical damage. The property program also includes boiler and machinery coverage.

Earthquake and Flood, Crime, & Cyber Programs

ICRMA also provides its members Earthquake and Flood, Crime, and Cyber Programs. These are group purchased, non-risk sharing, fully insured all-risk programs. Program deductibles are the individual member's responsibility.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus

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

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

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

C. Reporting Entity

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

D. Operating Revenues and Expenses

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

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Investments

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

F. Cash and Cash Equivalents

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

G. Accounts Receivable

As of June 30, 2019, ICRMA reported \$266,927 of receivables related to amounts due from members and former members for various adjustments and interest and/or penalties on assessments.

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

H. Contributions and Assessments

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

J. Unallocated Loss Adjustment Expense

The liability for unallocated loss adjustment expense (ULAE) includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. The estimate has been calculated by ICRMA's actuary. As of June 30, 2019 and 2018, the ULAE was \$1,141,922 and \$1,193,052, respectively.

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 70% confidence level for the Liability Program and the 75% confidence level for the Workers' Compensation program. This is a change from the June 30, 2018 statements, which reflected 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) 75% confidence level for the Workers' Compensation Program self-insured layer from the members' retained limit to \$2 million.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 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:

	<u>2019</u>	<u>2018</u>
Cash Per Bank Statement	2,270,400	\$ 2,307,742
Less: Outstanding Checks	<u>(309,516)</u>	<u>(388,440)</u>
Balance Per Books	1,960,884	1,919,302
LAIF	<u>4,072,341</u>	<u>10,922,687</u>
Total Cash and Cash Equivalents	<u><u>6,033,225</u></u>	<u><u>12,841,989</u></u>

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.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. CASH AND INVESTMENTS (continued)

Local Agency Investment Fund

ICRMA is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of ICRMA's investment in this pool is reported in the accompanying financial statements based upon ICRMA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio), is not subject to fair value hierarchy and therefore unclassified. 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 2.43% interest annually and has a weighted average to maturity of 173 days. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

<u>Investment Types</u> <u>Authorized by State Law</u>	<u>Authorized</u> <u>By Investment</u> <u>Policy</u>	<u>*Maximum</u> <u>Maturity</u>	<u>*Maximum</u> <u>Percentage</u> <u>Of Portfolio</u>	<u>*Maximum</u> <u>Investment</u> <u>In One Issuer</u>
Municipal Bonds	Yes	5 Years	30%	None
U.S. Treasury Obligations	Yes	5 Years	None	None
U.S. Agency Securities	Yes	5 Years**	None	None
Banker's Acceptance	Yes	180 Days	40%	20%
Commercial Paper	Yes	270 Days	25%	10%
Certificate of Deposit	Yes	5 Years	30%	None
Repurchase Agreements	Yes	30 Days	None	None
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Corporate Notes	Yes	5 Years	30%	None
Supranational Debt	Yes	5 Years	30%	None
Asset Backed Securities	Yes	5 Years	20%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	\$65M	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

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

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019:

Interest Rate Risk	Fair Value	Remaining Maturity (in months)			
		12 months or less	13 to 24 months	25 to 60 months	61 months or more*
U.S. Treasury Notes	\$ 20,306,786	\$ -	\$ -	\$ 20,306,786	\$ -
Supranational Debentures	2,169,045	-	503,534	1,665,511	-
Asset Backed Securities	5,126,247	1,232	366,326	4,758,689	-
U.S. Agency Securities	6,041,140	4,773	450,918	5,355,034	230,415
Medium Term Corporate Notes	17,171,219	1,478,293	6,532,025	9,160,901	-
Municipal Bond	594,132	-	594,132	-	-
Certificate of Deposit	7,252,137	2,473,494	4,778,643	-	-
Money Market Mutual Funds	294,179	294,179	-	-	-
Total	\$ 58,954,885	\$ 4,251,971	\$ 13,225,578	\$ 41,246,921	\$ 230,415

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

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 Home Loan Banks	U.S. Agency Securities	\$ 3,507,778	6%

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Credit Risk	Amount	Ratings as of Year End	Minimum Legal Rating
U.S. Treasury Notes	\$ 20,306,786	Exempt	n/a
Supranational Debentures	2,169,045	AAA	AA
Asset Backed Securities *	5,126,247	AAA	AA
U.S. Agency Securities	6,041,140	AA+ or Better	AA
Medium Term Corporate Notes **	12,655,512	A or Better	A
Medium Term Corporate Notes	3,983,970	A-	A
Medium Term Corporate Notes ***	531,737	BBB+	A
Municipal Bond	594,132	AA-	n/a
Certificate of Deposit	7,252,137	A or Better	A
Money Market Mutual Funds	294,179	AAA	n/a
Total	\$ 58,954,885		

* \$1,851,528 of securities are rated as Aaa by Moody's, but not rated by S&P.

** \$2,010,420 of securities are rated as A by Fitch, but rated BBB+ by S&P.
\$500,445 of securities are rated as A by Fitch, but rated BBB by S&P.

*** The security was downgraded by S&P from A to BBB+ on 10/2/18, and matured on 8/7/2019.

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.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019 are as follows:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	\$ -	\$ 20,306,786	\$ -	\$ 20,306,786
Supranational Debentures	-	2,169,045	-	2,169,045
Asset Backed Securities	-	5,126,247	-	5,126,247
U.S. Agency Securities	-	6,041,140	-	6,041,140
Medium Term Corporate Notes	-	17,171,219	-	17,171,219
Municipal Bond	-	594,132	-	594,132
Certificate of Deposit	-	7,252,137	-	7,252,137
Total	<u>\$ -</u>	<u>\$ 58,660,706</u>	<u>\$ -</u>	<u>\$ 58,660,706</u>

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

4. ASSESSMENT RECEIVABLE

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

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

During the year ended June 30, 2019, payments of \$3,045,204 were made from the members related to the multi-year payment plans. As of June 30, 2019, \$26,406,457 was due from the members for the remaining balances of these assessments, including \$2,044,670 from the City of Redondo Beach. No allowance for uncollectable amounts has been recorded regarding the City of Redondo Beach's balance as ICRMA deems these amounts collectible. The City of Redondo Beach has also accrued \$245,360 in penalties and interest as of June 30, 2019 related to the unpaid assessment.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019.

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. As described in Note 2, ICRMA changed the confidence levels from a central estimate for 2018, to a 70% confidence level for general liability program and 75% confidence level for the workers' compensation program. The following represents the changes in the claims liabilities for the years ended June 30, 2019 and 2018:

	2019	2018
Unpaid claims and claims adjustment expenses at beginning of fiscal year	60,407,148	54,047,135
Incurred claim and claims adjustment expenses:		
Provision for insured events of the current fiscal year	8,140,357	8,454,258
Increase (decrease) in provision for insured events of prior fiscal years	17,575,027	6,621,816
Total incurred claims and claims adjustment expenses	25,715,384	15,076,074
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	20,190,532	8,716,061
Total payments	20,190,532	8,716,061
Total unpaid claims and claim adjustment expenses at end of fiscal year	65,932,000	60,407,148
Claims reserves	25,872,012	29,018,287
Claims incurred but not reported (IBNR)	38,918,066	30,195,809
Unallocated loss adjustment expenses (ULAE)	1,141,922	1,193,052
Total	65,932,000	60,407,148
Current Portion	12,752,000	11,997,000
Noncurrent Portion	53,180,000	48,410,148
Total Claims Liabilities	65,932,000	60,407,148

As of June 30, 2019 and 2018, the undiscounted unpaid claims and claims adjustment expenses were \$73,248,000 and \$67,116,403, respectively.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

7. CONTINGENCIES

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

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

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

As a result of the responsibility being assessed 100% to one member, ICRMA is seeking reimbursement from its carrier for the \$10 million x \$10 million coverage layer in accordance with the claim allocation. This amounts to approximately \$6,853,066 due from the carrier, and was reflected as a receivable by ICRMA as of June 30, 2019. However, the carrier has denied payment and coverage for this claim, and has subsequently filed a lawsuit. In accordance with generally accepted accounting principles, although ICRMA believes the amounts are collectible based on the terms of the reinsurance agreement, a full allowance has been recorded for \$6,853,066 to offset the receivable as it has not been realized as of June 30, 2019. As a result, no amounts are reflected in the financial statements (income related to the receivable is offset by the expense related to allowance).

8. RELATED PARTY TRANSACTION

ICRMA's finance team, Artex, and executive management, Risk Pool Administrators (RPA), are subsidiaries of Arthur J. Gallagher & Co., who is ICRMA's insurance broker. Artex and RPA approve payments to be made to Artex, RPA, and Arthur J. Gallagher. ICRMA paid \$210,000 to Artex for financial administration services, \$956,800 to RPA for program administration fees, and \$169,936 to Arthur J. Gallagher for insurance brokerage fees in fiscal year 2018/2019.

9. SUBSEQUENT EVENTS

Effective July 1, 2019, the City of Baldwin Park withdrew from ICRMA for the 2019/2020 policy year. As of July 1, 2019 the City of Santa Ana and City of Adelanto joined ICRMA for the policy year 2019/2020.

In January 2020, for the suit between ICRMA and the City of Redondo Beach, the trial date of January 6, 2020 was vacated pending a final settlement. As of the date of the audit report, no final settlement has been reached.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
RECONCILIATION OF CLAIM LIABILITY BY PROGRAM
FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2019 (In Thousands)

	General Liability		Workers' Compensation		Total	
	2019	2018	2019	2018	2019	2018
Unpaid loss and loss adjustment expenses at beginning of year beginning of the year	\$ 45,840,160	\$ 37,546,255	\$ 14,566,988	\$ 16,500,880	\$ 60,407,148	\$ 54,047,135
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	6,991,701	6,904,200	1,148,656	1,550,058	8,140,357	8,454,258
Provision for insured events of prior years	10,168,572	9,837,327	7,406,455	(3,215,511)	17,575,027	6,621,816
Total incurred loss and loss adjustment expenses	17,160,273	16,741,527	8,555,111	(1,665,453)	25,715,384	15,076,074
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	19,800,433	8,447,622	390,099	268,439	20,190,532	8,716,061
Total payments of loss and loss adjustment expenses	19,800,433	8,447,622	390,099	268,439	20,190,532	8,716,061
Unpaid loss and loss adjustment expenses at end of year	\$ 43,200,000	\$ 45,840,160	\$ 22,732,000	\$ 14,566,988	\$ 65,932,000	\$ 60,407,148
Reserve for known claims	\$ 18,517,660	\$ 25,757,590	\$ 7,354,352	\$ 3,260,697	\$ 25,872,012	\$ 29,018,287
Reserve for incurred but not reported (IBNR)	23,806,269	18,964,518	15,111,797	11,231,291	38,918,066	30,195,809
Reserve for unallocated loss adjustment expenses (ULAE)	876,071	1,118,052	265,851	75,000	1,141,922	1,193,052
Total claims payable as of end of year	\$ 43,200,000	\$ 45,840,160	\$ 22,732,000	\$ 14,566,988	\$ 65,932,000	\$ 60,407,148

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
CLAIMS DEVELOPMENT INFORMATION – LIABILITY PROGRAM
FOR THE TEN FISCAL YEAR ENDED JUNE 30, 2019 (In Thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
1. Contributions and investment income:										
Earned	\$ 9,005	\$ 11,691	\$ 11,126	\$ 10,499	\$ 11,665	\$ 12,367	\$ 15,448	\$ 16,260	\$ 15,074	\$ 15,560
Assessment	-	-	4,150	13,620	16,940	1,239	-	-	-	-
Ceded	(1,548)	(4,074)	(2,149)	(1,846)	(1,771)	(1,891)	(2,442)	(4,414)	(4,479)	(4,207)
Net earned and investment income	7,457	7,617	13,127	22,273	26,834	11,715	13,006	11,846	10,595	11,353
2. Unallocated expenses	1,261	1,278	1,124	1,050	1,119	1,146	1,415	1,385	1,328	1,589
3. Estimated incurred claims and expenses, end of policy year	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400	7,383
4. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	7	21	454	1,602	4,802	-	-	297	-	-
Two years later	29	386	4,806	2,689	15,569	352	3,547	3,023	-	-
Three years later	48	3,858	5,974	12,110	18,730	1,350	12,815	-	-	-
Four years later	1,515	4,323	8,729	16,714	13,162	9,285	-	-	-	-
Five years later	2,533	4,324	8,827	18,964	20,388	-	-	-	-	-
Six years later	1,334	5,634	8,846	18,395	-	-	-	-	-	-
Seven years later	1,334	5,635	8,963	-	-	-	-	-	-	-
Eight years later	1,382	5,636	-	-	-	-	-	-	-	-
Nine years later	1,383	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	5,501	209	2,808	403	15,296	-	3,872	-	-	-
6. Reestimated claims and expenses:										
End of policy year	4,647	6,247	6,112	6,893	13,687	8,982	10,716	11,500	7,400	7,383
One year later	5,156	3,995	5,871	6,427	26,216	10,887	9,840	11,000	7,298	-
Two years later	2,348	6,037	5,689	11,997	25,707	7,190	23,000	10,437	-	-
Three years later	2,278	5,840	8,188	21,612	22,510	8,100	18,359	-	-	-
Four years later	2,081	5,059	11,419	20,980	15,500	14,232	-	-	-	-
Five years later	2,911	5,062	10,145	18,964	25,355	-	-	-	-	-
Six years later	4,985	5,730	8,870	18,495	-	-	-	-	-	-
Seven years later	1,810	5,750	9,044	-	-	-	-	-	-	-
Eight years later	1,470	5,882	-	-	-	-	-	-	-	-
Nine years later	1,383	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of year	\$ (3,264)	\$ (365)	\$ 2,932	\$ 11,602	\$ 11,668	\$ 5,250	\$ 7,643	\$ (1,063)	\$ (102)	\$ -

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, 2019 (In Thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
1. Contributions and investment income:										
Earned	3,916	4,226	2,865	3,017	3,879	4,121	3,786	4,092	4,231	4,807
Ceded	(415)	(402)	(311)	(294)	(302)	(473)	(365)	(430)	(449)	(383)
Net earned and investment income	3,501	3,824	2,554	2,723	3,577	3,648	3,421	3,662	3,782	4,424
2. Unallocated expenses	1,136	1,134	994	1,283	1,322	1,378	1,524	1,347	1,759	1,615
3. Estimated incurred claims and expenses, end of policy year	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110	1,394
4. Paid (cumulative) as of:										
End of policy year	-	199	-	-	-	-	-	-	-	-
One year later	-	400	-	-	-	-	-	-	-	-
Two years later	-	432	151	5	-	-	-	-	-	-
Three years later	-	519	299	14	-	-	-	-	-	-
Four years later	2	656	467	14	-	-	-	-	-	-
Five years later	2	1,130	1,594	99	-	-	-	-	-	-
Six years later	2	1,130	1,551	73	-	-	-	-	-	-
Seven years later	2	1,189	1,591	-	-	-	-	-	-	-
Eight years later	2	1,192	-	-	-	-	-	-	-	-
Nine years later	14	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
6. Reestimated claims and expenses:										
End of policy year	942	1,452	2,000	1,727	1,880	1,969	2,409	3,072	2,110	1,394
One year later	745	2,539	1,372	1,605	1,806	1,913	3,111	2,390	1,559	-
Two years later	1,196	2,114	1,322	1,237	1,626	2,402	1,900	1,871	-	-
Three years later	1,372	3,049	1,945	1,547	2,109	1,560	1,824	-	-	-
Four years later	790	2,012	1,886	1,869	1,550	2,067	-	-	-	-
Five years later	787	2,424	2,608	1,460	1,516	-	-	-	-	-
Six years later	756	2,260	2,810	1,497	-	-	-	-	-	-
Seven years later	1,106	2,320	2,810	-	-	-	-	-	-	-
Eight years later	1,130	2,320	-	-	-	-	-	-	-	-
Nine years later	1,158	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated incurred claims and expenses from end of year	<u>\$ 216</u>	<u>\$ 868</u>	<u>\$ 810</u>	<u>\$ (230)</u>	<u>\$ (364)</u>	<u>\$ 98</u>	<u>\$ (585)</u>	<u>\$ (1,201)</u>	<u>\$ (551)</u>	<u>\$ -</u>

See notes to required supplementary information.

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

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, 2019

ASSETS	Auto							Total
	Liability	Workers' Compensation	Property	Physical Damage	Crime	Cyber	Earthquake/ Flood	
Current Assets:								
Cash and Cash Equivalents	\$ 3,126,876	\$ 2,256,066	\$ 613,443	\$ (9,723)	\$ 1,483	\$ (2,852)	\$ 47,932	\$ 6,033,225
Investments	2,140,022	2,111,950	-	-	-	-	-	4,251,972
Accounts Receivable	240,029	9,962	11,430	5,506	-	-	-	266,927
Assessment Receivable, Current Portion	3,045,204	-	-	-	-	-	-	3,045,204
Interest Receivable	218,079	127,760	-	-	-	-	-	345,839
Prepaid Expenses	14,578	10,078	419	-	119	119	1,556	26,869
Total Current Assets	<u>8,784,788</u>	<u>4,515,816</u>	<u>625,292</u>	<u>(4,217)</u>	<u>1,602</u>	<u>(2,733)</u>	<u>49,488</u>	<u>13,970,036</u>
Noncurrent Assets:								
Investments	27,532,032	27,170,881	-	-	-	-	-	54,702,913
Assessment Receivable	23,361,253	-	-	-	-	-	-	23,361,253
Total Noncurrent Assets	<u>50,893,285</u>	<u>27,170,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,064,166</u>
Total Assets	<u>59,678,073</u>	<u>31,686,697</u>	<u>625,292</u>	<u>(4,217)</u>	<u>1,602</u>	<u>(2,733)</u>	<u>49,488</u>	<u>92,034,202</u>
LIABILITIES								
Current Liabilities:								
Accounts Payable	946,554	101,363	7,101	-	357	357	1,072	1,056,804
Claims Payable - Current Portion	10,254,000	2,498,000	-	-	-	-	-	12,752,000
Total Current Liabilities	<u>11,200,554</u>	<u>2,599,363</u>	<u>7,101</u>	<u>-</u>	<u>357</u>	<u>357</u>	<u>1,072</u>	<u>13,808,804</u>
Noncurrent Liabilities:								
Claims Payable - Long-term Portion	32,946,000	20,234,000	-	-	-	-	-	53,180,000
Total Liabilities	<u>44,146,554</u>	<u>22,833,363</u>	<u>7,101</u>	<u>-</u>	<u>357</u>	<u>357</u>	<u>1,072</u>	<u>66,988,804</u>
NET POSITION								
Net Position - Unrestricted (deficit)	<u>\$ 15,531,519</u>	<u>\$ 8,853,334</u>	<u>\$ 618,191</u>	<u>\$ (4,217)</u>	<u>\$ 1,245</u>	<u>\$ (3,090)</u>	<u>\$ 48,416</u>	<u>\$ 25,045,398</u>

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Property</u>	<u>Auto Physical Damage</u>	<u>Crime</u>	<u>Cyber</u>	<u>Earthquake/ Flood</u>	<u>Total</u>
OPERATING REVENUES:								
Member Premiums	\$ 13,893,267	\$ 3,422,708	\$ 1,041,629	\$ -	\$ 31,658	\$ 68,594	\$ 1,584,049	\$ 20,041,905
Total Operating Revenues	<u>13,893,267</u>	<u>3,422,708</u>	<u>1,041,629</u>	<u>-</u>	<u>31,658</u>	<u>68,594</u>	<u>1,584,049</u>	<u>20,041,905</u>
EXPENSES:								
Claims expense	16,810,273	8,555,111	266,711	-	-	-	-	25,632,095
Insurance Expense	4,207,000	382,904	490,195	-	21,031	57,967	1,417,258	6,576,355
Broker Fees	79,870	79,870	1,699	-	1,699	1,699	5,098	169,935
Claims Administration	231,000	952,837	31,540	-	-	-	-	1,215,377
CA Division of Workers Comp. Assessment	-	-	-	-	-	-	-	-
Structured Return To Work Program	-	-	-	-	-	-	-	-
Program Administration	513,715	271,865	108,993	-	6,331	6,331	110,565	1,017,800
General & Administrative Expense	764,761	310,339	(188,171)	14,828	906	906	2,719	906,288
Total Expenses	<u>22,606,619</u>	<u>10,552,926</u>	<u>710,967</u>	<u>14,828</u>	<u>29,967</u>	<u>66,903</u>	<u>1,535,640</u>	<u>35,517,850</u>
Operating Income (Loss)	(8,713,352)	(7,130,218)	330,662	(14,828)	1,691	1,691	48,409	(15,475,945)
NONOPERATING REVENUES:								
Investment Income	<u>1,667,066</u>	<u>1,383,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,050,996</u>
Change in Net Position	(7,046,286)	(5,746,288)	330,662	(14,828)	1,691	1,691	48,409	(12,424,949)
Net Position, Beginning of Year (deficit)	<u>22,577,805</u>	<u>14,599,622</u>	<u>287,529</u>	<u>10,611</u>	<u>(446)</u>	<u>(4,781)</u>	<u>7</u>	<u>37,470,347</u>
Net Position, End of Year (deficit)	<u>\$ 15,531,519</u>	<u>\$ 8,853,334</u>	<u>\$ 618,191</u>	<u>\$ (4,217)</u>	<u>\$ 1,245</u>	<u>\$ (3,090)</u>	<u>\$ 48,416</u>	<u>\$ 25,045,398</u>

INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Property</u>	<u>Auto Physical Damage</u>	<u>Crime</u>	<u>Cyber</u>	<u>Earthquake/ Flood</u>	<u>Total</u>
Cash Flows from Operating Activities:								
Cash Received from Members for Deposit Premiums	\$ 16,938,471	\$ 3,422,708	\$ 1,041,629	\$ -	\$ 31,658	\$ 68,594	\$ 1,584,049	\$ 23,087,109
Cash Payments to Suppliers for Services	(5,466,336)	(992,176)	(319,332)	17,426	(31,729)	(68,665)	(1,566,124)	(8,426,936)
Cash Payments Relating to Claims and Claim Administration	(20,031,433)	(1,342,936)	(298,251)	-	-	-	-	(21,672,620)
Net Cash Provided By (Used For) Operating Activities	<u>(8,559,298)</u>	<u>1,087,596</u>	<u>424,046</u>	<u>17,426</u>	<u>(71)</u>	<u>(71)</u>	<u>17,925</u>	<u>(7,012,447)</u>
Cash Flows from Investing Activities:								
Purchases of Investments	(28,650,411)	(25,406,968)	-	-	-	-	-	(54,057,379)
Proceeds from Investment Sales and Maturities	28,254,646	25,056,008	-	-	-	-	-	53,310,654
Interest Income Received	574,055	376,353	-	-	-	-	-	950,408
Net Cash Provided By Investing Activities	<u>178,290</u>	<u>25,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,683</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,381,008)	1,112,989	424,046	17,426	(71)	(71)	17,925	(6,808,764)
Cash and Cash Equivalents, Beginning of Year	<u>11,507,884</u>	<u>1,143,077</u>	<u>189,397</u>	<u>(27,149)</u>	<u>1,554</u>	<u>(2,781)</u>	<u>30,007</u>	<u>12,841,989</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,126,876</u>	<u>\$ 2,256,066</u>	<u>\$ 613,443</u>	<u>\$ (9,723)</u>	<u>\$ 1,483</u>	<u>\$ (2,852)</u>	<u>\$ 47,932</u>	<u>\$ 6,033,225</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:								
Operating income (loss)	\$ (8,713,352)	\$ (7,130,218)	\$ 330,662	\$ (14,828)	\$ 1,691	\$ 1,691	\$ 48,409	\$ (15,475,945)
Adjustment to net cash used by operating activities:								
(Increase) Decrease in Accounts/Assessment Receivable	2,919,594	111,906	28,950	32,254	-	-	-	3,092,704
(Increase) Decrease in Prepaid Expenses	36,415	(25,084)	79,581	-	(2,119)	(2,119)	(31,556)	55,118
(Decrease) Increase in Accounts Payable	(161,795)	(34,020)	(15,147)	-	357	357	1,072	(209,176)
(Decrease) Increase in Claims Payable	(2,640,160)	8,165,012	-	-	-	-	-	5,524,852
Net Cash Provided By (Used For) Operating Activities	<u>\$ (8,559,298)</u>	<u>\$ 1,087,596</u>	<u>\$ 424,046</u>	<u>\$ 17,426</u>	<u>\$ (71)</u>	<u>\$ (71)</u>	<u>\$ 17,925</u>	<u>\$ (7,012,447)</u>
Unrealized gain (loss) in market values of investments	<u>\$ 980,583</u>	<u>\$ 869,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,850,156</u>