

Washington State Auditor's Office
Financial Statements Audit Report

**Cities Insurance Association of
Washington
Grant County**

Audit Period
September 1, 2011 through August 31, 2012

Report No. 1010328

Issue Date
August 26, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

August 26, 2013

Board of Directors
Cities Insurance Association of Washington
Ephrata, Washington

Report on Financial Statements

Please find attached our report on the Cities Insurance Association of Washington's financial statements.

We are issuing this report in order to provide information on the Pool's financial condition.

Sincerely,

**TROY KELLEY
STATE AUDITOR**

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Grant County
September 1, 2011 through August 31, 2012**

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Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**Cities Insurance Association of Washington
Grant County
September 1, 2011 through August 31, 2012**

Board of Directors
Cities Insurance Association of Washington
Ephrata, Washington

We have audited, 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, the financial statements of the Cities Insurance Association of Washington, Grant County, Washington, as of and for the year ended August 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated August 2, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

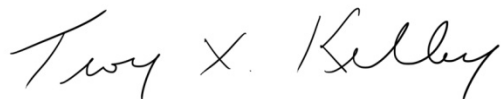
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of the Pool's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

August 2, 2013

Independent Auditor's Report on Financial Statements

Cities Insurance Association of Washington Grant County September 1, 2011 through August 31, 2012

Board of Directors
Cities Insurance Association of Washington
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Cities Insurance Association of Washington, Grant County, Washington, as of and for the year ended August 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 6.

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 Pool'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 Pool'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 Cities Insurance Association of Washington, as of August 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As disclosed in Note 6 and Note 13, the Pool did not meet regulatory solvency requirements as of August 31, 2012, and is currently operating under a funding plan that was approved by the Risk Management Division of the Washington State Department of Enterprise Services. This funding plan was required as part of a Cease and Desist order issued by the Pool's regulator on January 14, 2010, for operating in an unsafe financial condition, due to the level of claims paid and accrued, and an insufficient amount of member premiums collected. The funding plan and related settlement agreement require the Pool to collect \$968,214 over a five-year period from cities that were members in policy years 2003 through 2007. The Pool continued to collect these funds during its 2012 fiscal year. The remaining balance to collect, as of August 31, 2012, was \$591,186.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 9 and claims development information on pages 23 through 24 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The T-1 List of Participating Members and T-2 Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2013 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

August 2, 2013

Financial Section

**Cities Insurance Association of Washington
Grant County
September 1, 2011 through August 31, 2012**

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CITIES INSURANCE ASSOCIATION OF WASHINGTON

Management's Discussion and Analysis
September 1, 2011 through August 31, 2012

The management of the Cities Insurance Association of Washington (CIAW) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the CIAW for the fiscal year ending August 31, 2012. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

Overview of the Financial Statements

The Balance Sheet presents information on the CIAW's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the program is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Assets shows both operating and nonoperating revenues and expenses that occurred during the year. The difference between revenues and expenses is reported as a change to net assets. Items are reported as the event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows provides information on how various activities of the program affect cash and cash equivalents during the fiscal year.

The Notes to the Financial Statements present additional information that is essential for a full understanding of the data provided in the accompanying financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the program's development of claims over the last ten years.

CIAW - Condensed Financial Information

	2012	2011
Current Assets	\$4,037,870	\$1,686,029
Noncurrent Assets	\$552,227	\$774,938
Total Assets	<u>\$4,590,097</u>	<u>\$2,460,968</u>
Current Liabilities	\$3,530,589	\$3,163,551
Noncurrent Liabilities	\$1,995,496	\$41,315
Total Liabilities	<u>\$5,526,085</u>	<u>\$3,204,866</u>
Invested In Capital Asset, net of debt	\$158,356	\$145,357
Restricted (for 70% Confidence Level)	\$0	\$466,289
Unrestricted	(\$1,094,344)	(\$1,355,545)
Total Net Assets	<u>(\$935,988)</u>	<u>(\$743,899)</u>
Operating Revenues		
Member contributions	\$10,754,475	\$9,239,751
Nonoperating Revenues		
Interest Income	\$1,541	\$4,890
Miscellaneous Income	\$18,000	\$0
Total Revenues	<u>\$10,774,016</u>	<u>\$9,244,641</u>
Operating Expenses	\$10,705,432	\$8,798,123
Nonoperating Expenses	\$0	\$0
Total Expenses	<u>\$10,705,432</u>	<u>\$8,798,123</u>
Income Before Contributions, Transfers, Special or Extraordinary Items	\$68,583	\$446,518
Capital Contributions	\$43,439	\$0
Change in Net Assets	<u>\$112,023</u>	<u>\$446,518</u>
Beginning Net Assets	(\$743,899)	(\$1,142,674)
Prior Period Adjustment	\$(304,111)	(\$47,743)
Ending Net Assets	<u>(\$935,988)</u>	<u>(\$743,899)</u>

Financial Statement Analysis

The Cities Insurance Association of Washington (CIAW) was originally founded in 1988 with 34 founding member cities. The CIAW is a property and liability risk and insurance pooling program for cities, fire districts, and other special districts. Current membership in the program is 248 members. A board of directors, elected by the membership, governs the program. The Board of Directors contracts with Canfield, a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, and risk management services.

The CIAW's total Net Assets decreased from 2011 to 2012 due to a revision in claims liabilities for the 2010/11 year. The program's overall unpaid claims liability increased by approximately \$1.5 million at the end of the year according to the actuary report. The CIAW is still working on its funding plan and anticipates showing a positive equity position within the next two years.

On January 14, 2010, Chapter 82-60 WAC, which governs pools in Washington, was revised. The CIAW will be in compliance with the new funding standards, which require primary assets (cash and investments) equal to the expected losses and secondary assets (includes accounts receivable, capital assets, etc.) equal to a 70% confidence level by fiscal year 2015.

Current assets include cash and investments, as well as receivables from members and the excess/reinsurance carriers. Noncurrent assets include capital assets, net of depreciation and the portion of the reassessment that will not be collected during the next 12 months. Current liabilities are accounts payable, reserves set aside for unpaid claims liabilities. The pool utilizes the services of an actuary to determine that adequate reserves have been set aside to cover any potential future claims. Noncurrent liabilities include unpaid claims liabilities, a portion of the capital lease for the purchase of a truck and trailer for a mobile training simulator and a portion of unearned lease revenue for simulator usage by another risk pool.

Requests for Information

This financial report is designed to provide a general overview of the Cities Insurance Association of Washington's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CIAW's third-party administrator, Canfield, 451 Diamond Drive, Ephrata, WA 98823.

Cities Insurance Association of Washington

Balance Sheet

As of August 31, 2012

	<u>2012</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Equivalents	\$2,953,229
Receivables	
Member Contributions	\$18,972
Accrued Deductibles	\$236,653
Excess/Reinsurance Recoverable	\$631,700
Other Receivables (Supplemental Assessment)	\$197,315
TOTAL CURRENT ASSETS	<u>\$4,037,870</u>
<u>Noncurrent Assets:</u>	
Other Receivables (Supplemental Assessment)	\$393,871
Equipment Purchased (Net of Accumulated Depreciation)	\$145,856
Records Purchased (Net of Accumulated Depreciation)	\$12,500
TOTAL NONCURRENT ASSETS	<u>\$552,227</u>
TOTAL ASSETS	<u>\$4,590,097</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Claim Reserves	
IBNR	\$1,041,933
Open Claims (Case Reserves)	\$1,128,663
Accounts Payable	\$71,163
Unearned Member Contributions	\$1,267,553
Note Payable (Vehicle-Trailer Loan)	\$13,277
Unearned Lease Revenue	\$8,000
TOTAL CURRENT LIABILITIES	<u>\$3,530,589</u>
<u>Noncurrent Liabilities:</u>	
Claim Reserves	
IBNR	\$947,590
Open Claims (Case Reserves)	\$1,026,466
Note Payable (Vehicle/Trailer Loan)	\$13,439
Unearned Lease Revenue	\$8,000
TOTAL NONCURRENT LIABILITIES	<u>\$1,995,496</u>
TOTAL LIABILITIES	\$5,526,085
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$158,356
Unrestricted	(\$1,094,344)
TOTAL NET ASSETS	<u>(\$935,988)</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$4,590,097</u>

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For The Fiscal Year Ended August 31, 2012

	2012
OPERATING REVENUES:	
Member Contributions	\$10,754,475
Gain On Sale of Assets	\$18,000
Total Operating Revenues	\$10,772,475
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$852,530
Change in Loss Reserves	\$2,418,252
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$712,587
Excess/Reinsurance Premiums	\$4,636,844
General and Administrative Expenses	\$2,019,266
Depreciation	\$65,954
Total Operating Expenses	\$10,705,432
OPERATING INCOME (LOSS)	\$67,042
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$1,541
Total Nonoperating Revenues (Expenses)	\$1,541
Income Before Contributions, Transfers, Special and Extraordinary Items	\$68,583
Capital Contributions	\$43,439
CHANGE IN NET ASSETS	\$112,022
TOTAL NET ASSETS, September 1	(\$743,899)
Prior Period Adjustment	(\$304,111)
TOTAL NET ASSETS, August 31	(\$935,988)

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended August 31, 2012

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$11,526,088
Cash payments to suppliers for goods and services	<u>(\$8,622,371)</u>
Net Cash Provided (Used) by Operating Activities	\$2,903,716
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash received from capital contributions	<u>\$43,439</u>
Net Cash Provided (Used) by Noncapital Financing Activities	\$43,439
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash payments for vehicle purchase	<u>(\$22,979)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(\$22,979)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	<u>\$1,541</u>
Net Cash Provided (Used) by Investing Activities	\$1,541
Increase (Decrease) in Cash and Cash Equivalents	\$2,925,717
Cash and Cash Equivalents, September 1	\$27,513
Cash and Cash Equivalents, August 31	<u><u>\$2,953,229</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

	<u>2012</u>
OPERATING INCOME	\$67,042
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	\$65,954
Prior Period Adjustment	(\$304,111)
Gain On Sale of Asset	(\$18,000)
(Increase) Decrease in Accounts Receivable	\$771,613
Increase (Decrease) in Accounts Payable	\$25,500
Increase (Decrease) in Unpaid Claims Liability	\$1,449,617
Increase (Decrease) in Unearned Member Contributions	\$865,358
Increase (Decrease) in Notes Payable	(\$11,257)
Increase (Decrease) in Unearned Lease Revenue	<u>(\$8,000)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$2,903,716

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
For the Period
September 1, 2011 through August 31, 2012

The following notes are an integral part of the financial statements accompanying the annual report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cities Insurance Association of Washington (CIAW) conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The following is a summary of the more significant policies.

a. Reporting Entity

The CIAW was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The CIAW was formed on September 1, 1988 for purposes of the joint purchase of insurance and/or joint self-insuring and/or joint hiring or contracting for risk management purposes, claims administration and all other functions necessary to carry out provisions of the Interlocal Agreement.

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

b. Basis of Accounting

The accounting records of the CIAW are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapters 39.34 and 43.09. The CIAW also follows the accounting standards established by the Governmental Accounting Standards Board Statement (GASB) Statement 10 *Accounting And Financial Reporting For Risk Financing And Related Insurance Issues* as amended by the GASB Statement 30, *Risk Financing Omnibus* and the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The CIAW uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues are items that are directly related to the primary operations of the CIAW. Non-operating revenues are significant, recurring items that are not directly related to operation, such as interest income. The principal operating revenues of the pool are generated from annual billings for insurance to the members. Operating expenses include payment of claims, general and administrative costs, and excess insurance costs.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the CIAW considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets – See Note 7

e. Receivables

All receivables are from member districts or insurance carriers and are, therefore, deemed collectible. All uncollectable accounts receivable under \$500 can be written off without Board permission, but are reported to the fiscal officer monthly. All uncollectable accounts receivable over \$500 may only be written off with Board approval.

f. Investments – See Note 3

g. Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim 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 and 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 liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

To reduce risk to its members, the association purchases liability stop loss coverage. However, claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

h. Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured. The CIAW does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to reinsurers during 2012 were \$4,636,844.

i. Member Premium and Unearned Member Premium

Member premiums are collected at the beginning of the fiscal year and recognized as revenue in the period for which insurance protection is provided. The pool contribution is calculated based on a percentage of the member's apportioned excess insurance cost.

j. Unpaid Claims

Claims are charged to income as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims incurred but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

k. Reserve for Unallocated Loss Adjustment Expenses

Pursuant to the contract in place between CIAW and its third-party administrator, the third-party administrator will administer in all matters related to the processing, supervision and resolution of all program and program membership claims or losses incurred during the term of the agreement.

l. Exemption from Federal and State Taxes

Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). The CIAW is currently working with a tax attorney for the two years the Tribal Nations members belonged to the pool. The potential tax liability is undeterminable at this time.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Management is not aware of any violations of finance-related legal or contractual provisions.

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

The CIAW's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

b. Investments

As of August 31, 2012, the CIAW had the following investments:

	<u>Maturities Amount</u>	<u>Fair Value</u>
State Treasurer's Investment Pool	\$30,849	\$30,849
Total Investments	<u>\$30,849</u>	<u>\$30,849</u>

NOTE 4 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by CIAW for the 2011-12 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000	\$25,000	\$100,000,000 per occurrence
Flood	\$25,000 per occurrence; \$500,000 per occurrence for Flood Zones prefixed A or V	\$25,000	\$15,000,000 annual aggregate
Earthquake	Greater of 2% or the total value or \$50,000 per occurrence	\$50,000	\$15,000,000 annual aggregate
Equipment Breakdown	\$2,500 Standard Fire Districts = \$500; Deep Well Motor Pumps = \$10,000	\$0	\$100,000,000
Employee Dishonesty	\$1,000	\$25,000	\$1,000,000
Auto Comp and Collision	\$1,000 Standard Some Vehicles Vary per Schedule	\$25,000	\$100,000,000
Liability Loss:			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000	\$100,000	\$10,000,000 per occurrence;
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000	\$100,000	\$10,000,000 per occurrence; \$50,000,000 group annual aggregate
Wrongful Acts / Misc. Professional Liability	\$1,000	\$100,000	\$10,000,000 per claim; \$50,000,000 group annual aggregate

NOTE 5 – EXCESS INSURANCE CONTRACTS/REINSURANCE

The pool maintains reinsurance and excess insurance contracts with several carriers which provide various limits of coverage over the pool's self-insured retention limits. (All carriers are A rated.) The limits provided by these contracts are as follows:

<u>Insurance Contracts</u>	2011-12
General Liability, Annual Aggregate	\$50,000,000
Automobile Liability, per Occurrence	\$10,000,000
Public Officials Liability, Annual Aggregate	\$50,000,000
Employment Practices Liability, Annual Aggregate	\$50,000,000
Property, per Occurrence	\$100,000,000
Equipment Breakdown, per Occurrence	\$100,000,000
Employee Dishonesty, per Occurrence	\$1,000,000

Per-occurrence coverage limits provided by the Pool, including the excess insurance limits combined with the Pool's self-insured retention limits are as follows:

<u>Insurance Contracts</u>	2011-12
General Liability, per Occurrence	\$10,000,000
Automobile Liability, per Occurrence	\$10,000,000
Public Officials Liability, per Claim	\$10,000,000
Employment Practices Liability, per Claim	\$10,000,000
Property, per Occurrence	\$100,000,000
Equipment Breakdown, per Occurrence	\$100,000,000
Employee Dishonesty, per Occurrence	\$1,000,000

There have been no settlements that have exceeded coverage in the last three years.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$4,636,844. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$4,468,235.

NOTE 6 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members in the event the fund lacks resources to pay claims. Associate members are not subject to a retroactive assessment.

In December 2009, the CIAW underwent a special audit review by James Marta and Associates for the purpose of reviewing the feasibility of a funding plan submitted to the Office of Financial Management (OFM). This funding plan was to collect additional funds for unpaid claims liabilities for the period 2003-2007. Mr. Marta completed his report in mid-January of 2010 and the CIAW submitted an updated plan to OFM. In July 2010, the CIAW and OFM reached a mutual agreement on a plan to increase reserves in the CIAW. The remaining balance of \$591,186 is shown as a receivable on the Balance sheet under current assets and long term assets.

NOTE 7 – CAPITAL ASSETS

a. Capital Assets

Capital assets are defined by the pool as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years.

Capital assets are recorded at historical cost. Capital assets activity for the year ended August 31, 2012 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Records Purchased	\$125,000	\$0	\$125,000
Equipment	<u>\$302,732</u>	<u>\$10,177</u>	<u>\$312,909</u>
Less Accum Depreciation	<u>\$244,402</u>	<u>\$35,151</u>	<u>\$279,553</u>
Total Capital Assets, net	<u>\$183,330</u>	<u>(\$24,974)</u>	<u>\$158,356</u>

Depreciation is calculated using the straight-line method with a useful life of ten years for the records and a useful life of five years for the equipment.

NOTE 8 – LEASES

The CIAW has entered into a lease agreement for financing the acquisition of a truck and trailer for the driving simulator. This lease agreement qualifies as a capital lease for accounting purposes and is recorded as an asset and long-term liability at the present value of the future minimum lease payments as of the date of their inception. The CIAW records lease payments as reductions of the long-term liability and as interest expense over the life of the lease.

The future minimum lease payments under the lease agreement are as follows:

<u>Year</u>	
2013	\$13,276.80
2014	\$13,276.80
2015	\$2,212.80

Less Amount representing interest
\$1,986.49

Present Value of Future Minimum Lease Payments
\$26,779.91

The assets acquired through capital leases are as follows:

Equipment	\$132,552
Less: Accum Depreciation	<u>\$106,041</u>
Total	<u>\$ 26,511</u>

Depreciation policy for capitalized assets is described in Note 7 – Capital Assets.

NOTE 9 – DEFERRED DEBITS (OR CREDITS)

As of August 31, 2012, the CIAW reported \$1,267,553 of unearned member premiums that will be deferred revenue until earned on September 1.

NOTE 10 – ACCOUNTING CHANGES

On January 14, 2010, Chapter 82-60 WAC, which governs pools in Washington, was revised. The CIAW will be in compliance with the new funding standards, which require primary assets (cash and investments) equal to the expected losses and secondary assets (includes accounts receivable, fixed assets, etc.) equal to a 70% confidence factor by fiscal year 2015.

NOTE 11 – RELATED PARTY TRANSACTIONS

The CIAW's third party administrator and its insurance broker are both owned by the same parent company, Brown and Brown, Inc. Canfield and Associates, the third party administrator, runs its operations from Ephrata, Washington. Apex Insurance, the pool's broker, is located in Glen Allen, VA.

NOTE 12 – UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following table represents changes in those aggregate liabilities for the pool.

	<u>2012</u>	<u>2011</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$2,695,035	\$2,479,850
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	3,141,000	\$1,601,332
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>\$(418,637)</u>	<u>\$(676,165)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$2,722,363</u>	<u>\$925,167</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$852,530	\$943,668
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>\$420,216</u>	<u>\$(233,686)</u>
Total Payments	<u>\$1,272,746</u>	<u>\$709,982</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$4,144,652</u>	<u>\$2,695,035</u>

There have been no claims settlements that have exceeded insurance in any **of the past three years.**

NOTE 13 – FINANCIAL SOLVENCY/REQUIRED ASSETS (WAC)200-100

Revised WAC 200-100 requires CIAW to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 70% confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

		08/31/2012	08/31/2011
Primary Asset Test			
Primary Assets		\$1,571,797	(\$482,318)
Estimated Claims Liabilities at Expected Level		\$4,144,652	\$2,999,146
	Results	Doesn't meet	Doesn't meet
Secondary Asset Test			
Primary & Secondary Assets		\$3,050,309	\$1,767,807
Estimated Claims at 70% Confidence Level		\$4,399,150	\$3,181,146
	Results	Doesn't meet	Doesn't meet

At the end of fiscal year 2011/12, CIAW does not meet solvency requirements. As referenced in Notes 6 and 10, CIAW is currently under a plan with the State Risk Manager to work on meeting these requirements.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

There was a prior period adjustment of \$304,111 for claims liability due to the revision of the actuary estimates.

NOTE 15 – OTHER

The CIAW recovered some funds from an insurance company that used to insure the Tribal Nations Insurance Program, a former member of CIAW. The amount recovered was \$43,439. This has been shown as a capital contribution on the financial statements.

**CITIES INSURANCE ASSOCIATION OF WASHINGTON
REQUIRED SUPPLEMENTAL INFORMATION
September 1, 2011 through August 31, 2012**

This required supplementary information is an integral part of the accompanying financial statements.

1. Ten-Year Claims Development Information

This table illustrates how the program'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 the pool as of the end of each of the last ten years. The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the pool including overhead and claims expenses not allocable to individual claims.
3. This section shows the pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 2012 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates, management property estimates and aggregate stop losses. (These annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Cities Insurance Association of Washington

TEN YEAR CLAIMS DEVELOPMENT INFORMATION
Fiscal and Policy Year Ended August 31

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Required contribution and investment revenue										
Earned							8,746,220	11,258,402	9,239,751	10,756,016
Ceded							4,268,990	5,488,409	4,540,664	4,636,844
Net Earned	2,275,660	4,364,239	5,388,348	3,554,174	3,781,532	4,730,567	4,477,230	5,769,993	4,699,087	6,119,172
2. Unallocated expenses	511,829	1,023,528	1,320,739	1,064,895	1,370,326	1,465,797	1,838,831	2,411,293	2,387,966	\$2,797,806
3. Estimated claims and expenses, end of policy year:										
Incurred							8,177,608	2,940,227	3,307,785	3,491,682
Ceded							5,545,380	480,227	762,785	350,682
Earned	1,886,303	3,742,416	3,721,737	2,873,177	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000
4. Net paid (cumulative) as of:										
End of Policy Year	1,061,269	1,960,115	2,705,213	1,890,138	1,776,874	762,690	817,908	849,326	943,668	852,530
One year later	1,588,084	2,550,300	3,614,551	2,568,052	2,604,627	1,722,535	1,529,114	1,422,475	1,856,757	
Two years later	2,095,794	3,173,927	4,045,699	3,288,453	2,103,843	2,077,272	1,856,978	1,870,117		
Three years later	2,423,193	3,647,011	4,626,289	2,693,417	2,287,552	2,276,996	1,856,978			
Four years later	2,433,666	4,115,153	2,297,873	2,973,583	2,439,550	2,276,996				
Five years later	2,361,953	2,361,936	2,379,196	3,012,943	2,439,550					
Six years later	1,438,272	2,410,323	2,303,638	3,108,824						
Seven years later	1,438,271	2,424,497	2,293,777							
Eight years later	1,438,254	2,423,886								
Nine years later	1,438,270									
5. Reestimated ceded claims and expenses	2,184,793	1,630,878	882,999	5,519,012	3,204,584	4,363,152	5,510,640	1,921,756	1,056,728	350,682
6. Reestimated net incurred claims and expenses:										
End of Policy Year	1,886,303	3,742,416	3,721,737	2,873,177	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000
One year later	1,986,113	3,755,071	4,394,916	3,542,677	4,408,916	2,918,331	1,856,978	2,460,000	2,946,000	
Two years later	2,096,156	3,885,716	4,387,625	4,899,606	2,556,600	2,276,996	1,856,978	2,609,500		
Three years later	2,423,193	4,833,604	5,526,346	3,325,501	2,439,550	2,276,996	1,856,978			
Four years later	2,751,351	4,664,137	2,729,763	3,012,943	2,439,550	2,276,996				
Five years later	2,361,953	2,695,976	2,413,533	3,012,943	2,439,550					
Six years later	1,438,748	2,526,139	2,356,392	3,108,824						
Seven years later	1,438,271	2,427,827	2,317,392							
Eight years later	1,438,348	2,427,827								
Nine years later	1,483,270									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(403,033)	(1,314,589)	(1,404,345)	235,647	(630,489)	(998,004)	(775,250)	149,500	401,000	0

**LIST OF PARTICIPATING MEMBERS
CITIES INSURANCE ASSOCIATION OF WASHINGTON**

Member Cities

Albion	Entiat	Metaline Falls	Selah
Almira	Ephrata	Millwood	South Bend
Asotin	Everson	Moxee	South Cle Elum
Bingen	Fircrest	Napavine	Sprague
Black Diamond	Grand Coulee	Nespelem	St. John
Blaine	Granite Falls	Newport	Starbuck
Brewster	Hartline	Nooksack	Stevenson
Buckley	Ilwaco	Oakville	Sultan
Colfax	Ione	Okanogan	Sumas
College Place	Kahlotus	Omak	Tekoa
Colton	Kennewick	Oroville	Tieton
Colville	Kittitas	Pacific	Tonasket
Connell	Krupp	Palouse	Uniontown
Cosmopolis	LaCrosse	Prosser	Waitsburg
Coulee Dam	Liberty Lake	Quincy	Washtucna
Creston	Lind	Reardan	Waterville
Davenport	Lyman	Republic	White Salmon
Dayton	Lynden	Ritzville	Wilbur
Duvall	Lynnwood	Riverside	Wilkeson
East Wenatchee	Malden	Rock Island	Woodland
Electric City	Mansfield	Royal City	Yakima
Elmer City	Marcus	SeaTac	
Endicott	Mattawa	Sedro-Woolley	

Special Districts

Alpine Water District	Elbe Water & Sewer District
Asotin County Cemetery District	Elochoman Valley Partners
Basin City Water-Sewer District	Endicott Park and Recreation Dist #7
Belfair Water District	Franklin County Irrigation District #1
Bellingham Public Development Authority	Gardena Farms Irrigation Dist
Bellingham Whatcom Public Facilities	Garfield Parks & Recreation
Bridgeport Bar Irrigation District	Garfield Public Development Authority
Columbia Valley Water District	Glacier Water District
Consolidated Diking Dist #1	Grant County Cemetery District #1
Consolidated Diking Dist #2	Irvin Water District #6
Consolidated Diking Dist #3	Jefferson County Rural Library Dist
Consolidated Irrigation District #19	Kennewick Irrigation District
Dallesport Water District	King Co. Drainage Dist #13
Diking Improvement Dist #15	Kittitas Co. Water District #2
Douglas Sewer District #1	Kittitas Reclamation District
Drainage Improvement Dist #1	Lake Wenatchee Water District
East Spokane Water District	Lakehaven Utility District

Lenora Water & Sewer District
Lewis County Water & Sewer District #5
Lexington Flood Control Zone
Lind Cemetery District
Lower Stemilt Irrigation District
Lynnwood Transportation Benefit Dist
Malaga Water District
Moab Irrigation District
Moses Lake Irrigation & Rehab Dist
Naches-Selah Irrigation Dist
North Spokane Irrigation Dist
Orchard Avenue Irrigation Dist
Pasadena Park Irrigation Dist
Peshastin Water District
Pierce County Flood Control Zone District
Pierce County Noxious Weed
Point Roberts Park & Rec. #1
Port of Kennewick
Port Of Quincy
Prosser Transportation Benefit Dist
Ritzville Public Development Authority

Rosalia Park & Rec. District #5
Roza Irrigation District
Skagit Co. Dike Drainage & Irrigation Dist #12
Skagit Co. Drainage Dist #16
Skagit Co. Drainage Dist #14
Skagit Co. Sewer District #2
South Banks Lake Mosquito Control Dist #3
Spokane Aquifer Joint Board
Spokane County Water Dist #3
Startup Water District
Sunnyside Valley Irrigation District
Timberland Regional Library
Trentwood Irrigation District
Uniontown Community Development Association
Walla Walla County Housing Authority
Washington State School Directors Assoc.
Whitman County Public Hospital District #2
Whitman County Water Conservancy Board
Yakima Joint Board of Control #1
Yakima-Tieton Irrigation District

Fire Districts

Adams Co FPD #1
Adams Co FPD #2
Aero-Skagit Emergency Service
Bainbridge Island Fire District
Blue Mountain FD#1
Central Kitsap Fire and Rescue
Central Valley Ambulance Authority
Chelan Co FPD #1
Chelan Co FPD #3
Chelan Co FPD #4
Clallam Co FPD #6
Clark Co FPD #2
Columbia Co FPD #1
Douglas Co FPD #2
Douglas Co FPD #5
Ferry/Okanogan FPD # 13
Ferry/Okanogan FPD #14
Franklin Co FPD #1
Franklin Co FPD #4
Glacier Fire and Rescue
Grant Co FPD #13
Grant Co FPD #4
Grant Co FPD #3
Grant Co FPD #6
Grant Co FPD #14
Grays Harbor Co FPD #1
Grays Harbor Co FPD #5
Grays Harbor Co FPD #11

Grays Harbor Co FPD #2
Joint Fire District #2
Joint Management Group (Bremerton FD)
Kent Regional Fire Authority
King Co FPD #4 DBA Shoreline FPD
King Co FPD #28 and Special Rescue
King Co FPD #34
King Co FPD #50
Kittitas Co FPD #6
Klickitat FPD #10
Lincoln Co FPD #1
Lincoln Co FPD #5 and Davenport FPD
Lincoln Co FPD #7
Lincoln Co FPD #8
Lincoln Co Emergency Communications
North Pacific County EMS
Okanogan FPD #4
Okanogan FPD #9
Okanogan FPD #16
Okanogan County Rural FD #1
Oroville Rural EMS Dist
Pacific Co FPD #8
Pend Oreille County FPD #5
Pierce Co FPD #23
Pierce Co FPD #26
Poulsbo Fire Department
Region 6 Training Council
Riverside Fire and Rescue
San Juan Co FPD #5
Skagit County EMS Commission
Skagit Co FPD #10
Skagit Co FPD #19
Snohomish Co FPD #10
Snohomish Co FPD #17
Snohomish Co FPD #28
Snohomish Co FPD #5
South Kitsap Fire and Rescue
Stevens Co FPD #10
Stevens Co FPD #12
Stevens Co FPD #3
Stevens Co FPD #6
Stevens Co FPD #7
Thurston Co FPD #16 DBA Gibson Valley FPD
Waitsburg Ambulance Service
West Thurston Regional Fire Authority
Whatcom Co FPD #1
Whatcom Co FPD #5
Whatcom Co FPD #14
Whitman Co FPD #1
Whitman Co FPD #2
Whitman Co FPD #3
Whitman Co FPD #6

Whitman Co FPD #8
Whitman Co FPD #4 & City of Palouse FPD
Wilcox Onecho Dusty FPD #13

Schedule T-2

SCHEDULE OF EXPENSES

**Cities Insurance Association of Washington
For the Fiscal Year Ended August 31, 2012**

Contracted Services:		
Third Party Administrator Fees		\$501,689
Actuary		9,830
Audit Expenses		30,121
Legal Fees		2,072
Other Consultant Fees (Lobbyist)		10,600
General Administrative Expenses:		
Miscellaneous & Supplies		46,916
Simulators		298,506
Retreat/Board Meetings		11,241
Depreciation		65,954
Prelitigation Program		129,763
Account Education		14,017
Underwriting Fees		927,203
Scholarship/Grant Program		11,731
Other:		
Medicare Reporting		4,500
Director's E&O		21,079
Total Operating Expenses		<u>\$2,085,219</u>

(*Total Operating Expenses detailed on this schedule includes General and Administrative Expenses and Depreciation from the Statement of Net Assets.)



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
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Local Government Liaison
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