



# Washington State Auditor's Office

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## Financial Statements Audit Report

# Cities Insurance Association of Washington

Grant County

For the period September 1, 2013 through November 30, 2014

Published July 30, 2015

Report No. 1014738





## Washington State Auditor's Office

July 30, 2015

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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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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, 2013 through November 30, 2014**

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 15-month period ended November 30, 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated July 23, 2015. As described in Note 1a, the Pool changed its fiscal year end from August 31 to November 30.

**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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

July 23, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Cities Insurance Association of Washington Grant County September 1, 2013 through November 30, 2014**

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 15-month period ended November 30, 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 9.

#### **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 November 30, 2014, and the changes in financial position and cash flows thereof for the 15-month period then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As described in Note 1a, the Cities Insurance Association of Washington changed its fiscal year end from August 31 to November 30 during fiscal year 2014. This resulted in the audited period including 15 months. Our opinion is not modified with respect to this matter.

## **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 10 through 12 and claims development information on pages 25 through 26 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.

### *Supplementary and Other Information*

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 List of Participating Members and 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 July 23, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

July 23, 2015



## **FINANCIAL SECTION**

**Cities Insurance Association of Washington  
Grant County  
September 1, 2013 through November 30, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Balance Sheet – 2014  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014  
Statement of Cash Flows – 2014  
Notes to Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Ten Year Claims Development Information – 2014  
Notes to Ten Year Claims Development Information – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

List of Participating Member – 2014  
DES Schedule of Expenses – 2014

# **CITIES INSURANCE ASSOCIATION OF WASHINGTON**

Management's Discussion and Analysis  
September 1, 2013 through November 30, 2014

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 November 30, 2014. 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 position. Over time, increases and decreases in net position 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 Position 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 position. 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**

	<b>2014</b>	<b>2013</b>
Current Assets	\$6,279,320	\$3,762,547
Noncurrent Assets	\$ 147,497	\$ 384,144
Total Assets	<u>\$6,426,817</u>	<u>\$4,146,691</u>
Current Liabilities	\$2,163,212	\$2,578,757
Noncurrent Liabilities	\$3,204,662	\$2,157,684
Total Liabilities	<u>\$5,367,874</u>	<u>\$4,736,441</u>
Net Investment in Capital Assets	\$ 143,315	\$ 73,167
Unrestricted	\$ 915,629	(\$762,917)
Total Net Position	<u>\$1,058,944</u>	<u>(\$589,749)</u>
Operating Revenues		
Member contributions	\$13,991,697	\$11,186,783
Nonoperating Revenues		
Interest Income	\$ 31,015	\$ 1,609
Miscellaneous Income	\$ 0	\$ 6,000
Total Revenues	<u>\$14,022,712</u>	<u>\$11,194,392</u>
Operating Expenses	\$12,374,018	\$10,848,154
Total Expenses	<u>\$12,374,018</u>	<u>\$10,848,154</u>
Income Before Contributions, Transfers, Special or Extraordinary Items	\$ 1,648,694	\$ 346,238
Change in Net Position	<u>\$ 1,648,694</u>	<u>\$ 346,238</u>
Beginning Net Position	(\$589,750)	(\$935,988)
Ending Net Position	<u>\$ 1,058,944</u>	<u>(\$589,750)</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 224 members. A board of directors, elected by the membership, governs the program. The Board of Directors contracts with Clear Risk Solutions (formerly named Canfield) a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, and risk management services.

The CIAW changed its fiscal year to start December 1 and end November 30<sup>th</sup>. In order to accomplish this, CIAW had to extend the 2013/14 policy year and make it a 15 month year. CIAW had another positive year with its' total Net Position improving from 2013 to 2014 by \$1,058,944. The CIAW over funded its budget, in an effort to help improve its overall financial position. For the last four years, CIAW has been working on its funding plan and now meets the solvency requirements of WAC 200-100-03001.

Current assets include cash and investments, as well as receivables from members, and excess/reinsurance carriers and prepaid insurance. Noncurrent assets include capital assets, net of depreciation and a portion of the excess insurance receivables that will not be collected during the next 12 months. For more information on the pool's capital assets, refer to Note 7 in the Notes to Financials. Current liabilities are accounts payable, and reserves set aside for unpaid claims liabilities, and unearned member contributions. 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 that won't be settled in the current year. For more information on claims liabilities, see Note 10 Unpaid Claims Liabilities, in the Notes to Financials.

## **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 November 30, 2014

	<u>2014</u>
<b>ASSETS</b>	
<u>Current Assets:</u>	
Cash and Equivalents	\$5,370,100
Receivables	
Member Contributions & Deductibles	\$126,972
Excess/Reinsurance Recoverable	\$522,456
Prepaid Insurance	\$259,792
TOTAL CURRENT ASSETS	<u>\$6,279,320</u>
<u>Noncurrent Assets:</u>	
Other Receivables	\$4,183
Equipment Purchased (Net of Accumulated Depreciation)	\$143,315
TOTAL NONCURRENT ASSETS	<u>\$147,497</u>
TOTAL ASSETS	<u><u>\$6,426,818</u></u>
<b>LIABILITIES</b>	
<u>Current Liabilities:</u>	
Claim Reserves	
IBNR	\$650,835
Open Claims (Case Reserves)	\$458,164
Accounts Payable	\$116,604
Unearned Member Contributions	\$937,609
TOTAL CURRENT LIABILITIES	<u>\$2,163,212</u>
<u>Noncurrent Liabilities:</u>	
Claim Reserves	
IBNR	\$1,880,709
Open Claims (Case Reserves)	\$1,323,953
TOTAL NONCURRENT LIABILITIES	<u>\$3,204,662</u>
TOTAL LIABILITIES	\$5,367,874
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$143,315
Unrestricted	\$915,629
TOTAL NET POSITION	<u>\$1,058,944</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$6,426,818</u></u>

See Accompanying Notes to Financial Statements

**Cities Insurance Association of Washington**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
For The 15 Months Ended November 30, 2014

	<b>2014</b>
OPERATING REVENUE:	
Member Contributions	\$13,991,697
Total Operating Revenue	\$13,991,697
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$933,821
Change in Loss Reserves	\$1,708,518
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$1,162,143
Excess/Reinsurance Premiums	\$6,496,687
General and Administrative Expenses	\$2,011,943
Depreciation	60,907
Total Operating Expenses	\$12,374,018
OPERATING INCOME (LOSS)	\$1,617,679
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$31,015
Total Nonoperating Revenues (Expenses)	\$31,015
Income Before Contributions, Transfers, Special and Extraordinary Items	\$1,648,694
Capital Contributions	
CHANGE IN NET POSITION	\$1,648,694
TOTAL NET ASSETS, September 1	(\$589,750)
TOTAL NET POSITION, November 30	\$1,058,944

See Accompanying Notes to Financial Statements

# Cities Insurance Association of Washington

## STATEMENT OF CASH FLOWS

For The 15 Months Ended November 30, 2014

	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$14,426,488
Cash payments to suppliers for goods and services	-\$11,941,470
Net Cash Provided (Used) by Operating Activities	\$2,485,018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net Cash Provided (Used) by Capital and Related Financing Activities	
Purchase of Equipment	(\$16,185)
Sale of Equipment	\$0
	<u>(\$16,185)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	<u>\$31,015</u>
Net Cash Provided (Used) by Investing Activities	<u>\$31,015</u>
Increase (Decrease) in Cash and Cash Equivalents	\$2,499,848
Cash and Cash Equivalents, September 1	<u>\$2,870,253</u>
Cash and Cash Equivalents, November 30	<u>\$5,370,100</u>

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

	<u>2014</u>
OPERATING INCOME	\$1,617,679
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	\$60,907
(Increase) Decrease in Accounts Receivable	\$434,791
(Increase) Decrease in Prepaid Insurance	(\$259,792)
Increase (Decrease) in Accounts Payable	\$90,108
Increase (Decrease) in Unpaid Claims Liability	\$347,622
Increase (Decrease) in Unearned Member Contributions	\$216,572
Increase (Decrease) in Notes Payable	(\$14,869)
Increase (Decrease) in Unearned Lease Revenue	(\$8,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$2,485,018</u>

See Accompanying Notes to Financials

**NOTES TO FINANCIAL STATEMENTS**  
**CITIES INSURANCE ASSOCIATION OF WASHINGTON**  
**For the Period**  
**September 1, 2013 through November 30, 2014**

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.

CIAW changed its fiscal year from 9/1 through 8/31 to be 12/1 through 11/30. In the first year of conversion, the 13/14 year was a 15 month year. Members contract to remain in the pool for a minimum of one year, and must give notice before November 30 terminating participation the following December 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, Clear Risk Solutions, formerly known as 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/re-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 members 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 2014 were \$6,496,687.

i. Member Premium and Unearned Member Premium (Assessments)

Member premiums (assessments) 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/re-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 continues to work 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

In April of 2014 CIAW started investing money in the Grant County Investment Pool and in July of 2014 they closed their account with the State Investment Pool.

As of November 30, 2014, the CIAW had the following investments:

	Maturities Amount	Fair Value
Grant County Investment Pool	\$2,729,076	\$2,729,076
Total Investments	\$2,729,076	\$2,729,076

CIAW values its investments at current market value.

**NOTE 4 – RISK FINANCING LIMITS**

The following table reflects the risk financing limits on coverage policies issued and retained by CIAW for the 2013-14 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 Standard (may vary)	\$25,000	\$100,000,000 per occurrence
Flood	\$25,000 each Named Insured suffering loss per occurrence except that covered property located at the time of loss in any flood zone identified by FEMA as a zone "V", "A" or Special Flood Zone Hazard Area "SFHA" is subject to the following flood deductibles: \$500,000 per occurrence applying to each building damaged, and \$500,000 per occurrence applying to personal property within a building, and \$500,000 per occurrence applying to all other covered property.	\$25,000	\$15,000,000 per occurrence and annual aggregate

Earthquake	The greater of 2% of the total value of all property at the locations suffering loss or \$50,000 for each Named Insured suffering loss per occurrence. Total value of all property means the total value of all property shown in the statement of values on file with the Company or its representative at the time of loss. A location means a single street address or if no street address, single legal description.	\$50,000	\$15,000,000 per occurrence and annual aggregate
Equipment Breakdown	Cities & Special Districts = \$2,500; Fire Districts = \$500; Deep Well Motor Pumps = \$10,000	\$0	\$100,000,000
Employee Dishonesty	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$25,000	\$1,000,000 per occurrence and member annual aggregate
Auto Comp and Collision	\$1,000 Standard Some Vehicles Vary per Schedule	\$25,000	\$100,000,000 per occurrence
<b>Liability Loss:</b>			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$0 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$100,000	\$10,000,000 per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	\$0 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$100,000	\$10,000,000 per occurrence; \$50,000,000 annual group aggregate
Wrongful Acts / Misc. Professional Liability	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$100,000	\$10,000,000 per claim; \$50,000,000 annual group 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 pools self-insured retention limits. (All carriers are A rated.) The limits provided by these contracts are as follows:

<u>Insurance Contracts</u>	<b>2013-14</b>
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>	<b>2013-14</b>
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 \$6,496,687. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$1,233,906.

**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.

In July 2010, the CIAW and DES reached a mutual agreement on a plan to increase reserves in the CIAW. The total reassessment to the members was to be split over a period of five years, beginning in October of 2010 with the last invoices being billed in October of 2014. To date, all members have paid their reassessments except, the City of Bridgeport, Town of Cusick, City of Othello, and City of Pomeroy.

**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 November 30, 2014 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Equipment	<u>\$365,627</u>	<u>\$16,185</u>	<u>\$381,812</u>
Less Accum Depreciation	<u>\$177,590</u>	<u>\$60,907</u>	<u>\$238,497</u>
Total Capital Assets, net	<u>\$188,037</u>	<u>\$(52,545)</u>	<u>\$143,315</u>

Depreciation is calculated using the straight-line method with a useful life of five years for the equipment. This year, the pool purchased a new gun for one of the training simulators and updated the software for the other simulator. The records purchase was fully depreciated last year and has been removed from the table above.

**NOTE 8 – LEASES**

The CIAW no longer has any leases.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The CIAW’s third party administrator and insurance broker is Canfield. Canfield uses Apex and Peachtree to place insurance coverage for the pool. Both Canfield, Apex and Peachtree are owned by the same parent company, Brown and Brown, Inc.

**NOTE 10 – 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>2014</u>	<u>2013</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$3,996,039	\$4,144,652
<b>INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:</b>		
Provision for Insured Events of Current Year	\$3,265,000	\$3,552,000
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>\$(1,556,482)</u>	<u>\$(1,120,727)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$1,708,518</u>	<u>\$2,431,273</u>
<b>PAYMENTS:</b>		
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Current Year	\$933,821	\$962,060
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Prior Year	<u>\$457,075</u>	<u>\$1,647,826</u>
Total Payments	<u>\$1,390,896</u>	<u>\$2,609,886</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$4,313,661</u>	<u>\$3,966,039</u>

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

**NOTE 11 – 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.

		11/30/2014	08/31/2013
Primary Asset Test			
Primary Assets		\$4,442,859	\$2,333,784
Estimated Claims Liabilities at Expected Level		\$4,313,661	\$3,966,039
	Results	Meets	Doesn't meet
Secondary Asset Test			
Primary & Secondary Assets		\$5,112,812	\$3,180,181
Estimated Claims at 70% Confidence Level		\$4,572,161	\$3,979,389
	Results	Meets	Doesn't meet

At the end of fiscal year 2013/14, CIAW meets solvency requirements.

**NOTE 12 - SUBSEQUENT EVENTS**

The CIAW has been reevaluating its accounts receivable and believes approximately \$24,000 will be recognized as "Allowance for Doubtful Accounts" in the 2014/15 fiscal year. While it has not been determined this amount will be written off, the CIAW does want to show it is a possibility.



**Cities Insurance Association of Washington**

TEN YEAR CLAIMS DEVELOPMENT INFORMATION  
Fiscal and Policy Year Ended November 30, 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Required contribution and investment revenue										
Earned					8,746,220	11,258,402	9,239,751	10,756,016	11,188,392	14,022,712
Ceded					4,268,990	5,488,409	4,540,664	4,636,844	4,205,362	6,496,687
Net Earned	5,388,348	3,554,174	3,781,532	4,730,567	4,477,230	5,769,993	4,699,087	6,119,172	6,983,030	7,526,025
2. Unallocated expenses	1,320,739	1,064,895	1,370,326	1,465,797	1,838,831	2,411,293	2,387,966	\$2,797,806	3,249,459	3,234,992
3. Estimated claims and expenses, end of policy year:										
Incurred					8,177,608	2,940,227	3,307,785	3,491,682	5,304,623	3,454,182
Ceded					5,545,380	480,227	762,785	350,682	1,752,623	189,182
Earned	3,721,737	2,873,177	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000
4. Net paid (cumulative) as of:										
End of Policy Year	2,705,213	1,890,138	1,776,874	762,690	817,908	849,326	943,668	852,530	962,060	933,821
One year later	3,614,551	2,568,052	2,604,627	1,722,535	1,529,114	1,422,475	1,856,757	1,953,714	1,729,352	
Two years later	4,045,699	3,288,453	2,103,843	2,077,272	1,856,978	1,870,117	2,856,033	2,321,347		
Three years later	4,626,289	2,693,417	2,287,552	2,276,996	1,856,978	2,428,808	2,819,984			
Four years later	2,297,873	2,973,583	2,439,550	2,276,996	1,849,816	2,615,548				
Five years later	2,379,196	3,012,943	2,439,550	2,270,600	1,856,978					
Six years later	2,303,638	3,108,824	2,439,550	2,276,996						
Seven years later	2,293,777	3,109,084	2,439,550							
Eight years later	2,293,793	3,109,084								
Nine years later	2,294,558									
5. Reestimated ceded claims and expenses	878,021	4,943,334	3,204,573	5,295,771	4,829,061	2,163,773	3,751,582	1,155,017	2,495,944	189,182
6. Reestimated net incurred claims and expenses:										
End of Policy Year	3,721,737	2,873,177	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000
One year later	4,394,916	3,542,677	4,408,916	2,918,331	1,856,978	2,460,000	2,946,000	3,030,000	3,002,500	
Two years later	4,387,625	4,899,606	2,556,600	2,276,996	1,856,978	2,609,500	2,923,000	2,998,564		
Three years later	5,526,346	3,325,501	2,439,550	2,276,996	1,856,978	2,620,000	2,829,267			
Four years later	2,729,763	3,012,943	2,439,550	2,276,996	1,856,978	2,615,548				
Five years later	2,413,533	3,012,943	2,439,550	2,276,996	1,856,978					
Six years later	2,356,392	3,108,824	2,439,550	2,276,996						
Seven years later	2,317,392	3,109,084	2,439,550							
Eight years later	2,317,392	3,109,084								
Nine years later	2,317,392									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(1,404,345)	235,907	(630,489)	(998,004)	(775,250)	155,548	284,267	(142,436)	(549,500)	0

**CITIES INSURANCE ASSOCIATION OF WASHINGTON**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**September 1, 2013 through November 30,2014**

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.

LIST OF PARTICIPATING MEMBERS  
CITIES INSURANCE ASSOCIATION OF WASHINGTON  
2013-2014 (9/1/2013 to 11/30/2014)

**Member Cities**

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

## Member Special Districts

Alpine Water District  
Asotin County Cemetery District  
Basin City Water-Sewer District  
Bellingham Public Development Authority  
Bridgeport Bar Irrigation District  
Columbia Water & Power Irrigation District  
Columbia Valley Water District  
Consolidated Diking Dist #1  
Consolidated Diking Dist #2  
Consolidated Diking Dist #3  
Consolidated Irrigation District #19  
Dallesport Water District  
Diking Improvement Dist #15  
Drainage Improvement Dist #1  
East Spokane Water District  
Elbe Water & Sewer District  
Endicott Park and Recreation Dist #7  
Gardena Farms Irrigation Dist  
Garfield Parks & Recreation  
Glacier Water District  
Grant County Cemetery District #1  
Irvin Water District #6  
Jefferson County Rural Library Dist  
Kennewick Irrigation District  
Kennewick Public Facilities Dist  
King Co. Drainage Dist #13  
Kittitas Co. Water District #2  
Kittitas Reclamation District  
Lake Wenatchee Water District  
Lakehaven Utility District  
Lewis County Water & Sewer District #5  
Lexington Flood Control Zone  
Lind Cemetery District  
Lopez Island Solid Waste Disposal District  
Lower Stemilt Irrigation District  
Lynden Transportation Benefit Dist  
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  
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

## Member 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  
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 #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 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  
Pierce Co FPD #26  
Poulsbo Fire Department  
Region 6 Training Council  
Riverside Fire and Rescue  
San Juan Co FPD #5  
Skagit Co FPD #10  
Skagit Co FPD #19  
Snohomish Co FPD #10  
Snohomish Co FPD #5  
South Kitsap Fire and Rescue  
Stevens Co FPD #10  
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 #14  
Whitman Co FPD #1  
Whitman Co FPD #2  
Whitman Co FPD #6  
Whitman Co FPD #8  
Whitman Co FPD #4 & City of Palouse FPD

## DES SCHEDULE OF EXPENSES

Cities Insurance Association of Washington  
For the Fifteen Month Ended November 30, 2014

Contracted Services:	
Third Party Administrator Fees	\$628,161
Actuary	25,398
Audit Expenses	35,649
Legal Fees	14,767
Other Consultant Fees (Lobbyist)	13,250
General Administrative Expenses:	
Miscellaneous & Supplies	39,976
Simulators	29,682
Retreat/Board Meetings	28,089
Depreciation	60,907
Prelitigation Program	4,232
Account Education/Training	5,624
Underwriting Fees	1,130,449
Marketing	9,872
Scholarship/Grant Program	7,072
Other:	
Medicare Reporting	4,500
Director's E&O	35,222
Total Operating Expenses	<u>\$2,072,849</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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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