



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Cities Insurance Association of
Washington

For the period December 1, 2018 through November 30, 2019

Published July 13, 2020

Report No. 1026555





**Office of the Washington State Auditor
Pat McCarthy**

July 13, 2020

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 Program's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	30

**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
December 1, 2018 through November 30, 2019**

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, as of and for the year ended November 30, 2019, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated June 18, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Program'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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 Program'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 Program's financial statements are free from material misstatement, we performed tests of the Program'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 Program'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 Program'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.



Pat McCarthy
State Auditor
Olympia, WA

June 18, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Cities Insurance Association of Washington December 1, 2018 through November 30, 2019

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, as of and for the year ended November 30, 2019, and the related notes to the financial statements, which collectively comprise the Program'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 Program'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 Program'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, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 Program's basic financial statements as a whole. The List of Participating Members and DES 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 June 18, 2020 on our consideration of the Program'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 Program's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

June 18, 2020

FINANCIAL SECTION

Cities Insurance Association of Washington December 1, 2018 through November 30, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – 2019

Notes to Ten Year Claims Development Information – 2019

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2019

DES Schedule of Expenses – 2019

CITIES INSURANCE ASSOCIATION OF WASHINGTON

Management's Discussion and Analysis
December 1, 2018 through November 30, 2019

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, 2019. 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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 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

	2019	2018
Current Assets	6,378,453	5,698,467
Noncurrent Assets	0	0
Total Assets	6,378,453	5,698,467
Deferred Outflows	0	0
Total Deferred Outflows	0	0
Current Liabilities	3,683,801	2,943,279
Noncurrent Liabilities	1,064,838	990,231
Total Liabilities	4,748,639	3,933,510
Deferred Inflows	0	0
Total Deferred Inflows	0	0
Net Investment in Capital Assets	0	0
Unrestricted	1,629,814	1,764,957
Total Net Position	1,629,814	1,764,957
Operating Revenues		
Member contributions	16,122,844	14,064,716
Nonoperating Revenues		
Interest Income	97,060	80,418
Unrealized Gain/Loss	0	92,117
Miscellaneous Income	0	0
Total Revenues	16,219,904	14,237,251
Operating Expenses	16,355,046	13,995,278
Total Expenses	16,355,046	13,995,278
Change in Net Position	(\$135,143)	241,973
Prior Period Adjustments		
Beginning Net Position	1,764,957	1,522,984
Ending Net Position	1,629,814	1,764,957

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 184 members. A board of directors, elected by the membership, governs the program. The Board of Directors contracts with Clear Risk Solutions, a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, and risk management services.

CIAW ended the year with a net loss of (\$135,143). The net loss was due to the claims performance being a little higher than anticipated in the budget.

Current assets include cash and investments, as well as receivables from members, and excess/reinsurance carriers. 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 9 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, Clear Risk Solutions, 451 Diamond Drive, Ephrata, WA 98823.

Cities Insurance Association of Washington

Balance Sheet

As of November 30, 2019

2019

ASSETS

Current Assets:

Cash and Equivalents \$6,168,770

Receivables

Member Contributions & Deductibles \$58,804

Excess/Reinsurance Recoverable \$150,879

TOTAL CURRENT ASSETS \$6,378,453

Deferred Outflows

TOTAL DEFERRED OUTFLOWS \$0

TOTAL ASSETS AND DEFERRED OUTFLOWS \$6,378,453

LIABILITIES

Current Liabilities:

Claim Reserves

IBNR \$538,114

Open Claims (Case Reserves) \$1,044,471

Accounts Payable \$27,133

Unearned Member Contributions \$2,074,083

TOTAL CURRENT LIABILITIES \$3,683,801

Noncurrent Liabilities:

Claim Reserves

IBNR \$362,069

Open Claims (Case Reserves) \$702,769

TOTAL NONCURRENT LIABILITIES \$1,064,838

Deferred Inflows

TOTAL DEFERRED INFLOWS \$0

TOTAL LIABILITIES AND DEFERRED INFLOWS \$4,748,639

NET POSITION

Net Investment in Capital Assets \$0

Unrestricted \$1,629,814

TOTAL NET POSITION \$1,629,814

TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS \$6,378,453

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For The Fiscal Year Ended November 30, 2019

	2019
OPERATING REVENUE:	
Member Contributions	\$16,022,081
Local Agent Fee Revenue	\$100,762
Total Operating Revenue	\$16,122,843
 TOTAL OPERATING REVENUE:	 \$16,122,843
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$994,240
Change in Loss Reserves	\$1,667,467
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$932,172
Excess/Reinsurance Premiums	\$10,533,843
General and Administrative Expenses	\$2,227,324
Depreciation	\$0
Total Operating Expenses	\$16,355,046
 OPERATING INCOME (LOSS)	 (\$232,203)
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$97,060
Unrealized Gain/(Loss) on Investments	
Total Nonoperating Revenues (Expenses)	\$97,060
 Income Before Contributions, Transfers, Special and Extraordinary Items	 (\$135,143)
Capital Contributions	
CHANGE IN NET POSITION	(\$135,143)
TOTAL NET POSITION, December 1	\$1,764,957
 TOTAL NET POSITION, November 30	 \$1,629,814

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended November 30, 2019

	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$17,219,166
Cash payments to TPA and Suppliers for goods and services	(\$10,554,098)
Cash payments for claims	(\$2,664,316)
Cash payments to third party Administrator	(\$3,159,496)
 Net Cash Provided (Used) by Operating Activities	 \$841,257
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase/Sale of Equipment	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$0</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	\$97,060
Unrealized Gain/(Loss) on Investments	<u>\$0</u>
 Net Cash Provided (Used) by Investing Activities	 <u>\$97,060</u>
 Increase (Decrease) in Cash and Cash Equivalents	 \$938,317
 Cash and Cash Equivalents, December 1	 <u>\$5,230,453</u>
 Prior Period Adjustment	
 Cash and Cash Equivalents, November 30	 <u>\$6,168,770</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
	<u>2019</u>
OPERATING INCOME	(\$232,203)
 Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	\$0
(Increase) Decrease in Accounts Receivable	\$258,331
Increase (Decrease) in Accounts Payable	(\$20,254)
Increase (Decrease) in Unpaid Claims Liability	(\$2,609)
Increase (Decrease) in Unearned Member Contributions	<u>\$837,992</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$841,257

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
For the Period
December 1, 2018 through November 30, 2019

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, professional and wrongful acts, are included to fit members' various needs. Additional coverages available to members on an optional basis include earthquake, flood, uninsured/underinsured motorists, privacy/network liability and data breach.

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, 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 6

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 2

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. 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.

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/reinsurance cost.

j. Unpaid Claims

Claims are expensed 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. Due to this agreement, it is not necessary for the CIAW to carry a reserve for such expenses.

l. Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

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

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

Cash on hand at November 30, 2019 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$0. The bank balance was \$2,316,964 and the investment pool balance was \$3,851,806.

The CIAW's deposits 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

The CIAW is a participant in the Grant County Investment Pool, an external investment pool. The responsibility for managing the pool resides with the County Treasurer. The pool is established from the RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The Grant County investment policy is established by the County Finance Committee, consisting of the County Treasurer, County Auditor, Chair of the Board of Commissioners and the Chief Accountant. The county external investing pool does not have a credit rating and had an average maturity of 904 days.

As of November 30, 2019, the CIAW had the following investments:

	Statement Balance	Fair Market Value (0.998%)
Grant County Investment Pool	\$3,851,806	\$3,844,102
Total Investments	\$3,851,806	\$3,844,102

CIAW values its investments at amortized cost rather than the fair value as per GASB 72 & 79. The difference between amortized and fair value is insignificant and the CIAW has always received 100% of its funds requests upon withdrawal. Currently there are not any limitations or restrictions on withdrawals.

NOTE 3 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by CIAW for the 2018-19 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (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	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (some vehicles vary per schedule)	\$25,000	\$100,000,000 per occurrence
Liability Loss:			

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 \$25,000-Law Enforcement	\$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)	\$25,000	\$10,000,000 per claim; \$50,000,000 annual group aggregate

NOTE 4 – 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>	2018-19
General Liability	\$50,000,000
Automobile Liability	No Aggregate
Public Officials Liability	\$50,000,000
Employment Practices Liability	\$50,000,000
Property	No Aggregate
Equipment Breakdown	No Aggregate
Employee Dishonesty	No Aggregate

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>	2018-19
General Liability	\$10,000,000
Automobile Liability	\$10,000,000
Public Officials Liability	\$10,000,000
Employment Practices Liability	\$10,000,000
Property	\$100,000,000
Equipment Breakdown	\$100,000,000
Employee Dishonesty	\$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 \$10,533,843. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$1,728,776.

NOTE 5 – MEMBERS’ SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members in the event the fund lacks resources to pay claims.

NOTE 6 – 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.

Depreciation is calculated using the straight-line method with a useful life of five years for the equipment. This year, the pool sold one of its old simulators.

NOTE 7 – RELATED PARTY TRANSACTIONS

The CIAW's third-party administrator and insurance broker is Clear Risk Solutions. Clear Risk Solutions uses Apex and Peachtree Special Risk to place insurance coverage for the pool. Clear Risk Solutions, Apex and Peachtree Special Risk are owned by the same parent company, Brown and Brown, Inc.

NOTE 8 – 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>2019</u>	<u>2018</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$2,650,032	\$2,671,285
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$2,308,111	\$2,182,394
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>\$(22,368)</u>	<u>\$(175,872)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$2,285,743</u>	<u>\$2,006,522</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Current Year	\$994,240	\$818,935
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Prior Year	<u>\$1,294,112</u>	<u>\$1,208,840</u>
Total Payments	<u>\$2,288,352</u>	<u>\$2,027,775</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$2,647,423</u>	<u>\$2,650,032</u>

NOTE 9 – 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 80% 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.

		11/30/2019	11/30/2018
Primary Asset Test			
Primary Assets		4,067,555	3,946,976
Estimated Claims Liabilities at Expected Level		2,647,423	2,650,032
	Results	Meets	Meets
Secondary Asset Test			
Primary & Secondary Assets		4,277,237	4,414,989
Estimated Claims at 80% Confidence Level		2,670,423	2,603,095
	Results	Meets	Meets

NOTE 10 – OTHER DISCLOSURES

In March of 2010 Cities Insurance Association of Washington (CIAW) and Munich Reinsurance America, Inc. entered into an Aggregate Stop Loss Reinsurance Agreement covering the policy years 09/01/04 to 09/01/2009. This policy was in addition to the Travelers Aggregate Stop Loss policies for the individual policy years of the same time. In May 2019, an agreement was reached between CIAW and Munich Reinsurance America, Inc. to commute and release all responsibility and liability of Munich Re from Aggregate Stop Loss Reinsurance Agreement No. 228693-3021617-2009, under which CIAW ceded reinsurance business and Munich Re accepted such business. In exchange, CIAW received a one time payment of \$30,000.

NOTE 11 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measure to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The CIAW has had two claims possibly linked to COVID-19 presented as of the completion of this report. However, any claims that may be presented in the future would be addressed through the Incurred But Not Reported portion of the Pool's financial report. The CIAW has a stop-loss policy in place to protect the pool from future losses that may occur in the pool's insurance layer if the Aggregate Stop Loss is breached during any fiscal year. The length of time these measures will be in place, and the full extent of the financial impact on the Program is unknown at this time.

Cities Insurance Association of Washington

TEN YEAR CLAIMS DEVELOPMENT INFORMATION
Fiscal and Policy Year Ended November 30, 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Required contribution and investment revenue										
Earned	11,258,402	9,239,751	10,756,016	11,188,392	14,022,712	12,017,577	11,784,040	12,727,289	14,145,134	16,219,904
Ceded	5,488,409	4,540,664	4,636,844	4,205,362	6,496,687	6,284,953	6,671,981	7,551,323	8,693,490	10,533,843
Net Earned	5,769,993	4,699,087	6,119,172	6,983,030	7,526,025	5,732,624	5,112,059	5,175,966	5,451,644	5,686,060
2. Unallocated expenses	2,411,293	2,387,966	\$2,797,806	3,249,459	3,234,992	2,921,765	3,025,735	3,049,135	\$3,196,829	3,159,496
3. Net claims and expenses, end of policy year:										
Incurred	2,940,227	3,307,785	3,491,682	5,304,623	3,454,182	6,256,467	2,872,292	4,519,033	1,182,355	2,683,261
Ceded	480,227	762,785	350,682	1,752,623	189,182	3,841,664	839,457	2,239,966	1,000,039	375,150
Net Incurred	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000	2,414,803	2,032,835	2,279,067	2,182,394	2,308,111
4. Net paid (cumulative) as of:										
End of Policy Year	849,326	943,668	852,530	962,060	933,821	1,040,769	1,085,317	1,366,404	818,935	994,240
One year later	1,422,475	1,856,757	1,953,714	1,729,352	2,025,441	1,693,613	1,553,599	1,664,043	1,337,757	
Two years later	1,870,117	2,856,033	2,321,347	1,846,932	2,616,108	1,788,123	1,658,766	1,735,250		
Three years later	2,428,808	2,819,984	2,465,359	2,207,306	3,085,000	2,170,046	1,941,951			
Four years later	2,615,548	2,908,265	2,701,851	2,322,968	3,340,801	2,442,330				
Five years later	2,614,248	3,006,165	2,997,909	2,491,949	3,491,105					
Six years later	2,615,353	3,003,497	2,997,909	2,494,061						
Seven years later	2,615,353	3,003,497	2,998,034							
Eight years later	2,614,683	2,999,238								
Nine years later	2,615,014									
5. Reestimated ceded claims and expenses	2,394,635	4,448,756	2,360,740	7,517,324	2,329,780	6,298,631	5,597,118	5,348,260	2,157,920	375,150
6. Reestimated net incurred claims and expenses:										
End of Policy Year	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000	2,414,803	2,032,835	2,279,067	2,182,394	2,308,111
One year later	2,460,000	2,946,000	3,030,000	3,002,500	3,095,000	2,396,303	1,936,091	2,157,067	2,185,394	
Two years later	2,609,500	2,923,000	2,998,564	2,697,500	3,492,613	2,389,050	1,966,731	2,096,130		
Three years later	2,620,000	2,829,267	2,997,910	2,759,502	3,557,988	2,350,585	1,966,731			
Four years later	2,615,548	2,958,224	2,997,910	2,625,183	3,532,611	2,454,595				
Five years later	2,614,248	3,007,165	2,997,909	2,605,183	3,532,861					
Six years later	2,615,353	3,003,497	2,997,909	2,540,295						
Seven years later	2,615,353	3,003,497	2,998,034							
Eight years later	2,614,683	2,999,238								
Nine years later	2,615,014									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	155,014	454,238	(142,966)	(1,011,705)	267,861	39,792	(66,104)	(182,937)	3,000	0

CITIES INSURANCE ASSOCIATION OF WASHINGTON
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2018 through November 30, 2019

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 2019 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.

Schedule T-1

LIST OF PARTICIPATING MEMBERS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
December 1, 2018 to November 30, 2019

Member Cities

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

Member Special Districts

Alpine Water District	East Columbia Basin Irrigation District
Asotin County Cemetery District	East Spokane Water District
Asotin County Public Facility District	Elbe Water & Sewer District
Basin City Water-Sewer District	Endicott Park and Recreation Dist #7
Bellingham Public Development Authority	Gardena Farms Irrigation Dist
Bridgeport Bar Irrigation District	Garfield Parks & Recreation
Cascade Irrigation District	Glacier Water District
Columbia Water & Power Irrigation District	Grant County Cemetery District #1
Columbia Valley Water District	Hunters Water District
Consolidated Diking Dist #1	Irvin Water District #6
Consolidated Diking Dist #2	Jefferson County Rural Library Dist
Consolidated Diking Dist #3	Kennewick Irrigation District
Consolidated Irrigation District #19	Kennewick Public Facilities Dist
Dallesport Water District	King County Drainage Dist #5
Diking Improvement Dist #15	King Co. Drainage Dist #13
Drainage Improvement Dist #1	Kittitas Co. Water District #2

Kittitas Reclamation District
Lake Wenatchee Water District
Lakehaven Utility District
Lexington Flood Control Zone
Lind Cemetery District
Lower Stemilt Irrigation District
Lynnwood Transportation Benefit District
Malaga Water District
Moab Irrigation District
Moses Lake Irrigation & Rehab District
Naches-Selah Irrigation District
North Central Regional Library
North Spokane Irrigation District
North Whidbey Park & Recreation District
Okanogan County Transit Authority
Orchard Avenue Irrigation District
Pasadena Park Irrigation District
Peshastin Water District
Pierce County Flood Control Zone District
Pierce County Noxious Weed
Point Roberts Park & Rec. #1
Port of Ephrata
Port of Kennewick
Port of Othello
Port Of Quincy

Quincy Columbia Basin Irrigation District
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. Public Hospital Dist #304
Skagit Co. Sewer Dist #2
South Banks Lake Mosquito Control Dist #3
South Columbia Basin Irrigation District
Startup Water District
Sunnyside Valley Irrigation District
Tacoma-Pierce Co Employment & Training
Tacoma Community Redevelopment Authority
Timberland Regional Library
Trentwood Irrigation District
Uniontown Community Development Association
Washington State School Directors Assoc.
Whitman County Public Hospital Dist #2
Yakima County Rural Library District
Yakima Joint Board of Control #1
Yakima-Tieton Irrigation District

Member Fire Districts

Adams Co FPD #1
Aero-Skagit Emergency Service
Blue Mountain FD#1
Chelan Co FPD #1
Chelan Co FPD #3
Columbia Co FPD #1
Columbia Walla Walla Co Fire District #2
Douglas Co FPD #2
Douglas Co FPD #5
Enumclaw Fire Department
Ferry/Okanogan FPD # 13
Ferry/Okanogan FPD #14
Franklin Co FPD #1
Franklin Co FPD #4
Glacier Fire and Rescue
Grant Co FPD #4
Grant Co FPD #13
Grant Co FPD #14
Grays Harbor Co FPD #5
King Co FPD #4 DBA Shoreline FPD
King Co FPD #34
King Co FPD #50
Kittitas Co FPD #6
Klickitat FPD #10

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
Pacific Co FPD #8
Pierce Co FPD #26
Puget Sound Regional Fire Authority
Region 6 Training Council
Riverside Fire and Rescue
San Juan Co FPD #5
Skagit Co FPD #10
Skagit Co FPD #19
Snohomish Co FPD #5
Snohomish Co FPD #10
Stevens Co FPD #3
Stevens Co FPD #4
West Thurston Regional Fire Authority
Whatcom Co FPD #1
Whatcom Co FPD #7
Whatcom Co FPD #14

Whatcom Co FPD #21 dba North Whatcom
Fire & Rescue
Whitman Co FPD #1

Whitman Co FPD #2
Whitman Co FPD #4 & City of Palouse FP

Schedule T-2

DES SCHEDULE OF EXPENSES

**Cities Insurance Association of Washington
For the Fiscal Year Ended November 30, 2019**

	2019
Contracted Services:	
Third Party Administrator Fees	549,894
Actuary	17,460
Audit Expenses	31,261
Legal Fees	5,034
Other Consultant Fees (Lobbyist)	18,201
General Administrative Expenses:	
Miscellaneous & Supplies	16,687
Simulators	197,108
Retreat/Board Meetings	15,077
Prelitigation Program	162,915
Account Education/Training	13,874
Underwriting Fees	1,042,123
Marketing	14,550
Member Assistance	2,171
Other:	
Medicare Reporting	12,000
Director's E&O	28,206
Local Agents Fees	100,762
Total Operating Expenses	<u><u>2,227,324</u></u>

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.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov