



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Cities Insurance Association of Washington

For the period December 1, 2019 through November 30, 2020

Published July 26, 2021

Report No. 1028829



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

July 26, 2021

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 the Financial Statements	6
Financial Section.....	9
About the State Auditor's Office.....	29

INDEPENDENT AUDITOR'S REPORT

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, 2019 through November 30, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated July 15, 2021.

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9.

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.

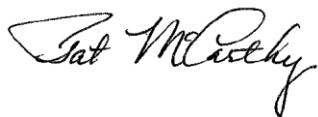
COMPLIANCE AND OTHER MATTERS

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

July 15, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Cities Insurance Association of Washington December 1, 2019 through November 30, 2020

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, 2020, 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, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9. 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 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 July 15, 2021 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

July 15, 2021

FINANCIAL SECTION

Cities Insurance Association of Washington December 1, 2019 through November 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – 2020

Notes to Ten Year Claims Development Information – 2020

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2020

DES Schedule of Expenses – 2020

CITIES INSURANCE ASSOCIATION OF WASHINGTON

Management's Discussion and Analysis
December 1, 2019 through November 30, 2020

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, 2020. 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

	2020	2019
Current Assets	5,743,369	6,378,453
Noncurrent Assets	0	0
Total Assets	5,743,369	6,378,453
Deferred Outflows	0	0
Total Deferred Outflows	0	0
Current Liabilities	1,439,502	3,683,801
Noncurrent Liabilities	1,738,955	1,064,838
Total Liabilities	3,178,458	4,748,639
Deferred Inflows	0	0
Total Deferred Inflows	0	0
Net Investment in Capital Assets	0	0
Unrestricted	2,564,911	1,629,814
Total Net Position	2,564,911	1,629,814
Operating Revenues		
Member contributions	13,539,776	16,122,844
Nonoperating Revenues		
Interest Income	35,903	97,060
Unrealized Gain/Loss	0	0
Miscellaneous Income	0	0
Total Revenues	13,575,679	16,219,904
Operating Expenses	12,640,582	16,355,046
Total Expenses	12,640,582	16,355,046
Change in Net Position	\$935,097	(\$135,143)
Prior Period Adjustments		
Beginning Net Position	1,629,814	1,764,957
Ending Net Position	2,564,911	1,629,814

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 194 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 income of \$935,097. The net income was due to reduced spending due to COVID-19 protocols. Events being held remotely or cancelled altogether greatly reduced travel expenses for meetings, account education and simulator trainings. The CIAW also had a lower than budgeted claims performance for the 2019-20 term.

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, 2020

	<u>2020</u>
ASSETS	
<u>Current Assets:</u>	
Cash and Equivalents	\$4,731,495
Receivables	
Member Contributions & Deductibles	\$31,986
Excess/Reinsurance Recoverable	\$978,388
Pre Paid Expenses	\$1,500
TOTAL CURRENT ASSETS	<u>\$5,743,369</u>
<u>Deferred Outflows</u>	<u>\$0</u>
TOTAL DEFERRED OUTFLOWS	\$0
 TOTAL ASSETS AND DEFERRED OUTFLOWS	 <u><u>\$5,743,369</u></u>
 LIABILITIES	
<u>Current Liabilities:</u>	
Claim Reserves	
IBNR	\$560,077
Open Claims (Case Reserves)	\$758,791
Accounts Payable	\$96,352
Unearned Member Contributions	\$24,282
TOTAL CURRENT LIABILITIES	<u>\$1,439,502</u>
<u>Noncurrent Liabilities:</u>	
Claim Reserves	
IBNR	\$738,473
Open Claims (Case Reserves)	\$1,000,482
TOTAL NONCURRENT LIABILITIES	<u>\$1,738,955</u>
<u>Deferred Inflows</u>	
TOTAL DEFERRED INFLOWS	<u>\$0</u>
	\$0
 TOTAL LIABILITIES AND DEFERRED INFLOWS	 \$3,178,458
 <u>NET POSITION</u>	
Net Investment in Capital Assets	\$0
Unrestricted	\$2,564,911
TOTAL NET POSITION	<u>\$2,564,911</u>
 TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	 <u><u>\$5,743,369</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 Fiscal Year Ended November 30, 2020

	2020
OPERATING REVENUE:	
Member Contributions	\$13,484,082
Local Agent Fee Revenue	\$55,694
Total Operating Revenue	\$13,539,776
 TOTAL OPERATING REVENUE:	 \$13,539,776
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$1,108,660
Change in Loss Reserves	\$892,627
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$936,426
Excess/Reinsurance Premiums	\$7,701,495
General and Administrative Expenses	\$2,001,374
Depreciation	\$0
Total Operating Expenses	\$12,640,582
 OPERATING INCOME (LOSS)	 \$899,194
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$35,903
Unrealized Gain/(Loss) on Investments	
Total Nonoperating Revenues (Expenses)	\$35,903
 Income Before Contributions, Transfers, Special and Extraordinary Items	 \$935,097
Capital Contributions	
CHANGE IN NET POSITION	\$935,097
 TOTAL NET POSITION, December 1	 \$1,629,814
 TOTAL NET POSITION, November 30	 \$2,564,911

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended November 30, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$10,689,283
Cash payments to TPA and Suppliers for goods and services	(\$7,633,776)
Cash payments for claims	(\$1,590,886)
Cash payments to third party Administrator	(\$2,937,800)
	(\$1,473,179)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase/Sale of Equipment	\$0
Net Cash Provided (Used) by Capital and Related Financing Activities	\$0
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	\$35,903
Unrealized Gain/(Loss) on Investments	\$0
	\$35,903
Net Cash Provided (Used) by Investing Activities	\$35,903
Increase (Decrease) in Cash and Cash Equivalents	(\$1,437,276)
Cash and Cash Equivalents, December 1	\$6,168,770
Prior Period Adjustment	
Cash and Cash Equivalents, November 30	\$4,731,494
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
	2020
OPERATING INCOME	\$899,194
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	
(Increase) Decrease in Accounts Receivable	(\$800,692)
Increase (Decrease) in Accounts Payable	\$67,719
Increase (Decrease) in Unpaid Claims Liability	\$410,401
Increase (Decrease) in Unearned Member Contributions	(\$2,049,801)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(\$1,473,179)

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
For the Period
December 1, 2019 through November 30, 2020

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. 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.

e. Investments – See Note 2

f. 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.

g. 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.

h. 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.

i. 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.

j. 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.

k. 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, 2020 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$0. The bank balance was \$848,772 and the investment pool balance was \$3,882,723.

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 280 days.

As of November 30, 2020, the CIAW had the following investments:

	Statement Balance	Fair Market Value (0.999%)
Grant County Investment Pool	\$3,882,723	\$3,878,840
Total Investments	\$3,882,723	\$3,878,840

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 issued and retained by CIAW for the 2019-20 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>	2019-20
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>	2019-20
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 \$7,701,495. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$1,783,743.

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 – 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 7 – 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>2020</u>	<u>2019</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$2,647,423	\$2,650,032
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$2,164,556	\$2,308,111
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>\$384,423</u>	<u>\$(22,368)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$2,548,979</u>	<u>\$2,285,743</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$1,108,660	\$994,240
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>\$1,029,918</u>	<u>\$1,294,112</u>
Total Payments	<u>\$2,138,578</u>	<u>\$2,288,352</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$3,057,824</u>	<u>\$2,647,423</u>

NOTE 8 – 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.

		11/30/2020	11/30/2019
Primary Asset Test			
Primary Assets		4,610,861	4,067,555
Estimated Claims Liabilities at Expected Level		3,057,823	2,647,423
	Results	Meets	Meets
Secondary Asset Test			
Primary & Secondary Assets		5,621,235	4,277,237
Estimated Claims at 80% Confidence Level		3,266,438	2,670,423
	Results	Meets	Meets

NOTE 9 – 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, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Required contribution and investment revenue										
Eamed	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	13,575,679
Ceded	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	7,701,495
Net Earned	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	5,874,184
2. Unallocated expenses	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	2,937,803
3. Net claims and expenses, end of policy year:										
Incurred	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	2,164,556
Ceded	762,785	350,682	1,752,623	189,182	3,841,664	839,457	2,239,966	1,000,039	375,150	1,993,959
Net Incurred	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	4,158,515
4. Net paid (cumulative) as of:										
End of Policy Year	943,668	852,530	962,060	933,821	1,040,769	1,085,317	1,366,404	818,935	994,240	1,108,660
One year later	1,856,757	1,953,714	1,729,352	2,025,441	1,693,613	1,553,599	1,664,043	1,337,757	1,478,317	
Two years later	2,856,033	2,321,347	1,846,932	2,616,108	1,788,123	1,658,766	1,735,250	1,726,681		
Three years later	2,819,984	2,465,359	2,207,306	3,085,000	2,170,046	1,941,951	1,791,734			
Four years later	2,908,265	2,701,851	2,322,968	3,340,801	2,442,330	1,941,951				
Five years later	3,006,165	2,997,909	2,491,949	3,491,105	2,454,595					
Six years later	3,003,497	2,997,909	2,494,061	3,532,611						
Seven years later	3,003,497	2,998,034	2,509,482							
Eight years later	2,999,238	2,997,909								
Nine years later	3,030,605									
5. Reestimated ceded claims and expenses	4,448,756	2,360,740	7,517,324	3,385,781	6,181,682	5,517,533	4,924,604	2,555,029	699,998	1,993,959
6. Reestimated net incurred claims and expenses:										
End of Policy Year	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	2,164,556
One year later	2,946,000	3,030,000	3,002,500	3,095,000	2,396,303	1,936,091	2,157,067	2,185,394	2,501,227	
Two years later	2,923,000	2,998,564	2,697,500	3,492,613	2,389,050	1,966,731	2,096,130	2,163,054		
Three years later	2,829,267	2,997,910	2,759,502	3,557,988	2,350,585	1,966,731	2,143,225			
Four years later	2,958,224	2,997,910	2,625,183	3,532,611	2,454,595	1,966,554				
Five years later	3,007,165	2,997,909	2,605,183	3,532,861	2,457,092					
Six years later	3,003,497	2,997,909	2,540,295	3,532,935						
Seven years later	3,003,497	2,998,034	2,539,726							
Eight years later	2,999,238	2,997,909								
Nine years later	3,037,755									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	492,755	(143,091)	(1,012,274)	267,935	42,289	(46,281)	(135,842)	(19,340)	193,116	(1,993,959)

**CITIES INSURANCE ASSOCIATION OF WASHINGTON
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2019 through November 30, 2020**

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 2020 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, 2019 to November 30, 2020

Member Cities

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

Member Special Districts

Alpine Water District	Hunters Water District
Asotin County Cemetery District	Irvin Water District #6
Asotin County Public Facility District	Jefferson County Rural Library Dist
Basin City Water-Sewer District	Kennewick Irrigation District
Bellingham Public Development Authority	Kennewick Public Facilities Dist
Bridgeport Bar Irrigation District	King County Drainage Dist #5
Cascade Irrigation District	King Co. Drainage Dist #13
Columbia Water & Power Irrigation District	Kittitas Co. Water District #2
Columbia Valley Water District	Kittitas Reclamation District
Consolidated Diking Dist #1	Lakehaven Utility District
Consolidated Diking Dist #2	Lexington Flood Control Zone
Consolidated Diking Dist #3	Lind Cemetery District
Consolidated Irrigation District #19	Lower Stemilt Irrigation District
Dallesport Water District	Malaga Water District
Diking Improvement Dist #15	Moab Irrigation District
Drainage Improvement Dist #1	Moses Lake Irrigation & Rehab District
East Columbia Basin Irrigation District	Naches-Selah Irrigation District
East Spokane Water District	North Central Regional Library
Elbe Water & Sewer District	North Spokane Irrigation District
Endicott Park and Recreation Dist #7	North Whidbey Park & Recreation District
Gardena Farms Irrigation Dist	Okanogan County Transit Authority
Garfield Parks & Recreation	Orchard Avenue Irrigation District
Grant County Cemetery District #1	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
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
Tacoma-Pierce County Health Department
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

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, 2020**

	2020
Contracted Services:	
Third Party Administrator Fees	552,455
Actuary	24,555
Audit Expenses	31,582
Legal Fees	3,810
Other Consultant Fees (Lobbyist)	10,080
General Administrative Expenses:	
Miscellaneous & Supplies	7,893
Simulators	84,567
Retreat/Board Meetings	0
Prelitigation Program	132,620
Account Education/Training	18,021
Underwriting Fees	1,030,453
Marketing	5,415
Member Assistance	2,200
Other:	
Medicare Reporting	8,823
Director's E&O	33,209
Local Agents Fees	55,694
Total Operating Expenses	<u>2,001,377</u>

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov