



Office of the Washington State Auditor  
Pat McCarthy

## Financial Statements Audit Report

# Cities Insurance Association of Washington

For the period December 1, 2022 through November 30, 2023

*Published July 29, 2024*

Report No. 1035301



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

July 29, 2024

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## 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, 2022 through November 30, 2023**

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, 2023, 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 16, 2024.

### **REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.


## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 16, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Cities Insurance Association of Washington December 1, 2022 through November 30, 2023**

Board of Directors  
Cities Insurance Association of Washington  
Ephrata, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

We have audited the accompanying financial statements of the Cities Insurance Association of Washington, as of and for the year ended November 30, 2023, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2023, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## 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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Information

The other information comprises the Program's List of Participating member and DES Schedule of Expenses but does not include the basic financial statements and our auditor's report thereon. Management is responsible for the other information included with the financial statements. Our opinion on the basic financial statements does not cover this other information, and we do not express an opinion or provide any assurance thereon.

In connection with the audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we include that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2024 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 the effectiveness of the Program's internal control over financial reporting or on



compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

July 16, 2024

## **FINANCIAL SECTION**

### **Cities Insurance Association of Washington December 1, 2022 through November 30, 2023**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2023

#### **BASIC FINANCIAL STATEMENTS**

Balance Sheet – 2023

Statement of Revenues, Expenses and Changes in Fund Net Position – 2023

Statement of Cash Flows – 2023

Notes to Financial Statements – 2023

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Ten Year Claims Development Information – 2023

Notes to Ten Year Claims Development Information – 2023

#### **SUPPLEMENTARY AND OTHER INFORMATION**

List of Participating Members – 2023

DES Schedule of Expenses – 2023

# **CITIES INSURANCE ASSOCIATION OF WASHINGTON**

Management's Discussion and Analysis  
December 1, 2022 through November 30, 2023

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, 2023. 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

	<b>2023</b>	<b>2022</b>
Current Assets	19,514,961	17,323,962
Noncurrent Assets	177,208	0
Total Assets	19,692,169	17,323,962
Deferred Outflows	0	0
Total Deferred Outflows	0	0
Current Liabilities	4,823,419	7,439,367
Noncurrent Liabilities	6,063,655	4,282,356
Total Liabilities	10,887,075	11,721,723
Deferred Inflows	0	0
Total Deferred Inflows	0	0
Net Investment in Capital Assets	177,208	0
Unrestricted	8,627,886	5,602,240
Total Net Position	8,805,094	5,602,240
Operating Revenues		
Member contributions	21,345,665	17,006,970
Nonoperating Revenues		
Interest Income	468,883	83,394
Unrealized Gain/Loss	(479,195)	0
Gain on Sale of Assets	44,000	
Total Revenues	21,379,353	17,090,905
Operating Expenses	18,176,498	16,033,107
Total Expenses	18,176,498	16,033,107
Change in Net Position	\$3,202,855	\$1,057,798
Prior Period Adjustments		
Beginning Net Position	5,602,240	4,544,441
Ending Net Position	8,805,094	5,602,240

## **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 196 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 \$3,202,855 despite budgeting for a net income of \$232,861. The increased net income can largely be attributed to lower than anticipated current and prior year claims costs. Many general expenses were lower than budgeted as well, though excess insurance costs came in higher than budgeted.

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 8 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, 2023

	<b>2023</b>
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash and Equivalents	\$18,904,002
Receivables	
Member Contributions & Deductibles	\$135,822
Excess/Reinsurance Recoverable	\$475,137
Pre Paid Expenses	\$0
TOTAL CURRENT ASSETS	\$19,514,961
<b><u>Noncurrent Assets:</u></b>	
Capital Assets	
Equipment Purchased (Net of Accumulated Depreciation)	\$177,208
TOTAL NONCURRENT ASSETS	\$177,208
Deferred Outflows	\$0
TOTAL DEFERRED OUTFLOWS	\$0
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$19,692,169
<b><u>LIABILITIES</u></b>	
<b><u>Current Liabilities:</u></b>	
Claim Reserves	
IBNR	\$561,894
Open Claims (Case Reserves)	\$1,106,256
Accounts Payable	\$48,735
Unearned Member Contributions	\$2,825,107
Reinsurance Settlement Advance	\$281,427
TOTAL CURRENT LIABILITIES	\$4,823,419
<b><u>Noncurrent Liabilities:</u></b>	
Claim Reserves	
IBNR	\$2,042,460
Open Claims (Case Reserves)	\$4,021,195
TOTAL NONCURRENT LIABILITIES	\$6,063,655
Deferred Inflows	
TOTAL DEFERRED INFLOWS	\$0
TOTAL LIABILITIES AND DEFERRED INFLOWS	\$10,887,075
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	\$177,208
Unrestricted	\$8,627,886
TOTAL NET POSITION	\$8,805,094
TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	\$19,692,169

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, 2023**

	<b>2023</b>
OPERATING REVENUE:	
Member Contributions	\$21,258,917
Local Agent Fee Revenue	\$86,748
Total Operating Revenue	<u>\$21,345,665</u>
 TOTAL OPERATING REVENUE:	 \$21,345,665
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$2,377,138
Change in Loss Reserves	\$3,580,307
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$930,940
Excess/Reinsurance Premiums	\$8,600,867
General and Administrative Expenses	\$2,660,755
Depreciation	\$26,492
Total Operating Expenses	<u>\$18,176,498</u>
 OPERATING INCOME (LOSS)	 \$3,169,167
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$468,883
Unrealized Gain/(Loss)	(\$479,195)
Gain on Sale of Assets	\$44,000
Total Nonoperating Revenues (Exp)	<u>\$33,688</u>
 Income Before Contributions, Transfers, Special and Extraordinary Items	 <u>\$3,202,855</u>
 Capital Contributions	 \$0
CHANGE IN NET POSITION	<u>\$3,202,855</u>
 TOTAL NET POSITION, December 1	 \$5,602,240
 TOTAL NET POSITION, November 30	 <u><u>\$8,805,094</u></u>

See Accompanying Notes to Financial Statements

# Cities Insurance Association of Washington

## STATEMENT OF CASH FLOWS

For The Fiscal Year Ended November 30, 2023

**2023**

### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from members	\$19,596,495
Cash payments to TPA and Suppliers for goods and services	(\$8,612,348)
Cash payments for claims	(\$5,440,759)
Cash payments to third party Administrator	(\$3,591,695)

Net Cash Provided (Used) by Operating Activities \$1,951,693

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase/Sale of Equipment	(\$159,699)
Net Cash Provided (Used) by Capital and Related Financing Activities	(\$159,699)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Income	\$468,883
Unrealized Gain/(Loss)	(\$479,195)
Net Cash Provided (Used) by Investing Activities	(\$10,312)

Increase (Decrease) in Cash and Cash Equivalents \$1,781,683

Cash and Cash Equivalents, December 1 \$17,122,320

Cash and Cash Equivalents, November 30 \$18,904,003

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

**2023**

OPERATING INCOME \$3,169,167

Adjustment to reconcile operating income to net cash provided (used) by operating activities:

Depreciation Expense \$26,492

(Increase) Decrease in Prepaid Expense \$70

(Increase) Decrease in Accounts Receivable (\$409,387)

Increase (Decrease) in Accounts Payable (\$11,551)

Increase (Decrease) in Reinsurance Settlement Advance (\$1,413,135)

Increase (Decrease) in Unpaid Claims Liability \$1,929,821

Increase (Decrease) in Unearned Member Contributions (\$1,339,783)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES \$1,951,693

See Accompanying Notes to Financial Statements



**NOTES TO FINANCIAL STATEMENTS**  
**CITIES INSURANCE ASSOCIATION OF WASHINGTON**  
**For the Period**  
**December 1, 2022 through November 30, 2023**

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 written notice prior to December 1 of the preceding calendar year to terminate 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 on November 30, 2023 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$7,096,137. The bank balance was \$7,405,882 and the investment pool fair market value was \$11,807,865.

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 800 days.

As of November 30, 2023, the CIAW had the following investments:

	Statement Balance	Fair Market Value (0.961%)
Grant County Investment Pool	\$12,287,060	\$11,807,865
Total Investments	\$12,287,060	\$11,807,865

GASB 72 & 79 was fully adopted in 2023, which resulted in changes to the presentation of the financial statements. In previous years, the financial statements did not present fair market value. As a result the 2023 financial statements report less investments when compared to previous years. 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 standard limits on coverage policies issued and retained by CIAW for the 2022-23 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)	\$750,000	\$100,000,000 per occurrence and group aggregate (115% Margin Clause 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:	\$750,000	\$15,000,000 per occurrence and annual aggregate; \$1,000,000 occurrence and annual aggregate and \$15,000,000 group annual

	\$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.		aggregate for Flood Zones prefixed A or V
Earthquake	The greater of 2% of the total value of all property at the locations suffering loss or \$50,000 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.	\$750,000	\$15,000,000 per occurrence, annual and group aggregate
Equipment Breakdown	Cities & Special Districts - \$2,500 Fire Districts - \$500 All Motors & Pumps - \$10,000	\$15,000 (All Motors & Pumps)	\$100,000,000 per occurrence and group aggregate
Employee Dishonesty	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$25,000	\$1,000,000 per occurrence and annual aggregate (no group aggregate)
Auto Comp and Collision	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (some vehicles vary per schedule)	\$750,000	\$100,000,000 per occurrence and group aggregate
<b>Liability Loss:</b>			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$0 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$750,000	\$10,000,000 each accident; no aggregate (\$1,000,000 each accident UIM)
General Liability including Bodily Injury, Property Damage and Personal Injury	\$0 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$750,000	\$10,000,000 per occurrence; \$20,000,000 per annual aggregate; \$50,000,000 annual group aggregate
Sexual Abuse Liability	\$0 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$750,000	\$10,000,000 each sexual abuse & annual aggregate; \$30,000,000 group annual aggregate
Wrongful Acts / Misc. Professional Liability	\$250 Standard – Fire Districts \$1,000 Standard – Cities & Special Districts (may vary)	\$750,000	\$10,000,000 per wrongful act and annual aggregate; \$50,000,000 annual group aggregate
<b>Cyber Coverage:</b>			
Cyber Liability	\$10,000	\$40,000	\$5,000,000 per claim/loss and annual aggregate; \$10,000,000 group aggregate

**NOTE 4 – EXCESS INSURANCE CONTRACTS AND 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. The limits provided by these contracts are as follows:

Excess Insurance Contracts 2022-23				
Type of Coverage	2022-23 Pool Limit	Carrier	Carrier Rating	Occurrence or Claims Made

General Liability	\$10,000,000 each occurrence; \$20,000,000 annual aggregate; \$50,000,000 group annual aggregate	Pennsylvania Manufacturers' Association Insurance Company (Old Republic)	A+ XV	Occurrence
Automobile Liability	\$10,000,000 each accident; no aggregate (\$1,000,000 each accident UIM)	Pennsylvania Manufacturers' Association Insurance Company (Old Republic)	A+ XV	Occurrence
Sexual Abuse Liability	\$10,000,000 each sexual abuse and annual aggregate; \$30,000,000 group annual aggregate	Pennsylvania Manufacturers' Association Insurance Company (Old Republic)	A+ XV	Occurrence
Wrongful Acts / Misc. Professionals	\$10,000,000 each wrongful act and annual aggregate; \$50,000,000 group annual aggregate	Pennsylvania Manufacturers' Association Insurance Company (Old Republic)	A+ XV	Claims-made
Property	\$100,000,000 each occurrence and group aggregate	Pennsylvania Manufacturers' Association Insurance Company (Old Republic), Hallmark Specialty Insurance Company, North American Elite Insurance Company, Certain Underwriters at Lloyd's (London Syndicate HCC), Great American Fidelity Insurance Company	A+ XV, A- VIII, A+ XV, A XV, A+ XV	Occurrence
Equipment Breakdown	\$100,000,000 per occurrence and group aggregate	Hartford Steam Boiler Inspection & Insurance Company of Connecticut	A++ X	Occurrence
Employee Dishonesty	\$1,000,000 per occurrence and annual aggregate (no group aggregate)	Pennsylvania Manufacturers' Association Insurance Company (Old Republic)	A+ XV	Occurrence
Cyber Liability	\$5,000,000 per claim/loss and annual aggregate; \$10,000,000 group aggregate	Obsidian Specialty Insurance Company, Great American Fidelity Insurance Company	A- VII, A+ XV	Occurrence

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 \$8,600,867. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$201,921.

**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 – CAPITAL ASSETS**

a. Capital Assets

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

Capital assets are recorded at historical cost. Capital assets activity for the year ended November 30, 2023 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Equipment	\$0	\$203,699	\$203,699
Less Accum Depreciation	\$0	\$ 26,492	\$ 26,492
Total Capital Assets, net	\$0	\$177,207	\$177,207

Depreciation is calculated using the straight-line method with a useful life of seven years for the trucks and a useful life of seven years for the equipment. This year, the pool purchased two new trucks to pull the training simulator trailers and sold the older trucks. The older trucks had been fully depreciated several years ago.

**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>2023</u>	<u>2022</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$5,801,986	\$3,464,113
<b>INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:</b>		
Provision for Insured Events of Current Year	\$7,061,989	\$5,589,582
Increases (Decreases) in Provision for Insured Events of Prior Year	( <u>\$1,127,819</u> )	<u>\$4,840</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$5,934,170</u>	<u>\$5,594,422</u>
<b>PAYMENTS:</b>		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$2,377,138	\$2,108,812
Claims and Claim Adjustment Expenses		

Attributable to Insured Events of Prior Year	<u>\$1,627,212</u>	<u>\$1,147,737</u>
Total Payments	<u>\$4,004,350</u>	<u>\$3,256,549</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$7,731,805</u>	<u>\$5,801,986</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.

		11/30/2023	11/30/2022
<b>Primary Asset Test</b>			
Primary Assets		15,748,733	11,202,583
Estimated Claims Liabilities at Expected Level		7,731,805	5,801,986
	Results	Meets	Meets
<b>Secondary Asset Test</b>			
Primary & Secondary Assets		16,536,900	11,404,255
Estimated Claims at 80% Confidence Level		9,509,892	7,004,010
	Results	Meets	Meets

**NOTE 10 – 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 five total claims possibly linked to COVID-19 presented as of the completion of this report, all of which have been closed. 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, 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1 Required contribution and investment revenue										
Earned	14,022,712	12,017,577	11,784,040	12,727,289	14,145,134	16,219,904	13,575,679	14,829,617	17,090,905	21,814,548
Ceded	6,496,687	6,284,953	6,671,981	7,551,323	8,693,490	10,533,843	7,701,495	7,488,642	7,222,975	8,600,867
Net Earned	7,526,025	5,732,624	5,112,059	5,175,966	5,451,644	5,686,060	5,874,184	7,340,975	9,867,930	13,213,681
2 Unallocated expenses	3,234,992	2,921,765	3,025,735	3,049,135	\$3,196,829	3,159,496	2,937,803	3,168,029	3,157,030	3,182,991
3 Net claims and expenses, end of policy year:										
Incurred	3,454,182	6,256,467	2,872,292	4,519,033	3,182,433	2,683,261	4,159,515	2,863,303	7,698,394	7,269,489
Ceded	189,182	3,841,664	839,457	2,239,966	1,000,039	375,150	1,993,959	400,000	2,108,812	207,500
Net Incurred	3,265,000	2,414,803	2,032,835	2,279,067	2,182,394	2,308,111	2,165,556	2,463,303	5,589,582	7,061,989
4 Net paid (cumulative) as of:										
End of Policy Year	933,821	1,040,769	1,085,317	1,366,404	818,935	994,240	1,108,660	856,487	2,108,812	2,377,138
One year later	2,025,441	1,693,613	1,553,599	1,664,043	1,337,757	1,478,317	1,504,774	1,573,774	3,272,235	
Two years later	2,616,108	1,788,123	1,658,766	1,735,250	1,726,681	1,503,997	1,848,638	1,752,282		
Three years later	3,085,000	2,170,046	1,941,951	1,791,734	2,005,488	1,585,329	1,916,218			
Four years later	3,340,801	2,442,330	1,941,951	1,927,416	2,010,367	1,799,934				
Five years later	3,491,105	2,454,595	1,945,776	2,007,234	2,031,665					
Six years later	3,532,611	2,454,498	1,941,731	1,989,033						
Seven years later	3,532,611	2,379,175	1,941,731							
Eight years later	3,532,611	2,379,175								
Nine years later	3,532,611									
5 Reestimated ceded claims and expenses	1,793,399	5,344,875	3,473,558	2,186,372	2,363,877	1,933,857	9,113,893	11,273,000	889,000	207,500



**CITIES INSURANCE ASSOCIATION OF WASHINGTON**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**December 1, 2022 through November 30, 2023**

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 2023 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, 2022 to November 30, 2023

**Member Cities**

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

**Member Special Districts**

Alpine Water District	Grant County Cemetery District #1
Asotin County Cemetery District #1	Hunters Water District
Asotin County Public Facility District	Icicle Peshastin Irrigation District
Basin City Water-Sewer District	Irvin Water District #6
Bellingham Public Development Authority	Jefferson County Rural Library Dist
Bridgeport Bar Irrigation District	Kennewick Irrigation District
Cascade Irrigation District	Kennewick Public Facilities Dist
Columbia Water & Power Irrigation District	King County Drainage Dist #5
Columbia Valley Water District	King Co. Drainage Dist #13
Consolidated Diking Dist #1	Kittitas Co. Water District #2
Consolidated Diking Dist #2	Kittitas Reclamation District
Consolidated Diking Dist #3	Lakehaven Water & Sewer District
Consolidated Irrigation District #19	Lexington Flood Control Zone
Dallesport Water District	Lind Cemetery District
Diking Improvement Dist #15	Lower Stemilt Irrigation District
Douglas County Sewer District #1	Malaga Water District
Drainage Improvement Dist #1	Methow Valley Irrigation District
East Columbia Basin Irrigation District	Moab Irrigation District #20
East Spokane Water District #1-109	Moses Lake Irrigation & Rehab District
Elbe Water & Sewer District	Naches-Selah Irrigation District
Endicott Park and Recreation Dist #7	North Central Regional Library
Gardena Farms Irrigation Dist #13	North Spokane Irrigation District
Garfield Parks & Recreation	North Whidbey Park & Recreation District

Noxious Weed Control Board of Grant County  
Okanogan Council of Governments  
Okanogan County Transit Authority  
Orchard Avenue Irrigation District #6-17  
Pasadena Park Irrigation District #7-11  
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 Mattawa  
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  
Stevenson Community Pool 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  
Twin Transit  
Uniontown Community Development Association  
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 #3  
Clallam County FPD #2  
Columbia Co FPD #1  
Columbia Walla Walla Co Fire District #2  
Douglas Co FPD #5  
Enumclaw Fire Department  
Ferry/Okanogan FPD # 13  
Ferry/Okanogan FPD #14  
Franklin Co FPD #1  
Franklin Co FDP #2  
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 Emergency Communications  
North Pacific County EMS

Okanogan FPD #4  
Okanogan FPD #9  
Okanogan FPD #16  
Okanogan County Rural FD #1  
Pacific Co FPD #8  
Pend Oreille County FPD #2  
Pierce Co FPD #26  
Puget Sound Regional Fire Authority  
Region 6 Training Council  
San Juan Co FPD #5  
Skagit Co FPD #10  
Skagit Co FPD #19  
Skamania Co FPD #4  
Snohomish Co FPD #5  
Snohomish Co FPD #10  
Stevens Co FPD #3  
Stevens Co FPD #4  
Wenatchee Valley Fire Department  
West Thurston Regional Fire Authority  
Whatcom Co FPD #1  
Whatcom Co FPD #7  
Whatcom Co FPD #21 dba North Whatcom  
Fire & Rescue  
Whitman Co FPD #2  
Whitman Co FPD #4 & City of Palouse FP

## T2 DES SCHEDULE OF EXPENSES

### Cities Insurance Association of Washington For the Fiscal Year Ended November 30, 2023

	<u>2023</u>
Contracted Services:	
Third Party Administrator Fees	549,207
Actuary	34,825
Audit Expenses	27,796
Legal Fees	0
Other Consultant Fees (Lobbyist)	10,640
General Administrative Expenses:	
Miscellaneous & Supplies	43,385
Simulators	147,205
Retreat/Board Meetings	8,072
Prelitigation Program	145,878
Account Education/Training	3,650
Underwriting Fees	1,546,912
Marketing	11,108
Member Assistance	5,426
Other:	
Medicare Reporting	2,480
Director's E&O	37,423
Local Agents Fees	86,748
Total Operating Expenses	<u><u>2,660,755</u></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.

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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.

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