



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Cities Insurance Association of
Washington

Grant County

For the period December 1, 2015 through November 30, 2016

Published July 24, 2017

Report No. 1019433





Office of the Washington State Auditor
Pat McCarthy

July 24, 2017

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

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Cities Insurance Association of Washington
Grant County
December 1, 2015 through November 30, 2016**

Board of Directors
Cities Insurance Association of Washington
Ephrata, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Cities Insurance Association of Washington, Grant County, Washington, as of and for the year ended November 30, 2016, 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 6, 2017.

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 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Cities Insurance Association of Washington Grant County December 1, 2015 through November 30, 2016

Board of Directors
Cities Insurance Association of Washington
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Cities Insurance Association of Washington, Grant County, Washington, as of and for the year ended November 30, 2016, 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, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 and ten year claims development information on pages 26 through 27 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 6, 2017 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

July 6, 2017

FINANCIAL SECTION

**Cities Insurance Association of Washington
Grant County
December 1, 2015 through November 30, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Ten-Year Claims Development Information – 2016

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2016

DES Schedule of Expenses – 2016

CITIES INSURANCE ASSOCIATION OF WASHINGTON

Management's Discussion and Analysis
December 1, 2015 through November 30, 2016

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, 2016. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

Overview of the Financial Statements

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

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

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

The Notes to 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

	2016	2015
Current Assets	7,748,575	6,006,449
Noncurrent Assets	30,886	59,033
Total Assets	<u>7,779,461</u>	<u>6,065,483</u>
Deferred Outflows	<u>0</u>	<u>0</u>
Total Deferred Outflows	0	0
Current Liabilities	4,309,411	1,190,370
Noncurrent Liabilities	<u>1,972,511</u>	<u>3,164,565</u>
Total Liabilities	6,281,921	4,354,935
Deferred Inflows	<u>0</u>	<u>0</u>
Total Deferred Inflows	0	0
Net Investment in Capital Assets	28,303	55,751
Unrestricted	<u>1,469,237</u>	<u>1,654,797</u>
Total Net Position	<u><u>1,497,540</u></u>	<u><u>1,710,548</u></u>
Operating Revenues		
Member contributions	11,703,158	11,946,739
Nonoperating Revenues		
Interest Income	80,882	70,837
Miscellaneous Income	<u>13,240</u>	<u>683</u>
Total Revenues	<u>11,797,280</u>	<u>12,018,259</u>
Operating Expenses	<u>12,010,288</u>	<u>11,366,656</u>
Total Expenses	<u>12,010,288</u>	<u>11,366,656</u>
Change in Net Position	<u>(213,008)</u>	<u>651,604</u>
Beginning Net Position	1,710,548	1,058,944
Ending Net Position	<u><u>1,497,540</u></u>	<u><u>1,710,548</u></u>

Financial Statement Analysis

The Cities Insurance Association of Washington (CIAW) was originally founded in 1988 with 34 founding member cities. The CIAW is a property and liability risk and insurance pooling program for cities, fire districts, and other special districts. Current membership in the program is 213 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.

With all of the claims activity and increase in prior year's reserves, CIAW's Net Position decreased from 2015 to 2016 by \$213,008. This loss does not have any impact on the ability of CIAW being able to pass the solvency tests.

Current assets include cash and investments, as well as receivables from members, and excess/reinsurance carriers. Noncurrent assets include capital assets, net of depreciation. For more information on the pool's capital assets, refer to Note 7 in the Notes to Financials. Current liabilities are accounts payable, and reserves set aside for unpaid claims liabilities, and unearned member contributions. The pool utilizes the services of an actuary to determine that adequate reserves have been set aside to cover any potential future claims. Noncurrent liabilities include unpaid claims liabilities that won't be settled in the current year. For more information on claims liabilities, see Note 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, 2016

2016

ASSETS

Current Assets:

Cash and Equivalents	\$7,298,782
Receivables	
Member Contributions & Deductibles	\$48,258
Excess/Reinsurance Recoverable	\$401,536

TOTAL CURRENT ASSETS	<u>\$7,748,575</u>
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Noncurrent Assets:

Excess/Reinsurance Recoverable	\$2,583
Equipment Purchased (Net of Accumulated Depreciation)	\$28,303

TOTAL NONCURRENT ASSETS	<u>\$30,886</u>
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Deferred Outflows	<u>\$0</u>
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TOTAL DEFERRED OUTFLOWS	<u>\$0</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$7,779,461</u></u>
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LIABILITIES

Current Liabilities:

Claim Reserves	
IBNR	\$445,666
Open Claims (Case Reserves)	\$957,791
Accounts Payable	\$66,001
Unearned Member Contributions	\$2,839,953

TOTAL CURRENT LIABILITIES	<u>\$4,309,411</u>
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Noncurrent Liabilities:

Claim Reserves	
IBNR	\$626,368
Open Claims (Case Reserves)	\$1,346,143

TOTAL NONCURRENT LIABILITIES	<u>\$1,972,511</u>
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Deferred Inflows	
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TOTAL DEFERRED INFLOWS	<u>\$0</u>
	<u>\$0</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS	\$6,281,921
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NET POSITION

Net Investment in Capital Assets	\$28,303
Unrestricted	<u>\$1,469,237</u>

TOTAL NET POSITION	<u>\$1,497,540</u>
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TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	<u><u>\$7,779,461</u></u>
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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, 2016

	2016
OPERATING REVENUE:	
Member Contributions	\$11,703,158
Total Operating Revenue	<u>\$11,703,158</u>
 TOTAL OPERATING REVENUE:	 \$11,703,158
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses	
Paid on Current Losses	\$1,085,317
Change in Loss Reserves	\$1,227,255
Unallocated Loss Adjustments Expenses	
Paid Unallocated Loss Adjustment Expenses	\$934,012
Excess/Reinsurance Premiums	\$6,671,981
General and Administrative Expenses	\$2,068,236
Depreciation	23,487
Total Operating Expenses	\$12,010,288
 OPERATING INCOME (LOSS)	 <u>(\$307,130)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$80,882
Sell of Equipment	\$13,240
	<u>\$94,121</u>
 Total Nonoperating Revenues (Expenses)	 \$94,121
 Income Before Contributions, Transfers, Special and Extraordinary Items	 <u>(\$213,008)</u>
Capital Contributions	
 CHANGE IN NET POSITION	 <u>(\$213,008)</u>
 TOTAL NET POSITION, December 1	 1,710,548
 TOTAL NET POSITION, November 30	 <u><u>\$1,497,540</u></u>

See Accompanying Notes to Financial Statements

Cities Insurance Association of Washington

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended November 30, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$11,800,049
Cash payments to suppliers for goods and services	(\$10,054,110)
 Net Cash Provided (Used) by Operating Activities	 \$1,745,939
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING	
ACTIVITIES:	
Purchase/Sale of Equipment	\$8,350
Net Cash Provided (Used) by Capital and Related Financing Activities	\$8,350
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	\$80,882
Sale of Equipment	\$13,240
 Net Cash Provided (Used) by Investing Activities	 \$94,121
 Increase (Decrease) in Cash and Cash Equivalents	 \$1,848,410
 Cash and Cash Equivalents, December 1	 \$5,450,371
 Cash and Cash Equivalents, November 30	 \$7,298,782
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)	
BY OPERATING ACTIVITIES:	
 OPERATING INCOME	 2016 (\$307,130)
 Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	\$23,487
(Increase) Decrease in Accounts Receivable	\$96,891
(Increase) Decrease in Prepaid Expense	\$100
(Increase) Decrease in Equipment	\$255,402
(Increase) Decrease in Prepaid Insurance	(\$259,792)
Increase (Decrease) in Accounts Payable	\$17,820
Increase (Decrease) in Unpaid Claims Liability	(\$500,703)
Increase (Decrease) in Unearned Member Contributions	\$2,419,863
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$1,745,939

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
For the Period
December 1, 2015 through November 30, 2016

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property; including automobile comprehensive and collision, equipment breakdown and crime protection, and liability; including general, automobile, professional and wrongful acts, are included to fit members' various needs. Additional coverages available to members on an optional basis include earthquake, flood, uninsured/underinsured motorists, privacy/network liability and data breach.

Members contract to remain in the pool for a minimum of one year, and must give notice before November 30 terminating participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

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

b. Basis of Accounting

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

Financing Omnibus and the GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Funds.

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

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

c. Cash and Cash Equivalents

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

d. Capital Assets – See Note 7

e. Receivables

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

f. Investments – See Note 3

g. Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

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

experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

h. Reinsurance

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

i. Member Premium and Unearned Member Premium (Assessments)

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

j. Unpaid Claims

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

k. Reserve for Unallocated Loss Adjustment Expenses

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

l. Exemption from Federal and State Taxes

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 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

As of November 30, 2016, the CIAW had the following investments:

	<u>Maturities Amount</u>
Grant County Investment Pool	<u>\$2,377,123</u>
Total Investments	<u><u>\$2,377,123</u></u>

CIAW values its investments at amortized cost. The difference between amortized and fair value is insignificant. Currently there are not any limitations or restrictions on withdrawals.

NOTE 4 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by CIAW for the 2015-16 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	\$25,000	\$100,000,000 per occurrence

	\$1,000 Standard – Cities & Special Districts (some vehicles vary per schedule)		
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 5 – EXCESS INSURANCE CONTRACTS/REINSURANCE

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

<u>Insurance Contracts</u>	2015-16
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>	2015-16
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 \$6,671,981. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$1,581,190.

NOTE 6 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

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

NOTE 7 – CAPITAL ASSETS

a. Capital Assets

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

Capital assets are recorded at historical cost. Capital assets activity for the year ended November 30, 2016 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Equipment	<u>\$191,437</u>	<u>\$(65,028)</u>	<u>\$126,409</u>
Less Accum Depreciation	<u>\$135,686</u>	<u>\$(37,579)</u>	<u>\$98,107</u>
Total Capital Assets, net	<u>\$55,751</u>	<u>\$(27,449)</u>	<u>\$28,302</u>

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

NOTE 8 – 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 9 – 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>2016</u>	<u>2015</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$3,876,671	\$4,313,661
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$2,032,835	\$2,414,803
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>\$(805,580)</u>	<u>\$(1,295,635)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$1,227,255</u>	<u>\$1,119,168</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$1,085,317	\$1,040,769
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>\$642,641</u>	<u>\$515,389</u>
Total Payments	<u>\$1,727,958</u>	<u>\$1,556,158</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$3,375,968</u>	<u>\$3,876,671</u>

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

NOTE 10 – 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.

		11/30/2016	11/30/2015
Primary Asset Test			
Primary Assets		4,392,829	\$4,972,107
Estimated Claims Liabilities at Expected Level		3,375,968	\$3,876,671
	Results	Meets	Meets
Secondary Asset Test			
Primary & Secondary Assets		4,873,507	\$5,587,119
Estimated Claims at 80% Confidence Level		3,489,968	\$4,078,671
	Results	Meets	Meets

At the end of fiscal year 2015/16, CIAW meets solvency requirements.

CITIES INSURANCE ASSOCIATION OF WASHINGTON
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2015 through November 30, 2016

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 2016 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates, management property estimates and aggregate stop losses. (These annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Cities Insurance Association of Washington

TEN YEAR CLAIMS DEVELOPMENT INFORMATION
Fiscal and Policy Year Ended November 30, 2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required contribution and investment revenue										
Earned			8,746,220	11,258,402	9,239,751	10,756,016	11,188,392	14,022,712	12,017,577	11,784,040
Ceded			4,268,990	5,488,409	4,540,664	4,636,844	4,205,362	6,496,687	6,284,953	6,671,981
Net Earned	3,781,532	4,730,567	4,477,230	5,769,993	4,699,087	6,119,172	6,983,030	7,526,025	5,732,624	5,112,059
2. Unallocated expenses	1,370,326	1,465,797	1,838,831	2,411,293	2,387,966	\$2,797,806	3,249,459	3,234,992	2,921,765	3,025,735
3. Estimated claims and expenses, end of policy year:										
Incurred			8,177,608	2,940,227	3,307,785	3,491,682	5,304,623	3,454,182	6,256,467	2,872,292
Ceded			5,545,380	480,227	762,785	350,682	1,752,623	189,182	3,841,664	839,457
Earned	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000	2,414,803	2,032,835
4. Net paid (cumulative) as of:										
End of Policy Year	1,776,874	762,690	817,908	849,326	943,668	852,530	962,060	933,821	1,040,769	1,085,317
One year later	2,604,627	1,722,535	1,529,114	1,422,475	1,856,757	1,953,714	1,729,352	2,025,441	1,693,613	
Two years later	2,103,843	2,077,272	1,856,978	1,870,117	2,856,033	2,321,347	1,846,932	2,616,108		
Three years later	2,287,552	2,276,996	1,856,978	2,428,808	2,819,984	2,465,359	2,207,306			
Four years later	2,439,550	2,276,996	1,849,816	2,615,548	2,908,265	2,701,851				
Five years later	2,439,550	2,270,600	1,856,978	2,614,248	3,006,165					
Six years later	2,439,550	2,276,996	1,856,978	2,615,353						
Seven years later	2,439,550	2,276,996	1,856,978							
Eight years later	2,439,550	2,276,996								
Nine years later	2,439,550									
5. Reestimated ceded claims and expenses	3,211,016	5,240,068	4,820,798	2,163,773	4,724,027	2,404,183	3,825,725	1,009,443	4,398,027	839,457
6. Reestimated net incurred claims and expenses:										
End of Policy Year	3,070,039	3,275,000	2,632,228	2,460,000	2,545,000	3,141,000	3,552,000	3,265,000	2,414,803	2,032,835
One year later	4,408,916	2,918,331	1,856,978	2,460,000	2,946,000	3,030,000	3,002,500	3,095,000	2,396,303	
Two years later	2,556,600	2,276,996	1,856,978	2,609,500	2,923,000	2,998,564	2,697,500	3,492,613		
Three years later	2,439,550	2,276,996	1,856,978	2,620,000	2,829,267	2,997,910	2,759,502			
Four years later	2,439,550	2,276,996	1,856,978	2,615,548	2,958,224	2,997,910				
Five years later	2,439,550	2,276,996	1,856,978	2,614,248	3,007,165					
Six years later	2,439,550	2,276,996	1,856,978	2,615,353						
Seven years later	2,439,550	2,276,996	1,856,978							
Eight years later	2,439,550	2,276,996								
Nine years later	2,439,550									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(630,489)	(998,004)	(775,250)	155,353	462,165	(143,090)	(792,498)	227,613	(18,500)	0

Schedule T-1

LIST OF PARTICIPATING MEMBERS
CITIES INSURANCE ASSOCIATION OF WASHINGTON
2015-2016

Member Cities

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

Member Special Districts

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

Lind Cemetery District
 Lower Stemilt Irrigation District
 Lynden Transportation Benefit District
 Lynnwood Transportation Benefit District
 Malaga Water District
 Moab Irrigation District
 Moses Lake Irrigation & Rehab District
 Naches-Selah Irrigation District
 North Spokane Irrigation District
 North Whidbey Park & Recreation District
 Okanogan County Transit Authority
 Orchard Avenue Irrigation District
 Pasadena Park Irrigation District
 Peshastin Water District
 Pierce County Flood Control Zone District
 Pierce County Noxious Weed
 Point Roberts Park & Rec. #1
 Port of Ephrata
 Port of Kennewick
 Port Of Quincy
 Prosser Transportation Benefit District
 Quincy Columbia Basin Irrigation District

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

Member Fire Districts

Adams Co FPD #1
 Aero-Skagit Emergency Service
 Blue Mountain FD#1
 Central Valley Ambulance Authority
 Chelan Co FPD #1
 Chelan Co FPD #3
 Columbia Co FPD #1
 Douglas Co FPD #2
 Douglas Co FPD #5
 Ferry/Okanogan FPD # 13
 Ferry/Okanogan FPD #14
 Franklin Co FPD #1
 Franklin Co FPD #4
 Glacier Fire and Rescue
 Grant Co FPD #13
 Grant Co FPD #4
 Grant Co FPD #3
 Grant Co FPD #14
 Grays Harbor Co FPD #5
 Grays Harbor Co FPD #11
 Kent Regional Fire Authority
 King Co FPD #4 DBA Shoreline FPD
 King Co FPD #28 and Special Rescue
 King Co FPD #34
 King Co FPD #50
 Kittitas Co FPD #6

Klickitat FPD #10
 Lincoln Co FPD #5 and Davenport FPD
 Lincoln Co FPD #7
 Lincoln Co Emergency Communications
 North Pacific County EMS
 Okanogan FPD #4
 Okanogan FPD #9
 Okanogan FPD #16
 Okanogan County Rural FD #1
 Oroville Rural EMS Dist
 Pacific Co FPD #8
 Pierce Co FPD #26
 Region 6 Training Council
 Riverside Fire and Rescue
 San Juan Co FPD #5
 Skagit Co FPD #10
 Skagit Co FPD #19
 Snohomish Co FPD #10
 Snohomish Co FPD #5
 Stevens Co FPD #10
 Stevens Co FPD #3
 Stevens Co FPD #7
 Thurston Co FPD #16 DBA Gibson Valley FPD
 West Thurston Regional Fire Authority
 Whatcom Co FPD #1
 Whatcom Co FPD #7

Whatcom Co FPD #14
Whitman Co FPD #1
Whitman Co FPD #2
Whitman Co FPD #6
Whitman Co FPD #8
Whitman Co FPD #4 & City of Palouse FPD

Schedule T-2

DES SCHEDULE OF EXPENSES

Cities Insurance Association of Washington
For the Fiscal Year Ended November 30, 2016

Contracted Services:	
Third Party Administrator Fees	550,470
Actuary	17,460
Audit Expenses	18,595
Legal Fees	10,098
Other Consultant Fees (Lobbyist)	21,443
General Administrative Expenses:	
Miscellaneous & Supplies	23,100
Simulators	204,149
Retreat/Board Meetings	12,699
Depreciation	23,487
Prelitigation Program	118,581
Account Education/Training	18,754
Underwriting Fees	1,006,679
Marketing	20,031
Scholarship/Grant Program	5,977
Other:	
Medicare Reporting	12,000
Director's E&O	28,200
Total Operating Expenses	<u>2,091,723</u>

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov