



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Association of Washington Cities Risk Management Service Agency

Thurston County

For the period January 1, 2016 through December 31, 2017

Published May 24, 2018

Report No. 1021375





Office of the Washington State Auditor

Pat McCarthy

May 24, 2018

Board of Directors
Association of Washington Cities Risk Management Service Agency
Olympia, Washington

Report on Financial Statements

Please find attached our report on the Association of Washington Cities Risk Management Service Agency's financial statements.

We are issuing this report in order to provide information on the Pool's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	36

**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**

**Association of Washington Cities Risk Management Service Agency
Thurston County**

January 1, 2016 through December 31, 2017

Board of Directors

Association of Washington Cities Risk Management Service Agency

Olympia, 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 Association of Washington Cities Risk Management Service Agency, Thurston County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated May 16, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of the Pool's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

May 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Association of Washington Cities Risk Management Service Agency Thurston County January 1, 2016 through December 31, 2017

Board of Directors
Association of Washington Cities Risk Management Service Agency
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Association of Washington Cities Risk Management Service Agency, Thurston County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 10.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association of Washington Cities Risk Management Service Agency, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 opinions on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The DES Schedule of Expenses and 2017 Membership 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 May 16, 2018 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

May 16, 2018

FINANCIAL SECTION

**Association of Washington Cities Risk Management Service Agency
Thurston County
January 1, 2016 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Ten-Year Claims Development Information – 2017

Reconciliation of Claims Liabilities by Type of Contract – 2017 and 2016

SUPPLEMENTARY AND OTHER INFORMATION

DES Schedule of Expenses – 2017 and 2016

2017 Membership – 2017

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

As management of the Association of Washington Cities Risk Management Service Agency (the Pool), we offer readers of the Risk Management Service Agency's financial statements this narrative overview and analysis of the financial activities of the Risk Management Service Agency for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished within the basic financial statements including the financial statement notes.

FINANCIAL HIGHLIGHTS:

1. The assets of the Risk Management Service Agency exceeded its liabilities at the close of the most recent fiscal year by \$11,541,411 (*net position*). The total amount of \$11,541,411 (*unrestricted net position*) may be used to meet the Pool's ongoing obligations to creditors.
2. The Risk Management Service Agency's total net position increased by \$546,345.
3. The Risk Management Service Agency's total liabilities increased by \$806,725 in 2017 due primarily to an increase in Claim Reserves (IBNR and Unpaid Claims) in the amount of \$702,364 from \$5,417,920 in 2016 to \$6,120,284 in 2017.
4. The Risk Management Service Agency continues to meet the solvency standards established by Washington Administrative Code (WAC) 200-100-03001.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Association of Washington Cities Risk Management Service Agency's basic financial statements. The Pool's financial statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The *Statement of Net Position* presents information on all of the Risk Management Service Agency's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Risk Management Service Agency is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Pool's net position changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., loss reserves is an example).

The Risk Management Service Agency's function is to provide property and casualty insurance to participating members. The Pool's primary source of revenues is assessments to members and its major expenses include payments on claims and payments for insurance coverage. The Pool reports as a business-type activity.

The Pool financial statements include only the Association of Washington Cities Risk Management Service Agency itself. The Pool has no other *component units* for which it is financially accountable.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to the full understanding of the data provided in the Pool financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Association of Washington Cities Risk Management Service Agency's operations.

POOL FINANCIAL ANALYSIS:

Net Position

As noted earlier, net position may serve over time as a useful indicator of a pool's financial position. In the case of the Risk Management Service Agency, assets exceeded liabilities by \$11,541,411 at the close of the most recent fiscal year.

By far, the largest portion of the Pool's assets reflects cash and investments (83% - \$14,981,666, of \$18,141,027). The Pool uses these assets to fund the claim reserves arising from claims, which were estimated at \$6,120,284 at December 31, 2017.

RISK MANAGEMENT SERVICE AGENCY – NET POSITION

	12-31-17	12-31-16	12-31-15
Current Assets	\$12,166,193	\$13,889,878	\$13,327,108
Noncurrent Assets	\$5,974,834	\$2,898,079	\$2,810,380
Total Assets	\$18,141,027	\$16,787,957	\$16,137,488
Current Liabilities	\$1,966,532	\$2,156,471	\$2,305,308
Noncurrent Liabilities	\$4,633,084	\$3,636,420	\$3,989,195
Total Liabilities	\$6,599,616	\$5,792,891	\$6,294,503
Unrestricted	\$11,541,411	\$10,995,066	\$9,842,985
Net Position	\$11,541,411	\$10,995,066	\$9,842,985
Total Liabilities and Net Position	\$18,141,027	\$16,787,957	\$16,137,488

The unrestricted net position, totaling \$11,541,411 may be used to meet the Pool's ongoing obligations to creditors.

Changes in Net Position

The Risk Management Service Agency net position increased \$546,345 during 2017. The key elements of this increase are attributed to an improvement in prior years claim activity reported during the fiscal year 2017.

RISK MANAGEMENT SERVICE AGENCY – CHANGES IN NET POSITION

	2017 ACTIVITIES	2016 ACTIVITIES	2015 ACTIVITIES
Revenues			
Member Assessments	\$7,822,278	\$7,245,654	\$6,457,518
Other Income	\$52,470	\$78,981	\$78,762
Interest Income	\$159,245	\$61,760	\$18,564
Increase/<Decrease> in Equity in NLC MIC	\$100,295	\$90,199	\$87,361
Total Revenues	\$8,134,288	\$7,476,594	\$6,642,205
Expenses			
Claims Loss Expense -- Current Year	\$2,850,000	\$2,355,000	\$2,495,000
Claims Loss Expense -- Prior Years	(\$446,070)	(\$502,335)	(\$1,673,291)
Unallocated Loss Adjustment Expenses	\$15,000	(\$20,000)	(\$40,000)
Insurance Premiums	\$2,467,420	\$2,391,513	\$2,101,290
Claims Administration and Loss Control Services	\$938,783	\$637,495	\$564,201
General and Administrative Expenses	\$1,762,810	\$1,462,840	\$1,375,698
Total Expenses	\$7,587,943	\$6,324,513	\$4,822,898
Income (Loss)	\$546,345	\$1,152,081	\$1,819,307
Change in Net Position	\$546,345	\$1,152,081	\$1,819,307

ECONOMIC FACTORS IMPACTING THE POOL:

Over the past year, interest rates available for investing have improved and rates are expected to rise in 2018. The Risk Management Service Agency maintains unrestricted net position sufficient to meet the solvency standards established by Washington Administrative Code (WAC) 200-100-03001 and may be used to meet the Pool's ongoing obligations to creditors.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Association of Washington Cities Risk Management Service Agency's finances for all those with an interest in the Pool's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Association of Washington Cities
Risk Management Service Agency
Carol Wilmes
Director, Member Pooling Programs
1076 Franklin Street SE
Olympia, Washington 98501-1346

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
COMPARATIVE STATEMENT OF NET POSITION
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS:		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 10,007,121	\$ 13,561,419
Investments	1,995,586	-
Receivables:		
Assessments Receivable	-	6,076
Excess/Reinsurance Recoverable	-	287,842
Member Deductibles	8,097	34,541
Prepaid Expense	125,540	-
Accrued Interest	29,849	-
Total Current Assets:	<u>\$ 12,166,193</u>	<u>\$ 13,889,878</u>
<u>Noncurrent Assets:</u>		
Contract Receivable	30,000	32,500
Reinsurance Deposit	239,149	239,149
Equity In NLC MIC	2,726,726	2,626,430
Investments	2,978,959	-
Total Noncurrent Assets:	<u>\$ 5,974,834</u>	<u>\$ 2,898,079</u>
TOTAL ASSETS:	<u>\$ 18,141,027</u>	<u>\$ 16,787,957</u>
LIABILITIES:		
<u>Current Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 892,320	\$ 1,068,900
Unpaid Claims	594,880	712,600
Unallocated Loss Adjustment Expenses	215,000	200,000
Accounts Payable	263,832	174,471
Unearned Member Assessments	500	500
Total Current Liabilities:	<u>\$ 1,966,532</u>	<u>\$ 2,156,471</u>
<u>Noncurrent Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 3,166,781	\$ 2,824,478
Unpaid Claims	1,466,303	811,942
Total Noncurrent Liabilities:	<u>\$ 4,633,084</u>	<u>\$ 3,636,420</u>
TOTAL LIABILITIES	<u>\$ 6,599,616</u>	<u>\$ 5,792,891</u>
NET POSITION:		
Unrestricted	11,541,411	10,995,066
TOTAL NET POSITION	<u>\$ 11,541,411</u>	<u>\$ 10,995,066</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,141,027</u>	<u>\$ 16,787,957</u>

The Accompanying Notes Are An Integral part of This Statement.

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2017 and 2016**

	2017	2016
OPERATING REVENUES:		
Member Assessments	\$7,822,278	\$7,245,654
Other Income	52,470	78,981
Total Operating Revenues	<u>\$7,874,748</u>	<u>\$7,324,635</u>
OPERATING EXPENSES:		
Claims Loss Expense -- Current Year	\$2,850,000	\$2,355,000
Claims Loss Expense -- Prior Years	(446,070)	(502,335)
Unallocated Loss Adjustment Expenses	15,000	(20,000)
Insurance Premiums	2,467,420	2,391,513
Claims Administration and Loss Prevention Services	938,783	637,495
General and Administrative Expenses	1,762,810	1,462,840
Total Operating Expenses	<u>\$7,587,943</u>	<u>\$6,324,513</u>
OPERATING INCOME (LOSS):	<u>\$286,805</u>	<u>\$1,000,122</u>
NONOPERATING REVENUES/EXPENSES:		
Interest Income	\$159,245	\$61,760
Equity in NLC MIC	100,295	90,199
Total Non-Operating Revenues and Expenses	<u>\$259,540</u>	<u>\$151,959</u>
CHANGE IN NET POSITION:	\$546,345	\$1,152,081
TOTAL NET POSITION - JANUARY 1	10,995,066	9,842,985
TOTAL NET POSITION - DECEMBER 31	<u>\$11,541,411</u>	<u>\$10,995,066</u>

The Accompanying Notes Are An Integral part of This Statement.

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Members	\$ 7,830,854	\$ 7,242,578
Other Operating Cash Receipts	22,621	78,981
Cash Payments for Claims	(1,701,566)	(2,234,240)
Cash Payments for Insurance Premiums	(2,592,960)	(1,331,344)
Cash Payments for Operating Expenses	(2,297,946)	(403,292)
Net Cash Provided (Used) By Operating Activities:	<u>\$ 1,261,003</u>	<u>\$ 3,352,683</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Securities	\$ (4,974,545)	\$ -
Interest Income	159,244	61,760
Net Cash Provided By Investing Activities:	<u>\$ (4,815,301)</u>	<u>\$ 61,760</u>
INCREASE/<DECREASE> IN CASH AND CASH EQUIVALENTS	<u>\$ (3,554,298)</u>	<u>\$ 3,414,443</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>13,561,419</u>	<u>10,146,976</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 10,007,121</u></u>	<u><u>\$ 13,561,419</u></u>
RECONCILIATION OF OPERATING INCOME:		
Adjustments to Reconcile Operating Income to Net Income Provided By Operating Activities		
Operating income	\$ 286,805	\$ 1,000,122
(Increase) decrease in Assessments Receivable	6,076	(6,076)
(Increase) decrease in Other Receivables From Reinsurer	314,286	1,797,580
(Increase) decrease in Prepaid Expenses	(125,540)	1,060,169
(Increase) decrease in Interest Receivable	(29,849)	-
(Increase) decrease in Contract Receivable	2,500	2,500
Increase (decrease) in Loss Reserves	702,364	(381,575)
Increase (decrease) in ULAE	15,000	(20,000)
Increase (decrease) in Payables	89,361	(100,537)
Increase (decrease) in Unearned Member Assessments	-	500
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>\$ 1,261,003</u>	<u>\$ 3,352,683</u>

The Accompanying Notes Are An Integral Part of This Statement

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Association of Washington Cities Risk Management Service Agency (the Pool) is a local government risk sharing pool formed to provide property and casualty insurance coverage to participating members of the Association of Washington Cities (AWC). The members are made up of cities, towns and other local governmental entities throughout the State of Washington. The pool was originally organized January 1, 1989, pursuant to RCW 48.62.031, 36.16.138 and 39.34.

The Pool's general objectives are to provide its members with a comprehensive risk management program, stabilize insurance costs, and minimize the loss exposure of its members through a program of risk-sharing, joint indemnification of losses, and proactive management intervention. A member is entitled to withdraw from the Pool at the end of any fiscal year by providing a 12month written notice of its intent to withdraw. Members are subject to supplemental premium assessments in the event of deficiencies. As of December 31, 2017 and 2016, 99 and 98 members, respectively, participated in the Pool.

The Pool provides property coverage up to the maximum limit of \$250 million per loss. Property other than vehicles, equipment, and dilapidated buildings are paid at replacement cost of the damaged or destroyed property at the time of loss. Vehicles, equipment, and dilapidated buildings are paid at actual cash value at the time of loss. The Pool also provides general liability coverage including law enforcement liability, automobile liability, employment practices liability, and public officials' errors and omissions liability with coverage up to \$15 million in per occurrence limits and \$53 million in aggregate limits. Other types of coverage include boiler and machinery coverage up to \$100 million per occurrence, crime, employee fidelity, and faithful performance coverage up to \$1 million per occurrence, and pollution liability coverage up to \$2 million per occurrence. Optional aviation liability coverage is available to applicable members, under a group purchase, with coverage up to \$2 million per occurrence.

The Pool financial statements include only the Association of Washington Cities Risk Management Service Agency itself. The Pool has no other *component units* for which it is responsible.

Basis of Accounting –The accounting records of the Pool are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapter 43.09. The Pool also follows the accounting standards established by Statement No 10 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting For Risk Financing and Related Insurance Issues*, as amended by

the GASB Statement 30, *Risk Financing Omnibus*, the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The Pool uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Long-term liabilities are accounted for within the financial statements.

Cash and Cash Equivalents – For the purposes of reporting cash flows, the Pool considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Pool’s investments with the Washington State Local Government Investment Pool are considered to be cash equivalents and are reported as such in the financial statements.

Prepaid Expenses – Prepaid expenses were \$125,540 and \$0 for 2017 and 2016. These were prepaid insurance premium and operating expenses.

Investments – See Note B

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 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 claims cost depends 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 coverage types such as general liability.

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.

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 Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Losses recoverable from reinsurance carriers as of December 31, 2017 and 2016 are \$0 and \$287,842, respectively. Amounts recovered from reinsurance carriers and deducted from claims liabilities during the years ended December 31, 2017 and 2016 are \$497,842 and

\$2,703,646, respectively. Premiums paid to reinsurance carriers during 2017 and 2016 were \$2,467,420 and \$2,391,513, respectively.

Member Assessments – Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on the worker hours, property values and losses. Assessments provide members with all coverage and services. Both member assessments and loss reserves are calculated by an outside actuarial firm to ensure adequate resources are provided to fund operations and claims and maintain the financial stability of the Pool.

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

Reserve For Unallocated Loss Adjustment Expenses – The reserve for unallocated loss adjustment expenses represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not yet reported. Management estimates this liability at the end of the year based upon estimated costs provided in the year end actuarial report. The change in the liability each year is charged or credited to unallocated loss adjustment expenses in the current year.

Operating Revenues/Expenses – The Pool includes assessments and payments derived from members for optional insurance coverage as operating revenues. Operating expenses are defined as those expenses necessary for performing the Pool’s mission and include claims loss expense, insurance premiums, claims administration and general administrative costs.

Non-operating Revenues – Non-operating revenues include revenues derived from investment decisions and include interest income along with the gain or loss in member equity in NLC MIC.

Retirement/Pension Disclosure – There are no employees of the Pool. Individuals that perform services for the Pool are employees of the Association of Washington Cities. For this reason, no disclosure for retirement or pension obligation is made in these statements.

Exemption from Federal and State Taxes – Pursuant to Revenue Ruling 90-74, income of municipal risk pools is excluded from gross income under IRC SEC 1 15(1). Accordingly, no federal income taxes are provided for in the financial statements.

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

NOTE B – DEPOSITS AND INVESTMENTS

As permitted by state law, deposits and investments of the Pool's funds are with Washington State banks, the State Treasurer's Local Government Investment Pool, and Government Portfolio Advisors as allowed by Chapter 39.59 RCW. All deposits are insured and registered or held by the Pool or its agent in the Pool's name.

Summary of Deposit and Investment Balances:

As of December 31, the Pool deposits and investments were as follows:

	Market Value	
	12/31/2017	12/31/2016
Cash on Hand	\$ 252,014	\$ 896,540
Deposit in State LGIP	9,755,107	12,664,879
Non-Pooled Investments	4,974,545	-
Total Deposits and Investments	\$ 14,981,666	\$ 13,561,419
Deposit:		
Current:		
Cash and Cash Equivalents	\$ 10,007,121	\$ 13,561,419
Total Deposits	10,007,121	13,561,419
Investments:		
Current:		
Short-Term Investments	1,995,586	-
Noncurrent:		
Investments:	2,978,959	-
Total Investments	4,974,545	-
Total Deposits and Investments	\$ 14,981,666	\$ 13,561,419

Investments in Local Government Investment Pool (LGIP)

The Association of Washington Cities Risk Management Service Agency (the Pool) is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The

LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

The Association of Washington Cities Risk Management Service Agency (the Pool) measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the Association of Washington Cities Risk Management Service Agency (the Pool) had the following investments measured at fair value:

		Fair Value Hierarchy Level		
	Fair Value (12/31/2017)	Level 1	Level 2	Level 3
Investments by Fair Value Level				
U.S. Treasuries	\$ 3,984,922	\$3,984,922	\$ -	\$ -
U.S. Agencies	989,623	-	989,623	-
Total investment measured at fair value	4,974,545	3,984,922	989,623	-
Total Investments	\$ 4,974,545			

Investment are subject to Interest Rate Risk and Credit Risk. Interest rate risk is the risk the pool may face should interest rate variances affect the fair value of investments. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Investment Type	Fair Value (12/31/2017)	Credit Rating	Investment Maturities	
		AAA		
		Aaa	Less Than 1	1-5
Debt Securities				
U.S. Treasuries	\$ 3,984,922	\$ 3,984,922	\$1,000,000	\$2,984,922
U.S. Agencies	989,623	989,623	-	989,623
Total Debt Securities		4,974,545	1,000,000	3,974,545
Total Investments	\$ 4,974,545			

NOTE C – EXCESS INSURANCE/REINSURANCE CONTRACTS

The Pool maintains excess/reinsurance contracts with several insurance carriers, which provide various limits of coverage over the Pool's self-insured retention limits. The limit provided by these excess/reinsurance contracts as of December 31, 2017 and December 31, 2016 are:

<u>Excess Insurance Contracts</u>	<u>Carrier (1)</u>	<u>Retention</u>	<u>2017</u>	<u>2016</u>
General Liability	Berkley, Argonaut, Allied World	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Automobile Liability	Berkley, Argonaut, Allied World	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Public Officials E&O	Berkley, Argonaut, Allied World	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Police Professional Liability	Berkley, Argonaut, Allied World	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Property	Lexington	\$ 100,000	\$ 250,000,000	\$ 250,000,000
Crime	F&D Companies	\$ 1,000	\$ 1,000,000	\$ 1,000,000
All Lines Aggregate	Berkley, Argonaut, Allied World	\$ 250,000	\$ 53,000,000	\$ 53,000,000
Excess Liability Aggregate	Argonaut, Allied World	\$ 250,000	\$ 23,000,000	\$ 23,000,000
Pollution	Chubb	\$ 50,000	\$ 2,000,000	-

Per-occurrence coverage limits provided by the Pool, including the excess insurance limits combined with the Pool's self-insured retention limits are as follows:

<u>Excess Insurance Contracts</u>	<u>Carrier (1)</u>	<u>2017</u>	<u>2016</u>
General Liability	Berkley, Argonaut, Allied World	\$ 15,000,000	\$ 15,000,000
Automobile Liability	Berkley, Argonaut, Allied World	\$ 15,000,000	\$ 15,000,000
Public Officials E&O	Berkley, Argonaut, Allied World	\$ 15,000,000	\$ 15,000,000
Police Professional Liability	Berkley, Argonaut, Allied World	\$ 15,000,000	\$ 15,000,000
Property	Lexington	\$ 250,000,000	\$ 250,000,000
Crime	F&D Companies	\$ 1,000,000	\$ 1,000,000
Pollution	Chubb	\$ 2,000,000	-

(1) In 2016, Berkley Public Entity Managers provided liability coverage up to \$1,000,000 excess of the \$250,000 SIR. Argonaut Insurance Company provided liability coverage up to \$9,000,000 excess of \$1,000,000. Allied World National Assurance Company provided liability coverage up to \$5,000,000 excess of \$10,000,000. In 2017, Berkley Public Entity Managers provided liability coverage up to \$1,000,000 excess of the \$250,000 SIR. Argonaut Insurance Company provided liability coverage up to \$9,000,000 excess of \$1,000,000. Allied World National Assurance Company provided liability coverage up to \$5,000,000 excess of \$10,000,000.

In the past three years (2015, 2016, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during 2017 and 2016 were \$2,467,420 and \$2,391,513, respectively. The estimated amounts that are recoverable from excess and reinsurers that

reduced the liabilities on the balance sheet as of December 31, 2017 and 2016 were \$0 and 287,842, respectively.

NOTE D – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by the Pool at December 31, 2017. Claim coverage is provided on an occurrence basis.

TYPE OF COVERAGE			MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:					
Buildings and Content			\$ - *	\$ 100,000	\$ 250,000,000
Auto Physical Damage			\$ -	\$ 100,000	\$ 250,000,000
Terrorism			\$ -	\$ 100,000	\$ 250,000,000
Boiler and Machinery			\$ 5,000	\$ 100,000	\$ 100,000,000
Flood	Zones	High	\$ 500,000	\$ -	\$ 10,000,000
		Low	\$ 100,000	\$ -	\$ 50,000,000
Earthquake			3% (min \$250,000)	\$ -	\$ 50,000,000
Comprehensive General Liability, including					
Professional Liability			\$ - *	\$ 250,000	\$ 15,000,000
Terrorism Liability			\$ -	\$ -	\$ -
Auto Liability			\$ -	\$ 250,000	\$ 15,000,000
Public Officials Errors and Omissions			\$ -	\$ 250,000	\$ 15,000,000
Employment Practices Liability			\$ -	\$ 250,000	\$ 15,000,000
Blanket Employee Dishonesty, Named Position			\$ -	\$ 1,000	\$ 1,000,000
Aviation Liability**			\$ -	\$ -	\$ 2,000,000
Pollution Liability			\$ -	\$ 50,000	\$ 2,000,000

Note: * Members can self-select a per occurrence deductible. Current selections range from \$1,000 to \$25,000.

NOTE E – MEMBERS' SUPPLEMENTAL ASSESSMENTS

The interlocal governmental agreement provides for supplemental assessments to members based on actual claim experience. During the year 2017 and 2016, the Pool did not make a supplemental assessment.

NOTE F – CONTRACT RECEIVABLE

The Pool has entered into a contract settlement with a former member of the Pool. The terms of the contract require that the former member pay \$2,500 per year for twenty years to satisfy their obligation to the Pool related to their 2010 assessment. The balance of the

contract receivable at December 31, 2017 and December 31, 2016 is \$30,000 and \$32,500, respectively.

NOTE G – REINSURANCE DEPOSIT AND EQUITY IN NLC MIC

The Pool is an active but non-purchasing member of the National League of Cities Mutual Insurance Company (NLC MIC), a captive mutual insurance company, consisting of 30 state and city insurance agencies or funds throughout the United States. The Pool has two separate general liability reinsurance accounts with NLC MIC. The accounts represent the Pool's reinsurance deposit balance and member equity in NLC MIC. The amount in the reinsurance deposit account is \$239,149 as of both December 31, 2017 and 2016. At the discretion of the Pool, an election can be made to withdraw the reinsurance deposit by giving written notice. The Pool would be entitled to a withdrawal of the reinsurance deposit based upon the distribution rules in effect at the time of notice. The Pool has not given any such notice.

The Pool's equity interest in NLC MIC as of December 31, 2017 and 2016 totaled \$2,726,726 and \$2,626,430, respectively, for the twenty-eighth and twenty-seventh years that the Pool was a member.

NOTE H – ADEQUACY OF LIABILITY FOR LOSS AND LOSS ADJUSTMENT EXPENSE

Management has established the liability for loss and loss adjustment expense based on an actuarial review, its own loss data and, for the purpose of incurred but not reported losses, the experience of other entities providing similar insurance coverage as it applies to the Pool's data. Management believes the estimate of this liability is reasonable.

NOTE I – RELATED-PARTY TRANSACTIONS

An affiliated organization, the Association of Washington Cities (AWC), owns the offices occupied by the Pool, employs the Pool's personnel, and performs various administrative, claims management, and loss prevention services for the Pool. The Pool is billed monthly for the costs of these services and has reimbursed the Association of Washington Cities for the following expenses:

	Year Ended 12/31/2017	Year Ended 12/31/2016
Personnel Costs	\$ 784,035	\$ 644,819
Administrative	827,114	683,718
Staff Travel	48,943	37,936
Board Expense	23,263	20,742
Communications/Marketing	14,282	11,986
Publication & Dues	10,931	10,906
Member Education/Training	15,583	9,406
Temporary Services	2,241	8,521
Annual Meeting Expense	9,640	8,410
State Risk Manager Fee	-	5,867
Other	3,960	1,266
Total	\$ 1,739,992	\$ 1,443,577

Services payable to AWC were \$202,257 and \$122,301 at December 31, 2017 and December 31, 2016, respectively.

During 2017 and 2016, there were no loans to or from the RMSA to any Board member or member entity nor were there any other transactions with related parties not previously disclosed.

NOTE J – UNPAID CLAIMS LIABILITIES

As described in Note A, the Pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses, both allocated and unallocated. The following represents changes in those liabilities for the Pool for the past two years:

	Year Ended 12/31/17	Year Ended 12/31/16
Unpaid claims and claim adjustment expenses/claim reserves at beginning of the fiscal year	\$ 5,417,920	\$ 5,799,495
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year	2,850,000	2,355,000
Increase/Decrease in provision for insured events of prior years	(446,070)	(502,335)

Total incurred claims and claim adjustment expenses	<u>\$ 2,403,930</u>	<u>\$ 1,852,665</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	\$ 499,337	\$ 470,167
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>1,210,327</u>	<u>1,764,073</u>
Total payments	<u>\$ 1,709,664</u>	<u>\$ 2,234,240</u>
Total unpaid claims and claim adjustment expense/claim reserves at end of the fiscal year	\$ 6,112,186	\$ 5,417,920
Unallocated loss adjustment expense/claims reserves at end of year	\$ 215,000	\$ 200,000
Total claim reserves at end of year	<u>\$ 6,327,186</u>	<u>\$ 5,617,920</u>

NOTE K – WASHINGTON ADMINISTRATIVE CODE (WAC) 200-100

The revised Washington Administrative Code (WAC) 200-100 requires the Pool 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 an independent 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 an actuary. Secondary assets are defined as insurance receivable, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

The table below presents the results of the defined solvency tests for the Pool as of the years ending December 31, 2017 and December 31, 2016.

	Year Ended 12/31/2017	Year Ended 12/31/2016
Primary Asset Test:		
Primary Assets	14,717,834	13,386,948
Unpaid Claims - Expected Level	6,327,186	5,617,920
Results	Pass	Pass
Primary and Secondary Test:		
Secondary Assets	3,159,361	3,226,538
Primary and Secondary	17,877,195	16,613,486
Unpaid Claims - 80% Confidence Level	7,311,000	6,442,000
Results	Pass	Pass

NOTE L – LEGAL COMPLIANCE AND SUBSEQUENT EVENTS

The Pool is in compliance with all contractual provisions and there were no material events occurring after the date of the Statements which would require disclosure.

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2017 through December 31, 2017**

This required supplementary information is an integral part of the accompanying financial statements.

1. Ten-Year Claims Development Information

The following table illustrates how the Pool'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 the last ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year 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 year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims.
3. This line 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 of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest reestimated net 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 matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Association of Washington Cities
Risk Management Service Agency
Claims Development Information
For The Year Ended December 31, 2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Required contribution and investment revenue:										
Earned	\$ 5,346,953	\$ 6,233,753	\$ 6,692,575	\$ 7,239,580	\$ 7,200,477	\$ 6,632,447	\$ 6,186,014	\$ 6,457,518	\$ 7,245,654	\$ 7,822,278
Ceded	2,141,903	2,145,156	2,434,543	2,369,407	2,249,898	1,971,829	1,843,792	2,101,290	2,391,513	2,467,420
Net earned	\$ 3,205,050	\$ 4,088,597	\$ 4,258,032	\$ 4,870,173	\$ 4,950,579	\$ 4,660,618	\$ 4,342,222	\$ 4,356,228	\$ 4,854,141	\$ 5,354,858
2 Unallocated Expenses	\$ 1,244,660	\$ 1,094,492	\$ 1,257,240	\$ 1,560,188	\$ 1,602,429	\$ 1,682,183	\$ 1,839,162	\$ 1,899,899	\$ 2,095,758	\$ 2,716,593
3 Estimated claims and expenses end of policy year:										
Incurred	\$ 3,085,000	\$ 2,879,000	\$ 2,740,000	\$ 2,685,000	\$ 2,640,000	\$ 2,425,000	\$ 3,225,000	\$ 2,495,000	\$ 2,355,000	\$ 2,850,000
Ceded			1,982,018	1,518,286	5,437,864	1,028,329	1,336,908	1,045,566	1,122,245	1,656,265
Net incurred			\$ 757,982	\$ 1,166,714	\$ (2,797,864)	\$ 1,396,671	\$ 1,888,092	\$ 1,449,434	\$ 1,232,755	\$ 1,193,735
4 Net Paid (cumulative as of):										
End of Year	\$ 791,195	\$ 498,482	\$ 238,848	\$ 459,013	\$ 308,518	\$ 423,978	\$ 563,681	\$ 474,055	\$ 470,167	\$ 499,337
One year later	1,379,155	741,801	803,382	717,327	728,150	951,795	1,269,113	954,454	857,463	
Two years later	1,848,450	863,187	1,134,019	925,211	933,090	1,233,903	1,713,746	1,237,209		
Three years later	2,379,621	941,901	1,582,367	1,063,674	1,212,855	1,526,233	1,775,279			
Four years later	2,777,428	1,033,788	1,967,281	1,167,160	1,349,752	1,661,315				
Five years later	3,610,923	1,222,182	1,992,616	1,405,402	\$ 1,533,937					
Six years later	3,775,950	1,258,817	1,968,716	\$ 1,419,189						
Seven years later	3,836,079	1,277,241	\$ 1,995,104							
Eight years later	3,925,198	\$ 1,371,347								
Nine years later	\$ 3,925,198									
5 Restimated ceded claims and expenses	\$ 1,769,546	\$ 393,343	\$ 941,159	\$ 459,659	\$ 3,265,661	\$ 504,404	\$ 1,710,335	\$ 1,297,951	\$ 1,232,623	\$ 1,656,265
6 Re-estimated incurred claims and expense										
End of Year	\$ 3,085,000	\$ 2,879,000	\$ 2,740,000	\$ 2,685,000	\$ 2,640,000	\$ 2,425,000	\$ 3,225,000	\$ 2,495,000	\$ 2,355,000	\$ 2,850,000
One year later	3,326,895	2,704,487	2,524,593	2,306,667	2,238,206	2,908,446	2,563,863	2,511,872	\$ 2,148,852	
Two years later	3,419,841	2,199,957	2,302,237	1,951,741	2,259,013	2,240,831	2,473,287	\$ 2,674,684		
Three years later	3,269,185	1,675,855	2,347,237	1,774,399	1,809,013	2,000,252	\$ 2,190,739			
Four years later	3,239,148	1,400,475	2,207,237	1,519,399	1,728,337	\$ 1,924,942				
Five years later	3,768,368	1,385,204	2,147,237	1,527,987	\$ 1,721,575					
Six years later	3,865,355	1,409,319	2,049,012	\$ 1,487,704						
Seven years later	4,005,355	1,434,319	\$ 2,003,012							
Eight years later	3,925,198	\$ 1,406,190								
Nine years later	\$ 3,925,198									
7 Increase (Decrease) in estimated incurred claims from end of policy year.	\$ 840,198	\$ (1,472,810)	\$ (736,988)	\$ (1,197,296)	\$ (918,425)	\$ (500,058)	\$ (1,034,261)	\$ 179,684	\$ (206,148)	\$ -

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2017 through December 31, 2017**

2. Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the Pool's two types of contracts: liability and property.

	Liability		Property	
	2017	2016	2017	2016
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 5,148,505	\$ 5,424,681	\$ 269,415	\$ 374,814
Incurring Claims and Claim Adjustment Expenses:				
Provision for the Current Year:	2,550,000	1,950,000	300,000	405,000
Change in Provision for Prior Years:	(233,383)	(365,739)	(212,687)	(136,596)
Total Incurred Claims and Claim Adjustment Expenses	2,316,617	1,584,261	87,313	268,404
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	304,527	223,620	194,810	246,547
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Years	1,169,866	1,636,817	40,461	127,256
Total Payments:	1,474,393	1,860,437	235,271	373,803
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	\$ 5,990,729	\$ 5,148,505	\$ 121,457	\$ 269,415

DES Schedule of Expenses
Association of Washington Cities
Risk Management Service Agency
For the Fiscal Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
EXPENSES		
Contracted Services:		
Administration (AWC)	\$1,611,149	\$1,328,537
Pre-Litigation Expense	174,300	172,595
Consultant Services	228,264	52,950
General Legal Counsel	42,952	29,820
Coverage Counsel	29,481	27,542
Information Technology	44,305	36,404
Temporary Services	6,135	17,158
Investment Services	12,123	16,667
Claims/Financial Audit	12,848	11,172
Claims Adjuster Fees	104,573	8,415
General Administrative Expenses:		
Loss Prevention	207,820	180,702
Member Education/Training	52,879	56,447
Travel and Training	58,007	48,655
Communications and Marketing	18,537	20,763
Board & Officer Expense/Training	27,960	19,865
Operating Committee	23,445	18,950
Publication and Dues	13,803	13,000
Annual Meeting	11,385	15,888
State Risk Manager Fee	11,720	11,734
Printing and Publications	5,534	7,738
Board E&O Insurance	3,000	3,000
Postage	440	1,570
Cyber Liability Insurance	936	763
Claims Loss Expenses:		
Current Claims Loss Expenses	2,850,000	2,355,000
Prior Year Actuarial Adjustments	(446,070)	(502,335)
Unallocated Loss Adjustment Expenses	15,000	(20,000)
Insurance Premiums:		
Property Excess Insurance	1,326,866	1,334,399
Excess Liability Insurance	575,858	560,510
Second Excess Liability Insurance	359,151	359,151
Third Excess Liability Insurance	85,091	82,886
Fidelity Insurance	41,010	42,676
Pollution Liability Insurance	67,434	-
Special Events/Airport Liability	12,010	11,891
Total Operating Expenses	<u>\$7,587,943</u>	<u>\$6,324,513</u>

**Association of Washington Cities
Risk Management Service Agency
2017 Membership**

2017 RMSA Members

Airway Heights	1
Airway Heights Transportation Benefit District	2
Algona	3
Almira	4
Beaux Arts Village	5
Bingen	6
Black Diamond	7
Bridgeport	8
Bridgeport Transportation Benefit District	9
Bucoda	10
Carbonado	11
Carnation	12
Castle Rock	13
Castle Rock Transportation Benefit District	14
Cathlamet	15
Conconully	16
Concrete	17
Coulee City	18
Creston	19
Cusick	20
Darrington	21
Dayton	22
Deer Park	23
DuPont	24
DuPont Transportation Benefit District	25
Eatonville	26
Fairfield	27
Farmington	28
Forks	29
Friday Harbor	30
Garfield	31
Gig Harbor	32
Gold Bar	33
Granger	34
Grant County Fire Protection District #6	35

Hamilton	36
Harrah	37
Harrington	38
Hatton	39
Hunts Point	40
Index	41
Kalama	42
Kettle Falls	43
La Center	44
Lamont	45
Langley	46
Latah	47
Lincoln County Fire Protection District #8	48
Mesa	49
Metaline	50
Metaline Falls	51
Morton	52
Mossyrock	53
Naches	54
North Bend	55
Northport	56
Oakesdale	57
Odessa	58
Orting	59
Pacific	60
Pateros	61
Pe Ell	62
Pomeroy	63
Port Orchard	64
Prescott	65
Prescott Joint Parks & Rec District	66
Rainier	67
Raymond	68
RiverCom 911	69
Riverside	70
Rockford	71
Rosalia	72
Roslyn	73
Roy	74
Ruston	75
Sequim	76

Sequim Transportation Benefit District	77
Si View Metropolitan Park District	78
Skykomish	79
South Bend	80
South Prairie	81
Spangle	82
Springdale	83
Tekoa	84
Tenino	85
Tieton	86
Toledo	87
Tonasket	88
Twisp	89
Vader	90
Wapato	91
Waverly	92
Wenatchee	93
White Salmon	94
Whitman County Fire Protection District #3	95
Wilson Creek	96
Winthrop	97
Yacolt	98
Yelm	99

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.

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