



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Cities Insurance Authority

King County

For the period January 1, 2015 through December 31, 2016

Published August 28, 2017

Report No. 1019762





Office of the Washington State Auditor
Pat McCarthy

August 28, 2017

Board of Directors
Washington Cities Insurance Authority
Tukwila, Washington

Report on Financial Statements

Please find attached our report on the Washington Cities Insurance Authority's financial statements.

We are issuing this report in order to provide information on the Authority'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**

**Washington Cities Insurance Authority
King County
January 1, 2015 through December 31, 2016**

Board of Directors
Washington Cities Insurance Authority
Tukwila, 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 Washington Cities Insurance Authority, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 28, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

August 28, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Cities Insurance Authority King County January 1, 2015 through December 31, 2016

Board of Directors
Washington Cities Insurance Authority
Tukwila, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Cities Insurance Authority, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 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 Authority'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 Authority'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 Washington Cities Insurance Authority, as of December 31, 2016 and 2015, 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 on pages 10 through 13, pension plan information on pages 39 through 40 and risk pools information on pages 41 through 45 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 Authority's basic financial statements as a whole. The List of Participating Members and Department of Enterprise Services 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 August 28, 2017 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

August 28, 2017

FINANCIAL SECTION

**Washington Cities Insurance Authority
King County
January 1, 2015 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016 and 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016 and 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – 2016 and 2015

Statement of Cash Flows – 2016 and 2015

Notes to Financial Statements – 2016 and 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2016

Schedule of Employer Contributions – 2016

Ten-Year Claims Development Information – 2016

Ten-Year Claims Development Information – 2015

Reconciliation of Claims Liabilities by Type of Contract – 2016 and 2015

SUPPLEMENTARY AND OTHER INFORMATION

DES Schedule of Expenses – 2016 and 2015

List of Participating Members – 2016

Washington Cities Insurance Authority, MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington Cities Insurance Authority's (WCIA or the Pool) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of WCIA's financial activity, identify changes in WCIA's financial position, and identify any material deviations from the financial plan (the approved budget).

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with WCIA's financial statements.

HIGHLIGHTS

Financial Highlights

For the Year Ending December 31, 2016

- WCIA's net position increased by \$17,399,270 for 2016 compared to a net decrease of \$21,025,206 for 2015. The Pool's overall financial position increased from 2015 to 2016, due primarily to the following: The Pool's claim payments/reserves decreased by \$35,910,345 from 2015 to 2016. In 2015, WCIA experienced larger numbers of incurred losses as compared to 2016. Non-operating revenues increased by \$3,411,082, due to changes in the bond market (interest rates) which increased the fair value of the Pool's investments (unrealized and realized gains on investments), along with an increase in value of the Pool's Investment in GEM. The combination of decreases in claims payments/reserves and increases of non-operating revenues resulted in the net position increase for 2016.

For the Year Ending December 31, 2015

- WCIA's net position decreased by \$21,025,206 or 28.55% for 2015 compared to a net increase of \$11,405,877 or 18.33% for 2014. The Pool's overall financial position decreased from 2014 to 2015, due primarily to the following: The Pool's claim payments/reserves increased by \$25,287,583 from 2014 to 2015. In 2015, WCIA experienced a larger number of incurred losses as compared to 2014. Non-operating revenues decreased by \$9,202,347, due to changes in the bond market (interest rates) which decreased the fair value of the Pool's investments (unrealized and realized gains on investments), along with a decrease in value of the Pool's Investment in GEM. The combination of increases in claims payments/reserves and large losses of non-operating revenues resulted in the net position decrease for 2015.

The Pool does not carry any short or long term debt. The Pool's primary liabilities are for claims reserves. The combined claims reserves for the years ending December 31, 2016, 2015, and 2014, are \$96,194,854, \$118,361,693, and \$96,808,027, respectively.

The Pool implemented GASB 68, *Accounting and Financial Reporting for Pensions*, for the year ending December 31, 2015, which resulted in a cumulative effect of change in accounting principle of \$2,041,388 for the expense related to 2014 and earlier years pension accruals. During 2016, the Pool had a net pension benefit of \$210,114, an increase over the 2015 pension benefit of (\$17,652).

WCIA continued to meet the solvency standards established by Washington Administrative Code (WAC) 200-100-03001 for both the years ending December 31, 2015 and 2016.

WCIA is not legally required to formally adopt a budget; however, it does so in order to monitor revenues and expense and for rate setting purposes. The Pool's actual financial results were comparable to its budgeted amounts.

Washington Cities Insurance Authority, MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to WCIA's basic financial statements. The Pool's financial statements which are comprised of two components: 1) the financial statements and 2) notes to the financial statements. This report contains other required supplementary information in addition to the basic financial statements themselves.

Financial Statements

WCIA reports its activities as an enterprise fund. An enterprise fund is a proprietary fund, and as such uses full accrual accounting for its activities.

The *Statement of Net Position* presents information on all of the Pool'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 Pool 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 calendar 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 years (e.g., loss reserves is an example).

The Pool's function is to provide property and liability insurance to participating members. The Pool's primary source of revenue is assessments to members and its major expenses include payments on claims and payments for insurance coverage.

The activities of the Pool consist solely of risk management programs and claims management activities related to the coverages described above. The reporting entity does not include any other component units with the criterion prescribed by Generally Accepted Accounting Principles (GAAP).

Washington Cities Insurance Authority, MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Three year comparative summary financial data:

DESCRIPTION	Year 2016	Year 2015	Year 2014
Total Assets – Capital	\$4,369,580	\$4,534,804	\$4,500,345
Total Assets – Other	\$162,173,875	\$166,816,811	\$166,450,243
Total Assets	\$166,543,455	\$171,351,615	\$170,950,588
Total Deferred Outflows of Resources	\$341,034	\$203,135	-
Total Current Liabilities	\$39,348,200	\$53,314,948	\$43,575,846
Noncurrent Liabilities	\$59,524,881	\$67,380,825	\$53,733,732
Total Liabilities	\$98,873,081	\$120,695,773	\$97,309,578
Total Deferred Inflows of Resources	\$37,722	\$284,561	-
Total Net Position-Invested in Capital Assets	\$4,369,580	\$4,534,804	\$4,500,345
Total Net Position-Unrestricted	\$63,604,106	\$46,039,612	\$69,140,665
Total Net Position	\$67,973,686	\$50,574,416	\$73,641,010
OPERATING REVENUES			
Member Assessments	\$37,064,851	\$36,266,724	\$34,265,991
Building Revenue	\$343,858	\$447,434	\$433,493
Seminar Revenue	\$20,843	\$30,030	\$36,721
TOTAL OPERATING REVENUES	\$37,429,552	\$36,744,188	\$34,736,205
NON-OPERATING REVENUES			
Investment Earnings (Loss)	\$1,331,553	(\$2,079,529)	\$7,122,818
TOTAL NON-OPERATING REVENUES	\$1,331,553	(\$2,079,529)	\$7,122,818
TOTAL REVENUES	\$38,761,105	\$34,664,659	\$41,859,023
OPERATING EXPENSES			
Loss & Loss Adjustment Expense	\$18,859,838	\$37,792,183	\$17,138,392
Confidence Level Expense	(\$11,879,000)	\$5,099,000	\$465,208
Insurance Expense	\$8,335,904	\$7,047,497	\$6,952,043
Wages & Benefits	\$2,818,862	\$2,569,022	\$2,727,454
Professional Services	\$1,557,468	\$1,543,939	\$1,557,179
Seminars & Training	\$787,819	\$702,729	\$697,809
Building Expenses	\$246,836	\$226,895	\$222,903
Other Expenses	\$634,108	\$708,600	\$692,158
TOTAL OPERATING EXPENSES	\$21,361,835	\$55,689,865	\$30,453,146
NET INCOME (LOSS)	\$17,399,270	(\$21,025,206)	\$11,405,877
BEGINNING NET POSITION	\$50,574,416	\$73,641,010	\$62,235,133
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	(\$2,041,388)	-
ENDING NET POSITION	\$67,973,686	\$50,574,416	\$73,641,010

Washington Cities Insurance Authority, MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operations Highlights

A dedication to risk reduction for members is a hallmark of WCIA. In 2016, members saw the continuation of WCIA's commitment to reduce and mitigate municipal exposures through a variety of programs and offerings. The memberships' COMPACT to be attentive members, adhere to risk management reviews and audits along with mandatory trainings celebrated its 21st year in 2016. WCIA's robust training program continued through regional, exclusive, co-sponsored and reimbursed instruction. While 2016 saw a record year in claims payments, it was largely due to five claims over \$1 million resulting in an overall reduction of pending reserves. All of this was in addition to our pre-defense review, risk management consultation, and risk reduction grant programs. Liability reinsurers Government Entities Mutual (GEM) and Allied World Assurance Company (AWAC) continued to strengthen the pools ability to respond to significant exposures while maintaining a \$4 million per occurrence self-insurance layer. The WCIA property program insured approximately \$6 billion in member assets with a self-insured layer of \$750,000 per loss. Additionally, WCIA purchased Cyber Insurance for all members while also offering a joint purchase Crime Insurance policy.

Capital Assets & Long-Term Debt

The Authority has \$6,392,587 of capital assets at cost, of which \$5,882,512 is for the building and land it purchased and uses for its office space as well as rental to third parties. The remaining capital assets are for office equipment and furnishings (refer to Note 6 of the Financial Statements).

SUMMARY

The Authority continued its membership financial support through a liability program assessment subsidy taken from undesignated reserves. This allowed the Authority to maintain competitive rates in a buyer's market in the traditional insurance industry. The COMPACT, a commitment made by all members to participate in training, risk management and pool governance, was successful in its 21st year. The pool continues to provide professional risk management and stable risk financing programs that respond to members' needs.

FINANCIAL CONTACT

The Pool's financial statements are designed to present users (members and or the general public) with a general overview of the Pool's finances and to demonstrate the Pool's accountability. If you have questions about the report or need additional information, contact Ann Bennett, the Pool's Executive Director, at P.O. Box 88030, Tukwila, WA 98138 (206)575-6046.

WASHINGTON CITIES INSURANCE AUTHORITY
Statement of Net Position
As of December 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2016</u>	<u>2015</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$15,647,308	\$24,570,408
Accrued Interest	407,498	302,650
Investments	139,180,024	136,270,951
Accounts Receivable	102,627	53,765
Prepaid Expenses	5,912,986	4,770,648
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TOTAL CURRENT ASSETS	\$161,250,443	\$165,968,422
<u>Noncurrent Assets:</u>		
Investment in GEM	\$923,432	\$848,389
Capital Assets	6,392,761	6,392,587
Accumulated Depreciation	(2,023,181)	(1,857,783)
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$5,293,012	\$5,383,193
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TOTAL ASSETS	\$166,543,455	\$171,351,615
	<hr/>	<hr/>
Deferred Outflows of Resources - Pension	\$341,034	\$203,135
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$166,884,489</u>	<u>\$171,554,750</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
<u>Current Liabilities:</u>		
Accounts Payable & Accrued Expenses	\$166,059	\$116,451
Compensated Absences	92,114	109,278
Deposits Payable	276,636	326,636
Property & Vehicle Claims Reserve	2,701,237	2,032,214
Claim Reserves:		
IBNR	12,368,642	12,598,147
Open Claims (Case Reserves)	6,160,515	8,537,045
Unallocated Loss Adjustment Expenses	597,997	731,177
Reserve for Increased Confidence Level	16,985,000	28,864,000
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TOTAL CURRENT LIABILITIES	\$39,348,200	\$53,314,948
<u>Noncurrent Liabilities:</u>		
Compensated Absences	\$50,760	\$50,754
Claim Reserves:		
IBNR	37,105,926	37,794,440
Open Claims (Case Reserves)	18,481,545	25,611,138
Unallocated Loss Adjustment Expenses	1,793,992	2,193,532
Net Pension Liability	2,092,658	1,730,961
	<hr/>	<hr/>
TOTAL NONCURRENT LIABILITIES	\$59,524,881	\$67,380,825
	<hr/>	<hr/>
TOTAL LIABILITIES	\$98,873,081	\$120,695,773
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Deferred Inflows of Resources - Pension	\$37,722	\$284,561
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NET POSITION		
Investment in Capital Assets	\$4,369,580	\$4,534,804
Unrestricted	63,604,106	46,039,612
	<hr/>	<hr/>
TOTAL NET POSITION	\$67,973,686	\$50,574,416
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TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$166,884,489</u>	<u>\$171,554,750</u>

See Accompanying Notes To The Financial Statements

WASHINGTON CITIES INSURANCE AUTHORITY
Statement of Revenues, Expenses
And Changes In Fund Net Position
For The Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Member Assessments - Liability	\$27,075,985	\$26,319,889
Member Assessments - Property	9,862,676	9,816,612
Member Assessments - Fidelity	126,190	130,223
Building Revenues	343,858	447,434
Seminar Revenues	20,843	30,030
Total Operating Revenues	<u>\$37,429,552</u>	<u>\$36,744,188</u>
Operating Expenses		
Loss & Loss Adjustment Expenses	\$18,859,838	\$37,792,183
Confidence Level Expense (Reduction)	(11,879,000)	5,099,000
Insurance - Members	8,335,904	7,047,497
Salaries and Wages	2,095,777	2,086,134
Personnel Benefits	723,085	482,888
Professional Services		
Claims Adjusting	425,527	420,637
Pre-Defense Review	653,712	686,678
Consultants	239,597	269,424
Legal	89,128	86,402
Actuarial	87,900	36,400
Audit	24,961	14,926
Financial Services	24,909	17,737
Risk Management Audit	11,734	11,734
Rent	-	120,000
Transportation	101,430	114,013
Printing	14,798	6,532
Communications	19,442	24,620
Supplies	45,832	49,360
Dues and Conferences	30,387	29,786
Retreat/Board Meetings	32,964	23,239
Depreciation	170,622	175,004
Miscellaneous	65,704	60,323
Repair and Maintenance	2,929	5,229
Risk Grant Reduction	150,000	100,495
Building expenses	246,836	226,895
Seminars and Training	787,819	702,729
Total Operating Expenses	<u>\$21,361,835</u>	<u>\$55,689,865</u>

See Accompanying Notes To The Financial Statements

WASHINGTON CITIES INSURANCE AUTHORITY
Statement of Revenues, Expenses
And Changes In Fund Net Position
For The Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Member Assessments - Liability	\$27,075,985	\$26,319,889
Member Assessments - Property	9,862,676	9,816,612
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See Accompanying Notes To The Financial Statements

WASHINGTON CITIES INSURANCE AUTHORITY
Statement of Revenues, Expenses
And Changes In Fund Net Position
For The Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Income (Loss)	\$16,067,717	(\$18,945,677)
Non-Operating Revenue (Loss)		
Interest Income	5,258,291	4,776,801
Net Increase (Decrease) in the Fair Value of Investments	(4,001,781)	(6,107,178)
Income (Loss) from Investment in GEM	75,043	(749,152)
Total Non-Operating Revenue	<u>\$1,331,553</u>	<u>(\$2,079,529)</u>
Change in Net Position	\$17,399,270	(\$21,025,206)
Net Position - January 1, as previously reported	\$50,574,416	\$73,407,842
Cumulative Effect of Change in Accounting Principle	-	(2,041,388)
Adjustment for overstatement of insurance expense in 2014	<u>-</u>	<u>233,168</u>
Net Position - January 1, as restated	50,574,416	71,599,622
Net Position - December 31	<u><u>\$67,973,686</u></u>	<u><u>\$50,574,416</u></u>

See Accompanying Notes To The Financial Statements

WASHINGTON CITIES INSURANCE AUTHORITY
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$37,085,694	\$36,296,754
Cash payments for claims	(29,196,539)	(21,334,950)
Cash payments for property & fidelity insurance	(9,136,233)	(6,658,398)
Cash payments for employee services	(2,859,061)	(746,288)
Payments for operating expenses	(3,151,174)	(2,814,585)
Proceeds from rental of office building	97,022	220,539
Net cash provided (used) by operating activities	<u>(\$7,160,291)</u>	<u>\$4,963,072</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(5,398)	(209,463)
GASB 68 - Pension Liability - net	-	(2,041,388)
Net cash provided (used) by capital and related financing activities	<u>(\$5,398)</u>	<u>(\$2,250,851)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale or return of investment securities	71,994,868	95,967,441
Purchase of investment securities	(78,905,722)	(99,069,266)
Interest on investments	5,153,443	4,757,269
Net cash provided (used) by investing activities	<u>(1,757,411)</u>	<u>1,655,444</u>
Net increase in cash and cash equivalents	(\$8,923,100)	\$4,367,665
Cash and cash equivalents beginning of year	24,570,408	20,202,743
Cash and cash equivalents end of year	<u>\$15,647,308</u>	<u>\$24,570,408</u>

Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Net Income (Loss)	\$17,399,270	(\$21,025,206)
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation	170,622	175,004
Interest reserve reported as investing	(5,153,443)	(4,757,269)
(Income) Loss from investment in GEM	(75,043)	749,152
Net (Increase) Decrease in the Fair Value of Investments	4,001,781	6,107,178
Changes in assets and liabilities:		
Decrease (Increase) in accrued interest	(104,848)	(19,532)
Decrease (Increase) in accounts receivable	(48,862)	2,567
Decrease (Increase) in prepaid expenses	(1,142,338)	263,557
Increase (Decrease) in payables	49,608	96,889
Increase (Decrease) in accrued compensated absences	(17,158)	10,347
Increase (Decrease) in deposits payable	(50,000)	(5,668)
Increase (Decrease) in property & vehicle claims reserve	669,023	569,781
Increase (Decrease) in claims reserves	(10,956,862)	15,884,885
Increase (Decrease) in confidence level reserve	(11,879,000)	5,099,000
Decrease (Increase) in deferred outflows of resources	(137,899)	(203,135)
Increase (Decrease) in deferred inflows of resources	(246,839)	284,561
Increase (Decrease) in net pension payable	361,697	1,730,961
Net Cash Provided by Operating Activities	<u>(\$7,160,291)</u>	<u>\$4,963,072</u>

See Accompanying Notes To The Financial Statements

WASHINGTON CITIES INSURANCE AUTHORITY
Notes To Financial Statements
For The Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of WCIA conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below.

A. **Reporting Entity**

The Washington Cities Insurance Authority (WCIA) is a municipal organization of cities, towns, and interlocal entities in Washington State that join together for the purpose of providing liability protection to its member entities. WCIA was created by interlocal agreement on January 1, 1981, pursuant to RCW Chapters 48.62 and 39.34. WCIA was organized to provide members with comprehensive and economical liability coverage, such as auto, general, police, public officials & errors & omissions, and property coverages, to reduce the amount and frequency of member losses and to decrease the cost incurred by members in the handling and litigation of claims.

Lines of coverage are provided by the Authority to members for auto & general liability, police liability, public officials liability, and employee benefit liability.

An auto physical damage and property insurance program was established by WCIA on behalf of participating members. Cyber Insurance for the entire membership was purchased through National Union offering \$1,000,000 in cyber liability limits along with regulatory action coverage, privacy event services, and event management.

B. **Basis Of Accounting And Presentation**

The accounting records of WCIA are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. WCIA also follows the accounting standards established by the Governmental Accounting Standards Board (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 GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

WCIA uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The principal operating revenues of the Pool are member assessments for insurance coverage.

Operating expenses include claims expense, salaries and wages, personnel benefits, professional fees, insurance expense, office expenses, and other general and administrative expenses.

C. **Assets, Liabilities, and Equities**

1. **Cash and Cash Equivalents**

It is WCIA's policy to invest all temporary cash surpluses. At December 31, 2016 and 2015, WCIA was holding \$15,647,308 and \$24,570,408 in short-term residual investments of surplus cash, respectively. These amounts are classified on the balance sheet as cash and cash equivalents.

For purposes of the Statement of Cash Flows, WCIA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. **Prepaid Expenses**

Prepaid expenses were \$5,912,986 and \$4,770,648 for 2016 and 2015 respectively. Prepaid insurance premiums were \$5,751,090 and \$4,561,662 for 2016 and 2015 respectively.

3. **Investments** - See Note 2.

4. **Capital Assets and Depreciation** - See Note 6.

5. **Restricted Funds**

In accordance with state statutes, separate restricted/designated funds are required to be established. The assets held in these funds are restricted for specific uses. WCIA has no funds that are restricted.

6. **Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation leave. WCIA records compensated absences as an expense and liability when earned.

As of December 31, 2016 and 2015, Compensated absences were estimated at \$142,874 and \$160,032, respectively. Vacation pay, which may be accumulated up to two hundred and forty (240) hours, is payable upon resignation, retirement or death. Sick leave, upon termination, is paid out at 30% of accrued sick leave hours, as a contribution to the VEBA Trust, for employees with more than 5 years of service.

7. **Unpaid Claims Liabilities**

WCIA 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 purchased excess coverages involved are considered in determining the liability for unpaid claims. Because actual claims 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. 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.

8. **Member Assessments**

Member assessments are collected and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on the development of the estimated discounted premium by member, based on an experience rating program which considers both loss experience and exposure to loss of the individual member entity.

9. **Unpaid Claims**

Claims are charged to expense as incurred. Claim 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.

10. **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 reported. The actuary estimates this liability at the end of each year based upon estimated costs provided by WCIA. The change in the liability each year is reflected in current earnings.

11. **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. **Deferred Outflows/Inflows of Resources-Pensions**

Deferred outflows of resources for pensions are recorded when actual earnings on pension plan investments exceed projected earnings. Deferred inflows of resources for pensions are recorded when projected earnings on pension plan investments exceed actual earnings. These are amortized to pension expense using a systematic and rational method over a closed five-year period.

Deferred outflows and deferred inflows of resources for pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the Pool's proportionate share of net pension liability. These deferred outflows and deferred inflows are amortized over the average expected remaining service lives of all employees that are provided with pensions through the pension plan.

Pool contributions to pension plans made subsequent to the measurement date are deferred outflows of resources and reduce net pension liability in the subsequent year.

D. Exemption From Federal And State Taxes

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of WCIA's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool (deemed a cash equivalent), deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW, such as, municipal bonds, mortgaged backed securities, and collateralized mortgage obligations. WCIA has recorded all its investments at fair value, as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*. The difference between fair value at the end of the year compared to the beginning of the year is reflected in Investment Income in the Statement of Revenues, Expenses And Changes In Net Position.

WCIA'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).

The investment portfolio of WCIA is designed to attain a high market rate of return throughout budgetary and economic cycles, while preserving and protecting capital and meeting daily cash flow needs, as outlined in the Investment Policy.

It is WCIA's policy and part of the investment process to use asset allocation. Asset allocation is a decision regarding the best use of financial resources at any given moment. This decision typically takes the form of whether to invest for a short term, intermediate term, or long term. WCIA takes into consideration the opportunities, risks and assumptions made regarding the market and WCIA's business. WCIA balances all considerations with a goal of achieving good returns while at the same time maintaining the necessary liquidity to pay claims.

During 2016 and 2015 the Pool realized gains (losses) on sales of investments of (\$1,124,655) and (\$2,676,757) respectively. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that had been held in more than one year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year. The net increase (decrease) in the fair value of investments during 2016 and 2015 were (\$4,204,622) and (\$6,107,178), respectively. These amounts take into account changes in the fair value (including purchases and sales) that occurred during the year.

The following is a summary of the investment holdings of WCIA at December 31:

<u>Investment</u>	12/31/2016		12/31/2015	
	Fair Value	Percentage	Fair Value	Percentage
U.S. Treasuries	\$ 799,920	0.57%	\$ -	0.00%
Agency Securities	124,644,673	89.56%	119,338,085	87.56%
Municipal Bonds	13,735,431	9.87%	16,932,866	12.43%
Total	<u>\$ 139,180,024</u>	<u>100.0%</u>	<u>\$ 136,270,951</u>	<u>100.0%</u>

DERIVATIVES AND SIMILAR TRANSACTIONS

WCIA's investments include certain derivative instruments which derive their value from securities. Such investments are governed by WCIA's policy. CMO's are used by WCIA in order to take advantage of pricing inefficiencies or to enhance returns.

CMO's may carry credit risk, which varies according to the nature of the underlying collateral and the credit rating. Of the CMO's in WCIA's portfolio, 100% have underlying government agency collateral, and therefore carry an agency rating. In addition, Standard and Poors and Moodys have recognized the mortgage backed securities that underlie the CMOs as triple A quality.

The CMOs are obligations of US sponsored agencies which play key roles in regulating or assisting the economy. Given such roles and the importance of these public bodies, it is unlikely that the federal government would ever permit them to default on outstanding securities.

CMOs may also carry prepayment risk, which varies according to the nature of the CMO. Of the CMOs in WCIA's portfolio at December 31, 2016 and 2015, all are designed to have very stable average lives and yields over a wider range of prepayment rates on the underlying mortgages.

CUSTODIAL CREDIT RISK

The investments do not expose the Pool to custodial risk as they are held by third parties in the name of the Pool.

CONCENTRATION OF CREDIT RISK

The Pool does not have investments in any one issuer representing 5% or more of total investments.

CREDIT RISK

CMO's may carry credit risk, which varies according to the nature of the underlying collateral and the credit rating. Of the CMO's in WCIA's portfolio, 100% have underlying government agency collateral, and therefore carry an agency rating. In addition, Standard and Poors and Moodys have recognized the mortgage backed securities that underlie the CMOs as triple A quality. Investments in Ginnie Mae's and Govt. Bonds & Medium Term Notes are rated as double A to triple A quality and are insured.

The investments described in this footnote are recorded in the financial statements and valued consistently within the overall investment portfolio.

All investments made by WCIA are in accordance with the investment laws of the State of Washington and WCIA's internal investment policies.

NOTE 3 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by WCIA at December 31, 2016:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	WCIA SELF-INSURED RETENTIONS	LIMITS
Property			
All Perils except flood, earthquake, builders risk, boiler & machinery, and automobile physical damage	\$1,000, \$5,000, \$25,000, or \$50,000	\$750,000 per occurrence	\$300,000,000 per occurrence
Flood	\$250,000 except 3% per unit of insurance suffering loss or damage from flood in FEMA Zones A & V, subject to a minimum of \$500,000	WCIA does not retain risk	\$100,000,000 per occurrence and annual aggregate except \$50,000,000 per occurrence and annual aggregate in FEMA Zones A & V
Earthquake	2% per unit of insurance suffering loss or damage from earthquake subject to a minimum of \$250,000	WCIA does not retain risk	\$150,000,000 per occurrence and annual aggregate
Builder Risk	\$500,000	WCIA does not retain risk	\$25,000,000 per project
Terrorism	\$1,000, \$5,000, \$25,000, or \$50,000	\$750,000 per occurrence	\$100,000,000
Boiler & Machinery	\$10,000 minimum, higher deductibles may apply depending on type of equipment	WCIA does not retain risk	\$100,000,000
Automobile Physical Damage	\$250, \$500, \$1,000, \$5,000 or \$25,000	\$250,000	\$100,000,000

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	WCIA SELF-INSURED RETENTIONS	LIMITS
Liability			
General Liability, Automobile Liability, Stop-Gap Coverage, Employment Practices Liability, Errors or Omissions Liability and Employee Benefits Liability.	None, \$25,000, \$50,000, \$100,000, \$250,000, \$500,000 and \$1,000,000	\$4,000,000 per occurrence	\$16,000,000 above \$4,000,000 SIR subject to various sub-limits
Cyber Insurance	Liability \$25,000, Privacy Event Services 100 Affected individuals, Event management \$25,000 per member per claim	Cyber liability coverage is primary over WCIA coverage. WCIA does not retain privacy event services and event management risks.	\$1,000,000 per member and \$10,000,000 aggregate subject to various sub-limits
Crime and Fidelity			
Employee Theft, Forgery or Alteration, Inside the Premises-Theft of Money and Securities, Inside the Premises-Robbery or Safe Burglary of Other Property, Outside the Premises, Computer Fraud, Funds Transfer Fraud, and Money Orders and Counterfeit Money	\$10,000 per occurrence	N/A, WCIA member joint purchase program	\$2,500,000 per occurrence for each coverage listed

Additionally WCIA is fully self-insured for unemployment benefits for its employees. No provision is made for estimated future claims, which are not considered significant to the financial position of WCIA.

NOTE 4 – EXCESS INSURANCE CONTRACTS/REINSURANCE

The pool maintains insurance and reinsurance with several carriers which provide various limits of coverage and participation over the pool's or its members self-insured retentions or deductibles.

Liability Limits:

Including Automobile Liability, General Liability, Public Officials Liability, Law Enforcement Liability, Employment Practices Liability, Employee Benefit Liability, and Stop Gap Liability.

Governmental Entities Mutual, Inc. \$3,000,000 per occurrence above pool's \$4,000,000 retained limit.

Allied World Assurance Company, Inc. \$8,000,000 per occurrence in excess of \$5,000,000, subject to a \$8,000,000 aggregate limit per member for products liability, public official liability, employment practices liability and employee benefit liability.

Allied World Assurance Company, Inc. \$5,000,000 per occurrence in excess of \$15,000,000 retention each occurrence, per member, subject to a \$5,000,000 aggregate limit per member for products liability, public officials liability, employment practices liability and employee benefit liability. Also subject to a \$10,000,000 aggregate per member applying to jail related losses.

Total limits \$20,000,000 per occurrence subject to reinsurance aggregates above and \$4,000,000 per occurrence and aggregate limit per member applying to terrorism \$5,000,000 per occurrence and aggregate limit per member arising out of the operations, ownership, maintenance or use of any airport, and \$5,000,000 per occurrence and aggregate limit per member arising out of land use planning and land use regulation, zoning, and any other land use and permitting process.

Cyber insurance is written by National Union Fire Insurance Company of Pittsburgh, PA with per member sub-limits of \$1,000,000 security privacy, \$100,000 regulatory action, \$500,000 event management, \$1,000,000 cyber extortion, and 75,000 affected individuals event management.

Property Limits:

\$300,000,000 per occurrence all risk limits except flood, earthquake, boiler & machinery and certain sub-limits.

\$100,000,000 per accident boiler & machinery limit

\$150,000,000 per occurrence and annual aggregate earthquake limit

\$100,000,000 per occurrence and annual aggregate flood except in flood zones A and V

\$50,000,000 per occurrence and annual aggregate flood in flood zones A and V

Property carriers include National Fire & Marine Insurance Company, Lloyd's of London, Landmark American Insurance Company, RSUI Indemnity Copmany, and Ironshore Specialty Insurance Company. Boiler & Machinery carrier is Hartford Steam Boiler Inspection and Insurance Company. The terrorism policy is written by Lloyd's of London Beazley and Talbot syndicates.

Each above has varying limits, coverage and varying percentages of participation.

Crime and Fidelity Limits:

\$2,500,000 employee theft

\$2,500,000 inside the premises theft of money and securities

\$2,500,000 inside the premises robbery or safe burglary

\$2,500,000 outside the premises

\$2,500,000 computer fraud

\$2,500,000 funds transfer fraud

\$2,500,000 money orders and counterfeit money

Crime and fidelity insurance written by National Union Fire Insurance Company of Pittsburgh, PA with a \$10,000 deductible.

NOTE 5 - MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members based on actual claim experience. During fiscal years 2016 and 2015, WCIA did not make supplemental assessments.

NOTE 6 – CAPITAL ASSETS

Capital assets are recorded at historical cost net of accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful life of the asset (5 to 10 years for office equipment and furnishings and 39 years for the office building). Initial depreciation on capital assets is recorded on a prorated basis in the year of purchase. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts, and any resulting gain or loss on disposal is reflected as other income. WCIA capitalizes capital asset purchases greater than \$5,000 with a useful greater than one year.

Capital assets consisted of the following as of December 31, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
Property, Office Furnishings and Equipment	\$6,392,587	5,398	(5,224)	\$6,392,761
Less Accumulated Depreciation	<u>(1,857,783)</u>	<u>(170,622)</u>	<u>5,224</u>	<u>(2,023,181)</u>
CAPITAL ASSETS, NET	<u>\$4,534,804</u>	<u>(\$165,224)</u>	<u>-</u>	<u>\$4,369,580</u>

Capital assets consisted of the following as of December 31, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Property, Office Furnishings and Equipment	\$6,185,466	209,463	(2,342)	\$6,392,587
Less Accumulated Depreciation	<u>(1,685,121)</u>	<u>(175,004)</u>	<u>2,342</u>	<u>(1,857,783)</u>
CAPITAL ASSETS, NET	<u>\$4,500,345</u>	<u>\$34,459</u>	<u>-</u>	<u>\$4,534,804</u>

NOTE 7 – LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Claims Reserves:					
IBNR	\$50,392,587	-	918,019	\$49,474,568	\$12,368,642
Open Claims (Case Reserves)	34,148,183	-	9,506,123	24,642,060	6,160,515
Unallocated Loss Adjustment Exp	2,924,709	-	532,720	2,391,989	597,997
Total Claims Reserves	87,465,479	-	10,956,862	76,508,617	19,127,154
Compensated Absences	160,032	-	17,158	142,874	92,114
Total Long-Term Liabilities	\$87,625,511	-	10,974,020	\$76,651,491	\$19,219,268

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Claims Reserves:					
IBNR	\$42,478,392	\$7,914,195	-	\$50,392,587	\$12,598,147
Open Claims (Case Reserves)	26,595,357	7,552,826	-	34,148,183	8,537,045
Unallocated Loss Adjustment Exp	2,506,845	417,864	-	2,924,709	731,177
Total Claims Reserves	71,580,594	15,884,885	-	87,465,479	21,866,369
Compensated Absences	149,685	10,347	-	160,032	109,278
Total Long-Term Liabilities	\$71,730,279	\$15,895,232	-	\$87,625,511	\$21,975,647

NOTE 8 - PENSION PLANS

The Authority participates in the Washington State Public Employees Retirement System (PERS) plan and in two defined contribution plans sponsored by the International City/County Management Association Retirement Corporation (ICMA-RC). ICMA-RC also administers WCIA's 457 plan.

(1) 401(a) Plans

The 401(a) plans are social security replacement plans that defer federal income tax on employee contributions and allow employees to choose from a number of investment options for both their contributions and the employer's contributions. The 401(a) plans are defined contribution plans. The Executive Committee established the plans in 1988.

WCIA maintains two 401(a) plans: (1) Management employees - The employer contributes 7.0% of earnings on behalf of participants and the participants are required to contribute 7.0% of earnings, and (2) Non-management employees - The employer contributes 7.0% of earnings on behalf of participants and the participants are not required to contribute.

Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age. Employer contributions will be distributed to the employee based upon the vesting schedule. Employees are fully vested after 5 years. The contract has identified the normal retirement age is 59.5 years.

The vesting schedule is the same for both plans:

Period of Service Completed	Percent Vested
0	0%
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 years	100%

In 2016, the pension expense for the Management Plan was \$65,516. The pension expense for the Non-management Plan was \$80,466 less forfeitures of \$45,429 for a total of \$35,037.

As of December 31, 2016 there was no outstanding liability for the two plans.

(2) PERS Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68, *Accounting and Financial Reporting for Pensions* for WCIA for the year 2016 and 2015:

Aggregate Pension Amounts – All Plans	2016	2015
Pension liabilities	\$2,092,658	\$1,730,961
Pension assets		
Deferred outflows of resources	\$341,034	\$203,135
Deferred inflows of resources	\$37,722	\$284,561
Pension expense/expenditures(benefit)	\$210,114	(\$17,652)

State Sponsored Pension Plans

Substantially all of WCIA’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees’ Retirement System (PERS) Plans 1, 2, and 3

PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS PLAN 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

No current WCIA employees are covered by PERS Plan 1.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of the member’s average final compensation (AFC) times the member’s years of services for Plan 2 and 1 percent of AFC for Plan 3. The AFC is average of the member’s 60 highest paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under 1 or 2 provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor benefit option. Other PERS 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by Department of Labor and Industries. PERS 2 members vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	11.18%	6.12%

Both WCIA and the employees made the required contributions. WCIA’s required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total PERS
2016	\$ -0-	\$181,013	\$52,141	\$233,154
2015	\$ -0-	\$158,886	\$52,463	\$211,349
2014	\$6,570	\$130,596	\$45,897	\$183,063

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report’s Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the based table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine the rate, an assets sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from the plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS2, SER 2/3, and TRS 2/3 employers, whose rates include a component for the PRS 1 and TRS 1 plan liabilities). Based on these assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50 year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity NPL

The table below presents WCIA’s proportionate share of the net pension liability, as of June 30, calculated using the discount rate of 7.5%, as well as what WCIA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) that the current rate.

June 30, 2016	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,145,584	\$949,983	\$781,656
PERS 2/3	\$2,103,870	\$1,142,675	(\$594,828)
June 30, 2015			
PERS 1	\$1,125,217	\$924,201	\$751,354
PERS 2/3	\$2,359,010	\$806,760	(\$381,738)

Pension Plan Fiduciary Net Position

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, WCIA reported a total pension liability of \$2,092,658 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$949,983
PERS 2/3	\$1,142,675

At June 30, 2015, WCIA reported a total pension liability of \$1,730,961 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$924,201
PERS 2/3	\$806,760

At June 30, WCIA’s proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2015	Proportionate Share 6/30/2016	Change In Proportion
PERS 1	.017668%	.017689%	.000021%
PERS 2/3	.022579%	.022695%	.000116%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For 2016, WCIA recognized pension expense was as follows:

	Pension Expense (Benefit)
PERS 1	(\$48,701)
PERS 2/3	\$258,815
TOTAL	\$210,114

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, WCIA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$23,919	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$	\$
TOTAL	\$23,919	\$

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$60,848	\$
Net difference between projected and actual investment earnings on pension plan investments	\$139,830	\$37,222
Changes of assumptions	\$11,810	\$
Changes in proportion and differences between contributions and proportionate share of contributions	(\$9,490)	\$
Contributions subsequent to the measurement date	\$114,117	\$
TOTAL	\$317,115	\$37,222

Deferred outflows of resources related to pensions resulting from WCIA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
2016		(\$4,335)
2017		(\$4,335)
2018		(\$4,335)
2019		(\$1,048)
2020		\$229
Thereafter		

NOTE 9 – INVESTMENT IN GEM

Governmental Entities Mutual, Inc. (GEM)

Governmental Entities Mutual, Inc. (GEM) is a captive insurance company, formed by eleven municipal risk pools across the nation. Its sole purpose is to ensure the availability, cost and quality of excess or reinsurance layers necessary for pool operation during difficult phases of insurance market cycles.

GEM is licensed to provide liability, property and workers' compensation reinsurance for public entity pools and self-insured local governments. It performs traditional functions such as marketing, underwriting, financial and regulatory administration, claims and litigation management and risk management through staff or vendors. GEM is managed by a CEO proficient in standard insurance principles, captive operation and pooling administration, directed by an elected Board from the membership.

GEM is domiciled in Washington D.C. pursuant to their Nonprofit Corporation Laws and the Captive Insurance Company Act. It has met and exceeded the capitalization and administrative requirements to act as an authorized, admitted, reinsurer. WCIA is one of eleven founding members providing the initial capitalization and enjoys benefits of that unique status.

WCIA has contributed an initial, minimum, surplus contribution of \$500,000. \$50,000 of the \$500,000 surplus contribution was made in December 2002, and has been included on the balance sheet in the "Investment in GEM" account. The remaining \$450,000 of surplus contribution was made in January 2003. Additional surplus requirements have been established to recognize proportionate member growth or expansion of GEM operations. A surplus account for each member has been established consisting of the initial surplus contribution, additional contributions, dividends and allocations of net income (loss). Washington Cities Insurance Authority surplus account balance at December 31, 2016 and 2015 was \$923,432 and \$848,389, respectively.

WCIA has not had to make any additional contributions to GEM for 2008 – 2016.

Other considerations within the Agreement between GEM and its Members include undesignated member equity, return of member equity, member and policyholder dividends, premium determination, accounting and audits, member obligations and non-compliance, underwriting and rating, and a liquidation and dissolution plan.

GEM Bylaws further address financial responsibility of each member in the event of adverse financial developments. Pre-established scenarios of financial contribution formally determine the extent of each member and the group as a whole in concert with the Washington D.C. Insurance Commissioner office's directives. This ranges from re-establishment of operating revenues and capital to Commissioner directed run-off of the company, consistent with Washington D.C. laws.

During 2015, the interpretation of the return of a member's allocation of equity came under question. The issue is currently being discussed by the GEM Board of Directors. WCIA management opines, based on preliminary discussions, that the current balance of Equity in GEM account is a reasonable estimate of the Pool's expected return.

Financial Statements for GEM can be obtained by writing GEM at 46 Donovan Street, Suite One, Concord, New Hampshire 03301 and or calling 603-223-0321. The website for GEM is www.gemre.com

The WCIA Executive Committee and Full Board, its Corporate Counsel, State Risk Manager and State Auditor have approved WCIA ability to enter into membership of this private nonprofit corporation.

NOTE 10 – SOLVENCY

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 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 80 percent 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.

Solvency test for program, fiscal years ending December 31,

	2016	2015
Primary Asset Test		
Cash and cash equivalents	\$ 15,647,308	\$ 24,570,408
Investments	\$ 139,180,024	\$ 136,270,951
Total	<u>\$ 154,827,332</u>	<u>\$ 160,841,359</u>
Less: Non-Claim liabilities		
Accounts payable & compensated absences	585,569	603,119
Total Primary Assets	\$ 154,241,763	\$ 160,238,240
Compared to:		
Claims liabilities at expected level per actuary	76,509,000	87,446,000
Difference	\$ 77,732,763	\$ 72,792,240
	TEST MET	TEST MET
Secondary Asset Test		
Cash and cash equivalents	\$ 15,647,308	\$ 24,570,408
Investments	139,180,024	136,270,951
Receivables and prepaid expenses	6,423,111	5,127,062
Less: Non-Claim liabilities		
Accounts payable & compensated absences	585,569	603,119
Total Secondary Assets	\$ 160,664,874	\$ 165,365,302
Compared to:		
Claims liabilities at 80 percent confidence level per actuary (from actuarial study)	98,467,000	124,464,000
Difference	\$ 62,197,874	\$ 40,901,302
	TEST MET	TEST MET

WCIA passes both solvency standards as of December 31, 2016 and 2015.

There have been no material violations of finance-related legal or contractual provisions.

NOTE 11 – CONTINGENT LIABILITIES

The Pool's financial statements include all material liabilities. There are no material contingent liabilities to record.

NOTE 12 – HEALTH & WELFARE

WCIA is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-100-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's Office.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During 2014 WCIA prepaid Boiler insurance for \$233,168 that was not reported as prepaid insurance but incorrectly included in insurance expense for 2014. The financial statements (Insurance Expense and Prepaid Expenses) have been restated for 2014 to correct for this error.

WASHINGTON CITIES INSURANCE AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
 Schedule of Proportionate Share of the Net Pension Liability
 As of December 31, 2016
 Last 10 Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
PERS 1										
Employer's proportion of the net pension liability (asset)	0.017668%	0.017689%								
Employer's proportionate share of the net pension liability	924,201	949,983								
TOTAL	924,201	949,983								
Employer's covered employee payroll	-									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-									
Plan fiduciary net position as a percentage of the total pension liability	-									
PERS 2/3										
Employer's proportion of the net pension liability (asset)	0.022579%	0.022659%								
Employer's proportionate share of the net pension liability	806,760	1,142,675								
TOTAL	806,760	1,142,675								
Employer's covered employee payroll	2,086,134	2,085,460								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	38.67%	54.79%								
Plan fiduciary net position as a percentage of the total pension liability	61.33%	45.21%								

WASHINGTON CITIES INSURANCE AUTHORITY
 REQUIRED SUPPLEMENTAL INFORMATION
 Schedule of Employer Contributions
 As of December 31, 2016
 Last 10 Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
PERS 1										
Statutorily or contractually required contributions	-	-	-	-	-	-	-	-	-	-
Contributions in relation to the statutorily or contractually required contributions	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Employer's covered employee payroll	-	-	-	-	-	-	-	-	-	-
Contribution as a percentage of covered employee payroll	-	-	-	-	-	-	-	-	-	-
PERS 2/3										
Statutorily or contractually required contributions	116,077	114,117								
Contributions in relation to the statutorily or contractually required contributions	116,077	114,117								
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Employer's covered employee payroll	2,086,134	2,085,460								
Contribution as a percentage of covered employee payroll	5.56%	5.47%								

WASHINGTON CITIES INSURANCE AUTHORITY
Required Supplementary Information
January 1, 2016 Through December 31, 2016

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

1. Ten-Year Claims Development Information

The table below illustrates how the Authority's earned revenues and investment income compare to related costs of loss and other expenses assumed by WCIA as of the end of each of the last ten (10) years. The rows of the table are defined as follows:

1. This line shows the number of member cities at the end of the year.
2. This line shows the total of each year's earned contribution revenues and investment revenues.
3. This line shows each year's other operating cost of WCIA including overhead and claims expense not allocable to individual claims.
4. This line shows WCIA's incurred claims and allocated claim adjustment expense (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).
5. This section of ten (10) rows shows the cumulative amounts paid as of the end of successive years for each policy year.
6. This section of ten (10) rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This 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.

WASHINGTON CITIES INSURANCE AUTHORITY
 Claims Development Information
 For The Ten Years Ended December 31, 2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Member Cities	121	126	129	137	145	152	153	162	177	180	188
2. Required contribution and investment revenue:											
Earned	\$32,147,131	\$33,369,461	\$35,887,882	\$41,244,005	\$39,864,487	\$44,789,688	\$38,593,964	\$28,808,746	\$40,963,854	\$34,936,347	\$38,321,361
Ceded	3,818,873	4,826,625	4,721,764	5,296,051	6,031,051	6,556,008	7,026,955	7,500,229	6,952,043	7,047,497	8,335,904
Net/Earned	28,328,258	28,542,836	31,166,118	35,947,954	33,833,436	38,233,680	31,567,009	21,308,517	34,011,811	27,888,850	29,985,457
3. Unallocated Expenses	3,625,879	3,963,591	3,984,099	4,371,087	4,483,033	4,887,579	5,388,121	5,924,459	5,897,503	5,751,185	6,045,093
4. Estimated incurred claims and expense end of year	16,500,000	20,500,000	21,000,000	22,800,000	20,500,000	18,500,000	19,500,000	23,300,000	22,500,000	25,000,000	23,500,000
5. Paid (cumulative) as of:											
End of year	1,806,040	1,984,889	1,838,548	2,102,160	1,824,909	1,592,113	1,998,341	2,118,628	2,385,482	2,049,697	2,390,962
One year later	5,786,111	4,913,720	5,045,425	4,411,297	3,758,569	4,595,070	4,631,546	5,065,779	5,294,063	4,756,914	
Two years later	10,511,842	7,475,480	7,791,076	8,068,583	8,373,205	9,254,332	7,576,542	7,517,494	8,378,704		
Three years later	15,355,203	11,480,771	11,219,933	11,040,332	11,037,248	13,877,332	11,369,808	18,737,485			
Four years later	17,010,267	14,492,646	14,068,912	15,835,661	14,159,651	20,256,197	15,487,009				
Five years later	18,145,985	15,643,051	15,575,450	17,182,249	15,239,945	21,170,037					
Six years later	18,884,159	16,154,429	18,628,915	18,149,150	15,405,909						
Seven years later	19,035,880	16,724,124	18,736,402	18,177,765							
Eight years later	19,593,478	17,025,693	18,867,072								
Nine years later	20,317,516	17,135,411									
Ten years later	22,285,918										
6. Reestimated incurred claims and expense:											
End of policy year	16,500,000	20,500,000	21,000,000	22,800,000	20,500,000	18,500,000	19,500,000	23,300,000	22,500,000	25,000,000	23,500,000
One year later	20,000,000	21,000,000	20,000,000	20,500,000	18,500,000	19,000,000	19,500,000	22,000,000	23,000,000	24,000,000	
Two years later	23,000,000	20,000,000	19,000,000	19,000,000	19,000,000	24,000,000	18,000,000	20,000,000	20,500,000		
Three years later	23,000,000	19,000,000	17,500,000	18,200,000	19,400,000	23,000,000	19,000,000	29,000,000			
Four years later	23,000,000	18,200,000	18,300,000	21,000,000	18,300,000	25,000,000	19,000,000	26,500,000			
Five years later	21,700,000	18,200,000	19,700,000	20,600,000	18,200,000	24,000,000	19,000,000				
Six years later	21,000,000	18,400,000	21,000,000	20,800,000	17,400,000	24,000,000					
Seven years later	21,300,000	18,500,000	20,850,000	20,000,000							
Eight years later	21,300,000	18,600,000	21,000,000								
Nine years later	23,000,000	18,700,000									
Ten years later	23,100,000										
7. Increase (decrease) in estimated incurred claims from end of policy year	6,600,000	(1,800,000)	-	(2,800,000)	(3,100,000)	5,500,000.00	(500,000.00)	3,200,000.00	(2,000,000.00)	(1,000,000.00)	-

This Information Is Required By The Governmental Accounting Standards Board.

WASHINGTON CITIES INSURANCE AUTHORITY
Required Supplementary Information
January 1, 2015 Through December 31, 2015

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

1. Ten-Year Claims Development Information

The table below illustrates how the Authority's earned revenues and investment income compare to related costs of loss and other expenses assumed by WCIA as of the end of each of the last ten (10) years. The rows of the table are defined as follows:

1. This line shows the number of member cities at the end of the year.
2. This line shows the total of each year's earned contribution revenues and investment revenues.
3. This line shows each year's other operating cost of WCIA including overhead and claims expense not allocable to individual claims.
4. This line shows WCIA's incurred claims and allocated claim adjustment expense (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).
5. This section of ten (10) rows shows the cumulative amounts paid as of the end of successive years for each policy year.
6. This section of ten (10) rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This 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.

WASHINGTON CITIES INSURANCE AUTHORITY
 Claims Development Information
 For The Ten Years Ended December 31, 2015

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Member Cities	114	121	126	129	137	145	152	153	162	177	180
2. Required contribution and investment revenue:											
Earned	\$27,655,293	\$32,147,131	\$33,369,461	\$35,887,882	\$41,244,005	\$39,864,487	\$44,789,668	\$38,593,964	\$28,808,746	\$40,963,854	\$34,936,347
Ceded	2,250,563	3,818,873	4,826,625	4,721,764	5,296,051	6,031,051	6,556,008	7,026,955	7,500,229	6,952,043	7,047,497
Net/Earned	25,404,730	28,328,258	28,542,836	31,166,118	35,947,954	33,833,436	38,233,660	31,567,009	21,308,517	34,011,811	27,888,850
3. Unallocated Expenses	3,429,688	3,625,879	3,963,591	3,984,059	4,371,087	4,483,033	4,887,579	5,368,121	5,924,459	5,897,503	5,751,185
4. Estimated incurred claims and expense end of year	17,000,000	16,500,000	20,500,000	21,000,000	22,800,000	20,500,000	18,500,000	19,500,000	23,300,000	22,500,000	25,000,000
5. Paid (cumulative) as of:											
End of year	1,878,844	1,806,040	1,984,889	1,838,548	2,102,160	1,824,909	1,592,113	1,986,341	2,118,628	2,385,482	2,049,697
One year later	4,478,073	5,786,111	4,913,720	5,045,425	4,411,297	3,788,569	4,595,070	4,631,546	5,065,779	5,294,063	
Two years later	7,826,072	10,511,842	7,475,490	7,791,076	8,068,583	8,373,205	9,254,313	7,576,542	7,517,494		
Three years later	12,608,085	15,355,203	11,480,771	11,219,933	11,040,332	11,037,248	13,877,332	11,369,808			
Four years later	14,715,888	17,010,267	14,492,646	14,068,912	15,835,861	14,159,651	20,256,197				
Five years later	16,465,079	18,145,985	15,643,051	15,575,450	17,182,249	15,239,945					
Six years later	16,587,380	18,884,159	16,154,429	18,628,915	18,149,150						
Seven years later	16,614,079	19,035,880	16,724,124	18,736,402							
Eight years later	18,891,836	19,593,478									
Nine years later	18,995,785	20,317,516									
Ten years later	18,997,983										
6. Reestimated incurred claims and expense:											
End of policy year	17,000,000	16,500,000	20,500,000	21,000,000	22,800,000	20,500,000	18,500,000	19,500,000	23,300,000	22,500,000	25,000,000
One year later	15,000,000	20,000,000	21,000,000	20,000,000	20,500,000	18,500,000	19,000,000	19,500,000	22,000,000	23,000,000	
Two years later	15,500,000	20,000,000	20,000,000	19,000,000	19,000,000	19,000,000	24,000,000	18,000,000	29,000,000		
Three years later	20,000,000	23,000,000	19,000,000	17,500,000	18,200,000	19,400,000	23,000,000	19,000,000			
Four years later	18,600,000	23,000,000	18,200,000	18,300,000	21,000,000	18,300,000	21,000,000	19,000,000			
Five years later	19,000,000	21,700,000	18,200,000	19,700,000	20,600,000	18,200,000	25,000,000				
Six years later	18,300,000	21,500,000	18,400,000	21,000,000	20,800,000						
Seven years later	18,200,000	21,300,000	18,500,000	20,850,000							
Eight years later	20,000,000	21,300,000									
Nine years later	19,600,000	23,000,000									
Ten years later	19,700,000										
7. Increase (decrease) in estimated incurred claims from end of policy year	2,700,000	6,500,000	(1,900,000)	(150,000)	(2,000,000)	(2,300,000)	6,500,000.00	(500,000.00)	5,700,000.00	500,000.00	-

This Information Is Required By The Governmental Accounting Standards Board.

**WASHINGTON CITIES INSURANCE AUTHORITY
 REQUIRED SUPPLEMENTAL INFORMATION
 Reconciliation of Claims Liabilities by Type of Contract
 For the Years Ended December 31, 2016 and 2015**

	Liability 2016	Liability 2015
Unpaid claims and claim adjustment expenses at the beginning of the year	\$ 87,465,479	\$ 71,580,594
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	22,614,345	23,327,939
Changes in provision for insured events of prior years	<u>885,655</u>	<u>1,672,061</u>
	<u>23,500,000</u>	<u>25,000,000</u>
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	16,357,395	1,771,592
Claims and claim adjustment expenses attributed to insured events of prior years	<u>18,099,467</u>	<u>7,343,523</u>
	<u>34,456,862</u>	<u>9,115,115</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 76,508,617</u>	<u>\$ 87,465,479</u>

**WASHINGTON CITIES INSURANCE AUTHORITY
SUPPLEMENTARY AND OTHER SCHEDULES
DES Schedule of Expenses
For the Years Ended December 31, 2016 and 2015**

	2016	2015
Insurance	\$ 8,335,904	\$ 7,047,497
Professional Services:		
Claims Adjusting	425,527	420,637
Actuarial	87,900	36,400
Audit Expenses	24,961	14,926
Pre-Defense Review	653,712	686,678
Consultants	239,597	269,424
Legal Fees	89,128	86,402
Other Consultant Fees	36,643	29,471
General Administrative Expenses:		
Communications	19,442	24,620
Supplies	45,832	49,360
Dues and Conferences	30,387	29,786
Retreat/Board Meetings	32,964	23,239
Training	787,819	702,729
Depreciation	170,622	175,004
Miscellaneous	65,704	60,323
Building Expenses	246,836	226,895
Risk Grant Reduction	150,000	100,495
Other	<u>9,918,857</u>	<u>45,705,979</u>
Total Operating Expenses	<u>\$ 21,361,835</u>	<u>\$ 55,689,865</u>

**WASHINGTON CITIES INSURANCE AUTHORITY
 SUPPLEMENTAL INFORMATION
 LIST OF PARTICIPATING MEMBERS
 January 1, 2016 – December 31, 2016**

The board of directors is the governing body of the pool. Each member that is a signatory to the interlocal agreement is entitled to one representative to the board of directors. The members at December 31, 2016, were:

ARCH	Edgewood Transportation Benefit District
Aberdeen	Edmonds
Anacortes	Edmonds Transportation Benefit District
Arlington	Ellensburg
Arlington Transportation Benefit District	Elma
Auburn	Enumclaw
Bainbridge Island	Enumclaw Transportation Benefit District
Battle Ground	Everson
Battle Ground Transportation Benefit District	Ferndale
Benton City	Fife
Benton County Emergency Services (BCES)	Fife Transportation Benefit District
Bonney Lake	George
Bothell	Goldendale
Brewster	Grandview
Brier	Grays Harbor 911 Communications
Burien	Hoquiam
Burlington	Issaquah
Camas	Jefferson 911 Communications
Cashmere	Kelso
Centralia	Kenmore
Chehalis	Kenmore Transportation Benefit District
Chelan	Kennewick
Cheney	Kirkland
Chewelah	Kitsap 911
Clark Regional Emergency Services Agency (CRESA)	Kitsap Regional Coordinating Council
Clarkston	La Conner
Cle Elum	Lacey
Clyde Hill	Lake Forest Park
Coupeville	Lake Stevens
Covington	Lakewood
Cowlitz-Wahkiakum Council of Governments	Lakewood Transportation Benefit District
Des Moines	Leavenworth
Des Moines Pool Metro Park District	Leavenworth Transportation Benefit District
Duvall	Long Beach
Eastside Public Safety Communications	Longview
eCity Gov Alliance	LOTT Clean Water Alliance
Edgewood	Mabton
	MACECOM

**WASHINGTON CITIES INSURANCE AUTHORITY
 SUPPLEMENTAL INFORMATION
 LIST OF PARTICIPATING MEMBERS
 January 1, 2016 – December 31, 2016**

Maple Valley	Pullman-Moscow Regional Airport Board
Marysville	Puyallup
Marysville Fire District	Richland
McCleary	Ridgefield
Medical Lake	Sammamish
Medina	SCORE
Mercer Island	Seattle Southside Regional Tourism Authority
Metropolitan Park District of Tacoma	Shelton
Mill Creek	Shelton Metropolitan Park District
Millwood	Shoreline
Milton	Silver Lake Water & Sewer District
Monroe	Skagit 911
Monroe Fire District	Skagit Council of Governments
Monroe Transportation Benefit District	SNOCOM
Moses Lake	Snohomish
Mount Vernon	Snohomish Co. Emergency Radio System
Mountlake Terrace	SNOPAC
Mountlake Terrace Transportation Benefit District	Snoqualmie
Mukilteo	Soap Lake
Multi Agency Communications Center	South Sound 911
Newcastle	Spokane Valley
Normandy Park	Stanwood
Normandy Park Metro Park District	Steilacoom
North Bonneville	Sumner
Northshore Utility District	Sunnyside
NW Incident Management Team	Three Rivers Regional Wastewater Authority
Oak Harbor	Thurston 9-1-1 Communications
Ocean Shores	Thurston Public Utilities District
Olympia	Thurston Regional Planning Council
Olympia Metropolitan Park District	Toppenish
Olympia Transportation Benefit District	Tukwila
Othello	Tukwila Pool Metropolitan Parks District
Othello Transportation Benefit District	Tumwater
Pasco	Union Gap
PENCOM	University Place
Port Angeles	Valley Communications
Port Townsend	Valley Regional Fire Authority
Poulsbo	Walla Walla
Pullman	Walla Walla Transportation Benefit District
Pullman Metropolitan Park District	Walla Walla Valley Metropolitan Planning Org.
	Warden

**WASHINGTON CITIES INSURANCE AUTHORITY
SUPPLEMENTAL INFORMATION
LIST OF PARTICIPATING MEMBERS
January 1, 2016 – December 31, 2016**

Washington Multi-City Business License & Tax
Portal Agency
Washougal
Water Operating Board
Westport
West Richland
WHITCOM 911
William Shore Memorial Pool District
Woodinville
Woodway
Yakima Valley Conference of Governments
Yarrow Point
Zillah

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 Authority.

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