



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Association of Washington Cities Risk Management Service Agency

For the period January 1, 2020 through December 31, 2021

Published August 25, 2022

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

August 25, 2022

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Association of Washington Cities Risk Management Service Agency January 1, 2020 through December 31, 2021

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Association of Washington Cities Risk Management Service Agency, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated August 18, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above 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 or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

August 18, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Association of Washington Cities Risk Management Service Agency January 1, 2020 through December 31, 2021

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the Association of Washington Cities Risk Management Service Agency, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association of Washington Cities Risk Management Service Agency, as of December 31, 2021 and 2020, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for a reasonable period of time; and

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

The other information comprises The DES Schedule of Expenses and 2021 Membership but does not include the basic financial statements and our auditor's report thereon. Management is responsible for the other information included with the financial statements. Our opinions on the basic financial statements do not cover this other information, and, we do not express an opinion or provide any assurance thereon.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2022 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

August 18, 2022

FINANCIAL SECTION

Association of Washington Cities Risk Management Service Agency January 1, 2020 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021 and 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021 and 2020

Statement of Revenues, Expenses and Changes in Net Position – 2021 and 2020

Statement of Cash Flows – 2021 and 2020

Notes to Financial Statements – 2021 and 2020

REQUIRED SUPPLEMENTARY INFORMATION

Ten-Year Claims Development Information – 2021 and 2020

Reconciliation of Claims Liabilities by Type of Contract – 2021 and 2020

SUPPLEMENTARY AND OTHER INFORMATION

DES Schedule of Expenses – 2021 and 2020

Membership – 2021

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

As management of the Association of Washington Cities Risk Management Service Agency (the Pool), we offer readers of the Risk Management Service Agency's financial statements this narrative overview and analysis of the financial activities of the Risk Management Service Agency for the fiscal year ended December 31, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished within the basic financial statements including the financial statement notes.

FINANCIAL HIGHLIGHTS:

1. The assets of the Risk Management Service Agency exceeded its liabilities at the close of the most recent fiscal year by \$15,595,454 (*net position*). The total amount of \$15,595,454 (*unrestricted net position*) may be used to meet the Pool's ongoing obligations to creditors.
2. The Risk Management Service Agency's total net position increased by \$1,471,210.
3. The Risk Management Service Agency's total liabilities decreased by \$1,256,605 in 2021 due primarily to a decrease in Claim Reserves (IBNR and Unpaid Claims) in the amount of \$1,331,786 from \$7,934,879 in 2020 to \$6,603,093 in 2021.
4. The Risk Management Service Agency continues to meet the solvency standards established by Washington Administrative Code (WAC) 200-100-03001.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

POOL FINANCIAL ANALYSIS:

Net Position

As noted earlier, net position may serve over time as a useful indicator of a pool's financial position. In the case of the Risk Management Service Agency, assets exceeded liabilities by \$15,595,454 at the close of the most recent fiscal year.

By far, the largest portion of the Pool's assets reflects cash and investments (79% - \$17,957,753 of \$22,701,030). The Pool uses these assets to fund the claim reserves arising from claims, which were estimated at \$6,603,093 at December 31, 2021.

RISK MANAGEMENT SERVICE AGENCY – NET POSITION

	12-31-21	12-31-20	12-31-19
Current Assets	\$7,602,523	\$9,175,081	\$9,372,015
Noncurrent Assets	\$15,098,507	\$13,311,344	\$12,567,967
Total Assets	\$22,701,030	\$22,486,425	\$21,939,982
Current Liabilities	\$1,542,603	\$1,692,201	\$1,606,075
Noncurrent Liabilities	\$5,562,973	\$6,669,980	\$6,573,428
Total Liabilities	\$7,105,576	\$8,362,181	\$8,179,503
Unrestricted	\$15,595,454	\$14,124,244	\$13,760,479
Net Position	\$15,595,454	\$14,124,244	\$13,760,479

The unrestricted net position, totaling \$15,595,454 may be used to meet the Pool's ongoing obligations to creditors.

Changes in Net Position

The Risk Management Service Agency net position increased \$1,471,210 during 2021. The key elements of this increase are attributed to an improvement in prior years and investment income earned during the fiscal year 2021.

RISK MANAGEMENT SERVICE AGENCY – CHANGES IN NET POSITION

	2021 ACTIVITIES	2020 ACTIVITIES	2019 ACTIVITIES
Revenues			
Member Assessments	\$9,741,649	\$9,078,519	\$8,425,393
Other Income	\$(291,514)	\$77,976	\$146,017
Interest (Investment) Income	\$237,541	\$340,943	\$435,173
Increase in Equity in NLC MIC	\$224,374	\$111,575	\$116,704
Total Revenues	\$9,912,050	\$9,609,013	\$9,123,287
Expenses			
Claims Loss Expense -- Current Year	\$2,995,000	\$3,300,000	\$3,375,000
Claims Loss Expense -- Prior Years	\$(1,112,736)	\$(377,747)	\$(198,699)
Unallocated Loss Adjustment Expenses	\$(50,000)	\$10,000	\$60,000
Insurance Premiums	\$3,395,346	\$2,910,546	\$2,298,118
Claims Administration and Loss Control Services	\$1,176,693	\$1,297,472	\$958,793
General and Administrative Expenses	\$2,036,537	\$2,104,977	\$2,233,648
Total Expenses	\$8,440,840	\$9,245,248	\$8,726,859
Income	\$1,471,210	\$363,765	\$396,428
Change in Net Position	\$1,471,210	\$363,765	\$396,428

ECONOMIC FACTORS IMPACTING THE POOL:

Over the past year, interest rates available for investing have started to increase and rates are expected to be increasing in 2022. The Risk Management Service Agency maintains unrestricted net position sufficient to meet the solvency standards established by Washington Administrative Code (WAC) 200-100-03001 and may be used to meet the Pool's ongoing obligations to creditors.

REQUESTS FOR INFORMATION:

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

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

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
STATEMENT OF NET POSITION
As of December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS:		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 3,128,290	\$ 2,822,762
Investments	3,272,273	6,072,301
Receivables:		
Assessments Receivable	503	-
Excess/Reinsurance Recoverable	1,012,750	-
Contract Receivable (Current Portion)	2,500	2,500
Member Deductibles	-	13,008
Prepaid Expense	145,707	201,394
Accrued Interest	40,500	63,116
Total Current Assets:	<u>\$ 7,602,523</u>	<u>\$ 9,175,081</u>
<u>Noncurrent Assets:</u>		
Contract Receivable	17,500	20,000
Reinsurance Deposit	239,149	239,149
Equity In NLC MIC	3,284,668	3,060,295
Investments	11,557,190	9,991,900
Total Noncurrent Assets:	<u>\$ 15,098,507</u>	<u>\$ 13,311,344</u>
TOTAL ASSETS:	<u>\$ 22,701,030</u>	<u>\$ 22,486,425</u>
LIABILITIES:		
<u>Current Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 616,974	\$ 838,110
Unpaid Claims	423,146	426,789
Unallocated Loss Adjustment Expenses	230,000	280,000
Accounts Payable	272,483	147,302
Total Current Liabilities:	<u>\$ 1,542,603</u>	<u>\$ 1,692,201</u>
<u>Noncurrent Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 2,991,119	\$ 3,796,769
Unpaid Claims	2,571,854	2,873,211
Total Noncurrent Liabilities:	<u>\$ 5,562,973</u>	<u>\$ 6,669,980</u>
TOTAL LIABILITIES	<u>\$ 7,105,576</u>	<u>\$ 8,362,181</u>
NET POSITION:		
Unrestricted	15,595,454	14,124,244
TOTAL NET POSITION	<u>\$ 15,595,454</u>	<u>\$ 14,124,244</u>

The Accompanying Notes Are An Integral part of This Statement.

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2021 and 2020**

	2021	2020
OPERATING REVENUES:		
Member Assessments	\$9,741,649	\$9,078,519
Other Income	(291,514)	77,976
Total Operating Revenues	<u>\$9,450,135</u>	<u>\$9,156,495</u>
OPERATING EXPENSES:		
Claims Loss Expense -- Current Year	\$2,995,000	\$3,300,000
Claims Loss Expense -- Prior Years	(1,112,736)	(377,747)
Unallocated Loss Adjustment Expenses	(50,000)	10,000
Insurance Premiums	3,395,346	2,910,546
Claims Administration and Loss Prevention Services	1,176,693	1,297,472
General and Administrative Expenses	2,036,537	2,104,977
Total Operating Expenses	<u>\$8,440,840</u>	<u>\$9,245,248</u>
OPERATING INCOME (LOSS):	<u>\$1,009,295</u>	<u>(\$88,753)</u>
NONOPERATING REVENUES/EXPENSES:		
Interest (Investment) Income	\$237,541	\$340,943
Equity in NLC MIC	224,374	111,575
Total Non-Operating Revenues and Expenses	<u>\$461,915</u>	<u>\$452,518</u>
CHANGE IN NET POSITION:	\$1,471,210	\$363,765
TOTAL NET POSITION - JANUARY 1	14,124,244	13,760,479
TOTAL NET POSITION - DECEMBER 31	<u>\$15,595,454</u>	<u>\$14,124,244</u>

The Accompanying Notes Are An Integral part of This Statement.

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Members	\$9,743,646	\$9,084,601
Other Operating Cash Receipts	(268,898)	77,597
Cash Payments for Claims	(3,214,050)	(2,648,727)
Cash Payments for Insurance Premiums	(3,339,659)	(3,003,772)
Cash Payments for Operating Expenses	(4,087,791)	(3,497,499)
Net Cash Provided (Used) By Operating Activities:	<u>\$ (1,166,752)</u>	<u>\$ 12,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Securities	\$ 1,234,739	\$ (1,408,794)
Interest (Investment) Income	237,541	340,943
Net Cash Provided (Used) By Investing Activities:	<u>\$ 1,472,280</u>	<u>\$ (1,067,851)</u>
INCREASE/<DECREASE> IN CASH AND CASH EQUIVALENTS	<u>\$ 305,528</u>	<u>\$ (1,055,651)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	2,822,762	3,878,413
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 3,128,290</u>	<u>\$ 2,822,762</u>

RECONCILIATION OF OPERATING INCOME:

	<u>2021</u>	<u>2020</u>
OPERATING INCOME:		
Adjustments to Reconcile Operating Income to Net Income Provided By Operating Activities		
Operating income (loss)	\$ 1,009,295	\$ (88,753)
(Increase) decrease in Assessments Receivable	(503)	3,582
(Increase) decrease in Other Receivables from Reinsurance	(1,012,750)	-
(Increase) decrease in Member Deductibles	13,008	5,800
(Increase) decrease in Prepaid Expenses	55,687	(93,226)
(Increase) decrease in Interest Receivable	22,616	(379)
(Increase) decrease in Contract Receivable	2,500	2,500
Increase (decrease) in Incurred but Not Reported (IBNR)	(1,331,786)	273,526
Increase (decrease) in Reserve for Unallocated Loss Adjustment Expenses	(50,000)	10,000
Increase (decrease) in Accounts Payables	125,181	(100,849)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>\$ (1,166,752)</u>	<u>\$ 12,200</u>

The Accompanying Notes Are An Integral Part of This Statement

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Pool’s general objectives are to provide its members with a comprehensive risk management program, stabilize insurance costs, and minimize the loss exposure of its members through a program of risk-sharing, joint indemnification of losses, and proactive management intervention. A member is entitled to withdraw from the Pool at the end of any fiscal year by providing a 12-month written notice of its intent to withdraw. Members are subject to supplemental premium assessments in the event of deficiencies. As of December 31, 2021 and 2020, 104 members participated in the Pool.

The Pool provides property coverage up to the maximum limit of \$250 million per loss. Property other than vehicles, equipment, and dilapidated buildings are paid at replacement cost of the damaged or destroyed property at the time of loss. Vehicles, equipment, and dilapidated buildings are paid at actual cash value at the time of loss. The Pool also provides general liability coverage including law enforcement liability, automobile liability, employment practices liability, and public officials’ errors and omissions liability with coverage up to \$15 million in per occurrence limits and \$78 million in aggregate limits. Other types of coverage include boiler and machinery coverage up to \$175 million per occurrence, crime, employee fidelity, faithful performance coverage up to \$1 million per occurrence, cyber liability coverage up to \$3 million per occurrence, and pollution liability coverage up to \$2 million per occurrence. Optional aviation liability coverage is available to applicable members, under a group purchase, with coverage up to \$2 million per occurrence.

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

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

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

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

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

Prepaid Expenses – Prepaid expenses were \$145,707 and \$201,394 for 2021 and 2020, respectively. These were prepaid insurance premium and operating expenses.

Investments – See Note B

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

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

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reinsurance – The Pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Pool as direct insurer of the risks reinsured. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Losses recoverable from reinsurance carriers as of December 31, 2021 and 2020 are \$1,012,750 and \$0, respectively. Amounts recovered from reinsurance carriers and deducted from claims

liabilities during the years ended December 31, 2021 and 2020 are \$8,217,841 and \$273,668, respectively.

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

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

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

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

Non-operating Revenues – Non-operating revenues include revenues derived from investment decisions and include interest income along with the gain or loss in member equity in National League of Cities Mutual Insurance Company (NLC MIC).

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

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

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

NOTE B – DEPOSITS AND INVESTMENTS

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

Summary of Deposit and Investment Balances:

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

	Market Value	
	12/31/2021	12/31/2020
Cash on Hand	\$ 963,930	\$ 388,960
Deposit in State LGIP	2,086,431	2,382,644
Non-Pooled Investments	<u>14,907,392</u>	<u>16,115,359</u>
Total Deposits and Investments	<u>\$ 17,957,753</u>	<u>\$ 18,886,963</u>
Deposit:		
Current:		
Cash and Cash Equivalents	<u>\$ 3,128,290</u>	<u>\$ 2,822,762</u>
Total Deposits	<u>\$ 3,128,290</u>	<u>\$ 2,822,762</u>
Investments:		
Current:		
Short-Term Investments	3,272,273	6,072,301
Noncurrent:		
Investments:	<u>11,557,190</u>	<u>9,991,900</u>
Total Investments	<u>\$ 14,829,463</u>	<u>\$ 16,064,201</u>
Total Deposits and Investments	<u>\$ 17,957,753</u>	<u>\$ 18,886,963</u>

Investments in Local Government Investment Pool (LGIP)

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

Investments Measured at Fair Value

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

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

At December 31, 2021, the Association of Washington Cities Risk Management Service Agency (the Pool) had the following investments measured at fair value:

	Fair Value (12/31/2021)	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
US Treasuries	\$ 4,172,156	\$4,172,156	\$ -	\$ -
US Agencies	6,950,897	-	6,950,897	-
State and Local Government	1,139,176	-	1,139,176	-
International	792,881	-	792,881	-
Supranational	1,019,210	-	1,019,210	-
Corporate Bonds	755,143	-	755,143	-
Total investment measured at fair value	<u>\$ 14,829,463</u>	<u>\$4,172,156</u>	<u>\$10,657,307</u>	<u>\$ -</u>
Total Investments	<u>\$ 14,829,463</u>			

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

Investment Type	Fair Value (12/31/2021)	Investment Maturities (in Years)	
		Less Than 1	1-5
Debt Securities			
US Treasuries	\$ 4,172,156	\$ -	\$ 4,172,156
US Agencies	6,950,897	2,765,253	4,185,644
State and Local Government	1,139,176	253,850	885,326
International	792,881	-	792,881
Supranational	1,019,210	-	1,019,210
Corporate Bonds	755,143	253,170	501,973
Total Debt Securities		\$ 3,272,273	\$ 11,557,190
Total Investments	\$14,829,463		
Investment Type	Fair Value (12/31/2021)	Credit Rating	Credit Rating
		AAA	AA
		Aaa	Aa
US Treasuries	\$ 4,172,156	\$ 4,172,156	\$ -
US Agencies	6,950,897	6,950,897	-
State and Local Government	1,139,176	149,313	989,863
International	792,881	495,478	297,403
Supranational	1,019,210	510,279	508,931
Corporate Bonds	755,143	-	755,143
Totals	\$ 14,829,463	\$ 12,278,123	\$ 2,551,340

NOTE C – EXCESS INSURANCE/REINSURANCE CONTRACTS

The Pool maintains excess/reinsurance contracts with several insurance carriers, which provide various limits of coverage over the Pool's self-insured retention limits. The limit provided by these excess/reinsurance contracts as of December 31, 2021 and December 31, 2020 are:

Excess Insurance Contracts	Carrier (1)	Retention	Retention	Excess/Reinsurance	Excess/Reinsurance
		2021	2020	2021	2020
General Liability	NLC MIC (2021/2020), Argonaut, Allied World	\$ 250,000	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Automobile Liability	NLC MIC (2021/2020), Argonaut, Allied World	\$ 250,000	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Public Officials E&O	NLC MIC (2021/2020), Argonaut, Allied World	\$ 250,000	\$ 250,000	\$ 15,000,000	\$ 15,000,000
Police Professional Liability	NLC MIC (2021/2020), Argonaut, Allied World	\$ 250,000	\$ 250,000	\$ 15,000,000	\$ 15,000,000
All Lines Aggregate	NLC MIC (2021/2020), Argonaut, Allied World			\$ 78,000,000	\$ 78,000,000
Excess Liability Aggregate	Argonaut, Allied World			\$ 28,000,000	\$ 28,000,000
Property	NLC MIC (2021/2020), AIG/Lexington (2021/2020), Chubb Bermuda (2021/2020)	\$ 200,000	\$ 200,000	\$ 250,000,000	\$ 250,000,000
Auto Physical Damage	NLC MIC (2021/2020), AIG/Lexington (2021/2020)	\$ 200,000	\$ 200,000	\$ 13,000,000	\$ 13,000,000
Crime	NLC MIC (2021/2020)	\$ 200,000	\$ 200,000	\$ 1,000,000	\$ 1,000,000
Pollution	Chubb (2021/2020)	\$ 100,000	\$ 50,000	\$ 2,000,000	\$ 2,000,000
Cyber Liability	XL Catlin (2021/2020)	\$ 100,000	\$ 25,000	\$ 3,000,000	\$ 3,000,000

Note:

(1) In 2021 and 2020, National League of Cities Mutual Insurance Company provided \$750,000 in liability reinsurance excess of the \$250,000 SIR. Argonaut Insurance Company provided \$9,000,000 in liability coverage excess of \$1,000,000. Allied World National Assurance Company provided \$5,000,000 in liability coverage excess of \$10,000,000.

In 2021 and 2020, National League of Cities Mutual Insurance Company provided \$2,800,000 in property reinsurance excess of the \$200,000 SIR. AIG/Lexington provided \$47,000,000 in property coverage excess of \$3,000,000. CHUBB provided \$200,000,000 in property coverage excess of \$50,000,000.

In the past three years (2019, 2020, and 2021), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during 2021 and 2020 were \$3,395,347 and \$2,910,546, respectively. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet as of December 31, 2021 and 2020 are \$1,012,750 and \$0, respectively.

NOTE D – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by the Pool at December 31, 2021. Claim coverage is provided on an occurrence basis.

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Auto Physical Damage***	\$ -	\$ 200,000	\$ 13,000,000
Property Loss:			
Buildings and Content	\$ - *	\$ 200,000	\$ 250,000,000
Terrorism	\$ - *	\$ 200,000	\$ 250,000,000
Boiler and Machinery	\$ 5,000	\$ 200,000	\$ 100,000,000
Flood Zones	High \$ 200,000	\$ -	\$ 10,000,000
	Low \$ 200,000	\$ -	\$ 25,000,000
	Vehicles \$ 200,000	\$ -	\$ 5,000,000
Earthquake	Property \$200,000***	\$ -	\$ 25,000,000
	Vehicles \$ 200,000	\$ -	\$ 5,000,000
Comprehensive General Liability, including			
Professional Liability	\$ - *	\$ 250,000	\$ 15,000,000
Terrorism Liability	\$ -	\$ -	\$ -
Auto Liability	\$ - *	\$ 250,000	\$ 15,000,000
Public Officials Errors and Omissions	\$ - *	\$ 250,000	\$ 15,000,000
Employment Practices Liability	\$ - *	\$ 250,000	\$ 15,000,000
Blanket Employee Dishonesty, Named Position	\$ -	\$ 200,000	\$ 1,000,000
Pollution Liability	\$ -	\$ 100,000	\$ 2,000,000
Cyber Liability	\$ -	\$ 100,000	\$ 3,000,000
Aviation Liability**	\$ -	\$ -	\$ 2,000,000
Drone Liability/Property**	5% of the property loss	\$ -	\$1,000,000****

*Optional member-specific deductibles may be selected.

**Aviation and drone policies purchased as a pure pass-through by participating members - there is no pool coverage.

***Members have coverage from \$200,000-\$3,000,000 but will still be responsible for meeting the excess deductible of 2% - min \$250,000, if 2% exceeds \$3,000,000.

****The drone policy has a \$1,000,000 liability per occurrence limit and a \$5,000 physical damage aggregate limit.

NOTE E – MEMBERS’ SUPPLEMENTAL ASSESSMENTS

The interlocal governmental agreement provides for supplemental assessments to members based on actual claim experience. During the year 2021 and 2020, the Pool did not make a supplemental assessment.

NOTE F – CONTRACT RECEIVABLE

The Pool had entered into a contract settlement with a former member of the Pool. The terms of the contract require that the former member pay \$2,500 per year for twenty years to satisfy their obligation to the Pool related to their 2010 assessment. The balance of the contract receivable at December 31, 2021 and December 31, 2020 is \$20,000 and \$22,500, respectively.

NOTE G – REINSURANCE DEPOSIT AND EQUITY IN NLC MIC

The Pool is an active member of the National League of Cities Mutual Insurance Company (NLC MIC), a captive mutual insurance company, consisting of 30 state and city insurance agencies or funds throughout the United States. The Pool has two separate general liability reinsurance accounts with NLC MIC. The accounts represent the Pool’s reinsurance deposit balance and member equity in NLC MIC. The amount in the reinsurance deposit account is \$239,149 as of both December 31, 2021 and 2020.

The Pool’s equity interest in NLC MIC as of December 31, 2021 and 2020 totaled \$3,284,668 and \$3,060,295, respectively, for the thirty-one and thirtieth years that the Pool was a member.

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

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

NOTE I – RELATED-PARTY TRANSACTIONS

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

	Year Ended 12/31/2021	Year Ended 12/31/2020
Personnel Costs	\$ 974,524	\$ 932,347
Administrative	\$ 1,005,427	\$ 1,103,122
Staff Travel	\$ 10,550	\$ 12,066
Board Expense	\$ 15,426	\$ 13,170
Communications/Marketing	\$ 6,489	\$ 10,707
Subscription & Dues	\$ 17,829	\$ 11,495
Member Education/Training	\$ -	\$ (430)
Annual Meeting Expense	\$ 10,451	\$ -
Information Technology	\$ 29,173	\$ -
Other	\$ 1,359	\$ 2,211
Total	<u>\$ 2,071,228</u>	<u>\$ 2,084,688</u>

Services payable to AWC were \$98,626 and \$4,754 at December 31, 2021 and December 31, 2020, respectively.

During 2021 and 2020, there were no loans to or from the RMSA to any Board member or member entity nor were there any other transactions with related parties not previously disclosed.

NOTE J – UNPAID CLAIMS LIABILITIES

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

	Year Ended 12/31/21	Year Ended 12/31/20
Unpaid claims and claim adjustment expenses/claim reserves at beginning of the fiscal year	\$ 7,921,872	\$ 7,642,923
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year	2,995,000	3,300,000
Increase/Decrease in provision for insured events of prior years	<u>(1,117,653)</u>	<u>(413,892)</u>
Total incurred claims and claim adjustment expenses	<u>\$ 1,877,347</u>	<u>\$ 2,886,108</u>

Payments:

Claims and claim adjustment expenses attributable to insured events of the current year	\$ 754,880	\$ 735,712
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>2,441,246</u>	<u>1,871,447</u>
Total payments	<u>\$ 3,196,126</u>	<u>\$ 2,607,159</u>
Total unpaid claims and claim adjustment expense/claim reserves at end of the fiscal year	\$ 6,603,093	\$ 7,921,872
Unallocated loss adjustment expense/claims reserves at end of year	<u>\$ 230,000</u>	<u>\$ 280,000</u>
Total claim reserves at end of year	<u>\$ 6,833,093</u>	<u>\$ 8,201,872</u>

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

The revised Washington Administrative Code (WAC) 200-100 requires the Pool to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001, total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by an independent actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 80% confidence level as determined by an actuary. Secondary assets are defined as insurance receivable, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

The table below presents the results of the defined solvency tests for the Pool as of the years ending December 31, 2021 and December 31, 2020.

	Year Ended 12/31/2021	Year Ended 12/31/2020
Primary Asset Test:		
Primary Assets	17,685,270	18,739,661
Unpaid Claims - Expected Level	8,201,871	8,201,871
Results	Pass	Pass
Primary and Secondary Test:		
Secondary Assets	4,743,277	3,599,462
Primary and Secondary	22,428,547	22,339,123
Unpaid Claims - 80% Confidence Level	9,853,000	9,853,000
Results	Pass	Pass

NOTE L – LEGAL COMPLIANCE AND SUBSEQUENT EVENTS

The Pool is in compliance with all contractual provisions. In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

As a result, the extent of the impact of COVID-19 on the Association’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers and vendors, all of which are uncertain and cannot be predicted.

The length of time these measures will be in place, and the full extent of the financial impact on the Association is unknown at this time.

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2021 through December 31, 2020**

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

1. Ten-Year Claims Development Information

The following table illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of the last ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims.
3. This line shows the Pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Association of Washington Cities
 Risk Management Service Agency
 Claims Development Information
 For The Year Ended December 31, 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1 Required contribution and investment revenue:											
Earned	\$ 7,239,580	\$ 7,200,477	\$ 6,632,447	\$ 6,186,014	\$ 6,457,518	\$ 7,245,654	\$ 7,822,278	\$ 8,346,726	\$ 8,425,393	\$ 9,078,519	\$ 9,741,649
Ceded	2,369,407	2,249,898	1,971,829	1,843,792	2,101,290	2,391,513	2,467,420	2,214,462	2,298,118	2,910,546	3,395,347
Net earned	\$ 4,870,173	\$ 4,950,579	\$ 4,660,618	\$ 4,342,222	\$ 4,356,228	\$ 4,854,141	\$ 5,354,858	\$ 6,132,264	\$ 6,127,275	\$ 6,167,973	\$ 6,346,302
2 Unallocated Expenses	\$ 1,560,188	\$ 1,602,429	\$ 1,682,183	\$ 1,839,162	\$ 1,899,899	\$ 2,095,758	\$ 2,716,593	\$ 3,159,947	\$ 3,252,441	\$ 3,430,052	\$ 3,163,228
3 Estimated claims and expenses end of policy year:											
Inurred	\$ 2,685,000	\$ 2,640,000	\$ 2,425,000	\$ 3,225,000	\$ 2,495,000	\$ 2,355,000	\$ 2,850,000	\$ 2,480,000	\$ 3,375,000	\$ 3,300,000	\$ 2,995,000
Ceded	1,518,286	5,437,864	1,028,329	1,336,908	1,045,566	1,122,245	1,656,265	1,447,901	1,602,109	2,817,688	1,764,480
Net incurred	\$ 1,166,714	\$ (2,797,864)	\$ 1,396,671	\$ 1,888,092	\$ 1,449,434	\$ 1,232,755	\$ 1,193,735	\$ 1,032,099	\$ 1,772,891	\$ 482,312	\$ 1,230,520
4 Net Paid (cumulative as of):											
End of Year	\$ 459,013	\$ 308,518	\$ 423,978	\$ 563,681	\$ 474,055	\$ 470,167	\$ 499,337	\$ 387,470	\$ 750,245	\$ 735,712	\$ 754,880
One year later	717,327	728,150	951,795	1,269,113	954,454	857,463	927,762	868,356	1,483,050	1,482,501	
Two years later	925,211	933,090	1,233,903	1,713,746	1,237,209	1,062,080	1,290,247	1,226,689	2,117,774		
Three years later	1,063,674	1,212,855	1,526,233	1,775,279	1,492,387	1,281,577	1,599,511	1,621,793			
Four years later	1,167,160	1,349,752	1,661,315	1,821,872	1,538,114	1,590,942	2,050,241				
Five years later	1,405,402	1,533,937	1,691,303	1,837,189	1,572,363	1,624,480					
Six years later	1,419,189	1,533,854	1,707,438	1,837,159	1,753,299						
Seven years later	1,428,994	1,533,854	1,870,642	1,837,160							
Eight years later	1,493,051	1,533,854	1,870,642								
Nine years later	1,493,051	1,533,854									
Ten years later	1,493,051										
5 Restimated ceded claims and expenses	\$ 440,395	\$ 3,186,512	\$ 497,639	\$ 1,475,013	\$ 4,478,520	\$ 1,131,037	\$ 1,312,220	\$ 1,495,564	\$ 7,407,088	\$ 4,610,626	\$ 1,764,480
6 Re-estimated incurred claims and expenses											
End of Year	\$ 2,685,000	\$ 2,640,000	\$ 2,425,000	\$ 3,225,000	\$ 2,495,000	\$ 2,355,000	\$ 2,850,000	\$ 2,480,000	\$ 3,375,000	\$ 3,300,000	\$ 2,995,000
One year later	2,306,667	2,238,206	2,908,446	2,563,863	2,511,872	2,148,852	2,800,163	3,180,865	3,411,290	3,411,102	
Two years later	1,951,741	2,259,013	2,240,831	2,473,287	2,674,684	2,090,219	2,550,382	3,273,053	\$ 3,244,726		
Three years later	1,774,399	1,809,013	2,000,252	2,190,739	2,298,979	2,010,636	2,384,634	2,283,922			
Four years later	1,519,399	1,728,337	1,924,942	2,116,248	1,971,324	1,894,423	2,437,136				
Five years later	1,527,987	1,721,575	1,863,515	1,966,248	1,819,807	1,845,688					
Six years later	1,487,704	1,574,843	1,823,515	1,861,218	1,783,290						
Seven years later	1,542,706	1,542,843	1,878,515	1,844,357							
Eight years later	1,522,181	1,548,854	1,870,642								
Nine years later	1,493,051	1,533,854									
Ten years later	1,493,051										
7 Increase (Decrease) in estimated incurred claims from end of policy year.	\$ (1,191,949)	\$ (1,106,146)	\$ (554,358)	\$ (1,380,643)	\$ (711,710)	\$ (509,312)	\$ (412,864)	\$ (196,078)	\$ (130,274)	\$ 111,102	\$ -

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2021 through December 31, 2021**

2. Reconciliation of Claims Liabilities by Type of Contract

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

	Liability		Property	
	2021	2020	2021	2020
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 7,222,648	\$ 7,340,530	\$ 699,224	\$ 302,393
Incurred Claims and Claim Adjustment Expenses:				
Provision for the Current Year:	2,150,000	2,100,000	845,000	1,200,000
Change in Provision for Prior Years:	<u>(1,031,910)</u>	<u>(423,862)</u>	<u>(85,743)</u>	<u>9,970</u>
Total Incurred Claims and Claim Adjustment Expenses	1,118,090	1,676,138	759,257	1,209,970
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	349,376	160,957	405,504	574,755
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Years	<u>2,055,265</u>	<u>1,633,063</u>	<u>385,981</u>	<u>238,384</u>
Total Payments:	2,404,641	1,794,020	791,485	813,139
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 5,936,097</u>	<u>\$ 7,222,648</u>	<u>\$ 666,996</u>	<u>\$ 699,224</u>

DES Schedule of Expenses
Association of Washington Cities
Risk Management Service Agency
For the Fiscal Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
EXPENSES		
Contracted Services:		
Administration (AWC)	1,979,951	\$2,035,469
Pre-Litigation Expense	245,889	194,189
Consultant Services	398,500	317,475
General Legal Counsel	38,729	27,977
Coverage Counsel	18,204	37,613
Information Technology	138,489	220,304
Temporary Services	-	32,183
Investment Services	17,682	13,534
Claims/Financial Audit	14,991	15,551
Claims Adjuster Fees	-	19,440
General Administrative Expenses:		
Loss Prevention	242,391	350,298
Member Education/Training	43,445	57,187
Travel and Training	9,430	13,768
Communications and Marketing	11,252	18,166
Board & Officer Expense/Training	13,597	9,677
Operating Committee	2,036	7,572
Subscriptions and Dues	18,291	12,491
Annual Meeting	11,048	-
State Risk Manager Fee	7,325	11,720
Printing and Publications	124	241
Board E&O Insurance	(219)	3,000
Postage and Office Expense	1,726	3,592
Cyber Liability Insurance	349	1,000
Claims Loss Expenses:		
Current Claims Loss Expenses	2,995,000	3,300,000
Prior Year Actuarial Adjustments	(1,112,736)	(377,747)
Unallocated Loss Adjustment Expenses	(50,000)	10,000
Insurance Premiums:		
Property Excess Insurance	95	-
Excess Liability Insurance	809,176	749,000
Second Excess Liability Insurance	423,741	346,811
Third Excess Liability Insurance	121,969	91,200
Pollution Liability Insurance	54,322	54,927
Airport Liability	14,229	12,497
Cyber Liability Insurance	66,927	29,984
First Layer Property Reinsurance	628,903	580,000
Second Layer Excess Property Insurance	999,545	811,388
Third Layer Excess Property Insurance	205,000	180,000
Second Layer Excess APD Insurance	69,063	52,957
Drone Property/Liability Insurance	2,376	1,782
Total Operating Expenses	\$8,440,840	\$9,245,248

**Association of Washington Cities
Risk Management Service Agency
2021 Membership**

2021 RMSA Members	
Airway Heights	1
Airway Heights Transportation Benefit District	2
Algona	3
Almira	4
Beaux Arts Village	5
Bingen	6
Black Diamond	7
Bridgeport	8
Bridgeport Transportation Benefit District	9
Bucoda	10
Carbonado	11
Carnation	12
Castle Rock	13
Castle Rock Transportation Benefit District	14
Cathlamet	15
Conconully	16
Concrete	17
Coulee City	18
Creston	19
Cusick	20
Darrington	21
Dayton	22
Deer Park	23
DuPont	24
DuPont Transportation Benefit District	25
Eatonville	26
Fairfield	27
Farmington	28
Forks	29
Friday Harbor	30
Garfield	31

Gig Harbor	32
Gold Bar	33
Granger	34
Grant County Fire Protection District #6	35
Hamilton	36
Harrah	37
Harrington	38
Hatton	39
Hunts Point	40
Index	41
Kalama	42
Kettle Falls	43
King County Regional Homelessness Authority	44
Kitsap Regional Coordinating Council	45
La Center	46
Lamont	47
Langley	48
Latah	49
Lincoln County Fire Protection District #8	50
Lyman	51
Mesa	52
Metaline	53
Metaline Falls	54
Morton	55
Mossyrock	56
Naches	57
North Bend	58
Northport	59
Oakesdale	60
Odessa	61
Olympic Area Agency on Aging	62
Pacific	63
Pateros	64
Pe Ell	65

Peninsula Regional Transportation Planning Organization	66
Pomeroy	67
Port Orchard	68
Prescott	69
Prescott Parks & Recreation District	70
Rainier	71
Raymond	72
RiverCom 911	73
Riverside	74
Rock Island	75
Rockford	76
Rosalia	77
Roslyn	78
Roy	79
Ruston	80
Si View Metropolitan Parks District	81
Skykomish	82
South Bend	83
South Prairie	84
Spangle	85
Spokane County FPD #12	86
Springdale	87
Tekoa	88
Tenino	89
Tieton	90
Toledo	91
Tonasket	92
Twisp	93
Vader	94
Washtucna	95
Waverly	96
Wenatchee	97
White Salmon	98
Whitman County Fire Protection District #1	99

Whitman County Fire Protection District #3	100
Wilson Creek	101
Winthrop	102
Yacolt	103
Yelm	104

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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