



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, 2022 through December 31, 2023

Published July 11, 2024

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

July 11, 2024

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, 2022 through December 31, 2023

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated July 2, 2024.

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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

July 2, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Association of Washington Cities Risk Management Service Agency January 1, 2022 through December 31, 2023

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association of Washington Cities Risk Management Service Agency, as of December 31, 2023 and 2022, 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 financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The other information comprises The DES Schedule of Expenses and 2023 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 July 2, 2024 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

July 2, 2024

FINANCIAL SECTION

Association of Washington Cities Risk Management Service Agency January 1, 2022 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023 and 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023 and 2022

Statement of Revenues, Expenses and Changes in Net Position – 2023 and 2022

Statement of Cash Flows – 2023 and 2022

Notes to Financial Statements – 2023 and 2022

REQUIRED SUPPLEMENTARY INFORMATION

Ten-Year Claims Development Information – 2023 and 2022

Reconciliation of Claims Liabilities by Type of Contract – 2023 and 2022

SUPPLEMENTARY AND OTHER INFORMATION

DES Schedule of Expenses – 2023 and 2022

Membership – 2023

**ASSOCIATION OF WASHINGTON CITIES
RISK MANAGEMENT SERVICE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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, 2023. 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 \$15,205,300 (*net position*). The total amount of \$15,205,300 (*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 \$240,531.
3. The Risk Management Service Agency's total liabilities decreased by \$411,072 in 2023 due primarily to a decrease in Claims Reserves from \$6,721,231 in 2022 to \$6,317,269 in 2023.
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 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 are 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 \$15,205,300 at the close of the most recent fiscal year.

By far, the largest portion of the Pool's assets reflects cash and investments (82% - \$18,036,499 of \$22,014,843). The Pool uses these assets to fund the claim reserves arising from claims, which were estimated at \$6,117,269 at December 31, 2023.

RISK MANAGEMENT SERVICE AGENCY – NET POSITION

	12-31-23	12-31-22	12-31-21
Current Assets	\$8,892,607	\$11,469,021	\$7,602,523
Noncurrent Assets	\$13,122,236	\$10,716,363	\$15,098,507
Total Assets	\$22,014,843	\$22,185,384	\$22,701,030
Current Liabilities	\$3,139,182	\$3,322,123	\$1,542,603
Noncurrent Liabilities	\$3,670,361	\$3,898,492	\$5,562,973
Total Liabilities	\$6,809,543	\$7,220,615	\$7,105,576
Unrestricted	\$15,205,300	\$14,964,769	\$15,595,454
Net Position	\$15,205,300	\$14,964,769	\$15,595,454

The unrestricted net position, totaling \$15,205,300 may be used to meet the Pool's ongoing obligations to creditors.

Changes in Net Position

The Risk Management Service Agency net position increased \$240,531 during 2023. The key elements of this increase are attributed to an increase in interest (investment) and other income during the fiscal year 2023.

RISK MANAGEMENT SERVICE AGENCY – CHANGES IN NET POSITION

	2023 ACTIVITIES	2022 ACTIVITIES	2021 ACTIVITIES
Revenues			
Member Assessments	\$10,776,977	\$10,001,641	\$9,741,649
Other Income	\$456,162	\$(493,227)	\$(291,514)
Interest (Investment) Income	\$495,227	\$251,761	\$237,541
Increase in Equity in NLC MIC	\$141,936	\$60,433	\$224,374
Total Revenues	\$11,870,302	\$9,820,608	\$9,912,050
Expenses			
Claims Loss Expense -- Current Year	\$3,184,000	\$3,678,000	\$2,995,000
Claims Loss Expense -- Prior Years	\$90,213	\$(1,158,597)	\$(1,112,736)
Unallocated Loss Adjustment Expenses	\$(20,000)	\$(10,000)	\$(50,000)
Insurance Premiums	\$4,505,412	\$4,358,408	\$3,395,346
Claims Administration and Loss Control Services	\$1,319,250	\$1,137,890	\$1,176,693
General and Administrative Expenses	\$2,550,896	\$2,445,592	\$2,036,537
Total Expenses	\$11,629,771	\$10,451,293	\$8,440,840
Income	\$240,531	\$(630,685)	\$1,471,210
Change in Net Position	\$240,531	\$(630,685)	\$1,471,210

ECONOMIC FACTORS IMPACTING THE POOL:

Over the past year, interest rates available for investing have started to increase and rates are expected to be steady in 2024. 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, 2023 and 2022**

	2023	2022
ASSETS:		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 3,740,717	\$ 3,559,919
Investments	4,912,233	7,397,921
Receivables:		
Other Receivables	14,685	-
Excess/Reinsurance Recoverable	-	331,380
Contract Receivable (Current Portion)	2,500	2,500
Member Deductibles	654	3,744
Prepaid Expense	117,411	117,416
Accrued Interest	104,407	56,141
Total Current Assets:	\$ 8,892,607	\$ 11,469,021
<u>Noncurrent Assets:</u>		
Contract Receivable	12,500	15,000
Reinsurance Deposit	239,149	239,149
Equity In NLC MIC	3,487,038	3,345,102
Investments	9,383,549	7,117,112
Total Noncurrent Assets:	\$ 13,122,236	\$ 10,716,363
TOTAL ASSETS:	\$ 22,014,843	\$ 22,185,384
LIABILITIES:		
<u>Current Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 1,828,508	\$ 1,791,875
Unpaid Claims	618,400	810,864
Unallocated Loss Adjustment Expenses	200,000	220,000
Accounts Payable	492,274	499,384
Total Current Liabilities:	\$ 3,139,182	\$ 3,322,123
<u>Noncurrent Liabilities:</u>		
Claim Reserves:		
Incurred but Not Reported (IBNR)	\$ 2,742,761	\$ 2,687,813
Unpaid Claims	927,600	1,210,679
Total Noncurrent Liabilities:	\$ 3,670,361	\$ 3,898,492
TOTAL LIABILITIES	\$ 6,809,543	\$ 7,220,615
NET POSITION:		
Unrestricted	15,205,300	14,964,769
TOTAL NET POSITION	\$ 15,205,300	\$ 14,964,769

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, 2023 and 2022**

	2023	2022
OPERATING REVENUES:		
Member Assessments	\$10,776,977	\$10,001,641
Other Income	456,162	(493,227)
Total Operating Revenues	<u>\$11,233,139</u>	<u>\$9,508,414</u>
OPERATING EXPENSES:		
Claims Loss Expense -- Current Year	\$3,184,000	\$3,678,000
Claims Loss Expense -- Prior Years	90,213	(1,158,597)
Unallocated Loss Adjustment Expenses	(20,000)	(10,000)
Insurance Premiums	4,505,412	4,358,408
Claims Administration and Loss Prevention Services	1,319,250	1,137,890
General and Administrative Expenses	2,550,896	2,445,592
Total Operating Expenses	<u>\$11,629,771</u>	<u>\$10,451,293</u>
OPERATING INCOME (LOSS):	<u>(\$396,632)</u>	<u>(\$942,879)</u>
NONOPERATING REVENUES/EXPENSES:		
Interest (Investment) Income	\$495,227	\$251,761
Equity in NLC MIC	141,936	60,433
Total Non-Operating Revenues and Expenses	<u>\$637,163</u>	<u>\$312,194</u>
CHANGE IN NET POSITION:	\$240,531	(\$630,685)
TOTAL NET POSITION - JANUARY 1	14,964,769	15,595,454
TOTAL NET POSITION - DECEMBER 31	<u>\$15,205,300</u>	<u>\$14,964,769</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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Members	\$10,764,792	\$10,004,644
Other Operating Cash Receipts	407,896	(508,868)
Cash Payments for Claims	(3,658,175)	(2,621,265)
Cash Payments for Insurance Premiums	(4,505,407)	(4,330,117)
Cash Payments for Operating Expenses	(3,542,786)	(2,678,955)
	<u>\$ (533,680)</u>	<u>\$ (134,561)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Securities	\$ 219,251	\$ 314,429
Interest (Investment) Income	495,227	251,761
	<u>\$ 714,478</u>	<u>\$ 566,190</u>
INCREASE/<DECREASE> IN CASH AND CASH EQUIVALENTS	<u>\$ 180,798</u>	<u>\$ 431,629</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	3,559,919	3,128,290
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 3,740,717</u>	<u>\$ 3,559,919</u>

RECONCILIATION OF OPERATING INCOME:

	<u>2023</u>	<u>2022</u>
OPERATING INCOME:		
Adjustments to Reconcile Operating Income to Net Income Provided By Operating Activities		
Operating income (loss)	\$ (396,632)	\$ (942,879)
(Increase) decrease in Assessments Receivable	-	503
(Increase) decrease in Other Receivables	(14,685)	-
(Increase) decrease in Other Receivables from Reinsurance	331,380	681,370
(Increase) decrease in Member Deductibles	3,090	(3,744)
(Increase) decrease in Prepaid Expenses	5	28,291
(Increase) decrease in Interest Receivable	(48,266)	(15,641)
(Increase) decrease in Contract Receivable	2,500	2,500
Increase (decrease) in Incurred but Not Reported (IBNR)	(383,962)	(101,862)
Increase (decrease) in Reserve for Unallocated Loss Adjustment Expenses	(20,000)	(10,000)
Increase (decrease) in Accounts Payables	(7,110)	226,901
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>\$ (533,680)</u>	<u>\$ (134,561)</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, 2023 AND 2022**

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, 2023, and 2022, 106 and 106 members respectively participated in the Pool.

The Pool provides property coverage up to the maximum limit of \$250 million per loss. Property other than vehicles, equipment, and dilapidated buildings are paid at replacement cost of the damaged or destroyed property at the time of loss. Vehicles, equipment, and dilapidated buildings are paid at actual cash value at the time of loss. The Pool also provides general liability coverage with coverage up to \$1 million in per occurrence limits and no aggregate limit. The Pool also provides 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 \$18 million in aggregate limits. Other types of coverage include boiler and machinery coverage up to \$200 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 \$117,411 and \$117,416 for 2023 and 2022. 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, 2023 and 2022 are \$0 and \$331,380, respectively. Amounts recovered from reinsurance carriers and deducted from claims

liabilities during the years ended December 31, 2023 and 2022 are \$1,351,799 and \$3,444,223, 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	
	12/31/2023	12/31/2022
Cash on Hand	\$399,319	\$850,461
Deposit in State LGIP	2,376,040	2,660,957
Non-Pooled Investments	<u>15,261,140</u>	<u>14,563,534</u>
Total Deposits and Investments	<u><u>\$18,036,499</u></u>	<u><u>\$18,074,952</u></u>
Deposit:		
Current:		
Cash and Cash Equivalents	<u>\$3,740,717</u>	<u>\$3,559,919</u>
Total Deposits	<u><u>3,740,717</u></u>	<u><u>3,559,919</u></u>
Investments:		
Current:		
Short-Term Investments	4,912,233	7,397,921
Noncurrent:		
Investments:	<u>9,383,549</u>	<u>7,117,112</u>
Total Investments	<u><u>14,295,782</u></u>	<u><u>14,515,033</u></u>
Total Deposits and Investments	<u><u>\$18,036,499</u></u>	<u><u>\$18,074,952</u></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 GASB 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, 2023, the Association of Washington Cities Risk Management Service Agency (the Pool) had the following investments measured at fair value:

	Fair Value (12/31/2023)	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
US Treasuries	\$ 5,401,983	\$ 5,401,983	\$ -	\$ -
US Agencies	4,047,929	-	4,047,929	-
State and Local Government	1,590,450	-	1,590,450	-
International	1,090,104	-	1,090,104	-
Corporate Bonds	2,165,315	-	2,165,315	-
Total investment measured at fair value	<u>\$ 14,295,782</u>	<u>\$ 5,401,983</u>	<u>\$ 8,893,799</u>	<u>\$ -</u>
Total Investments	<u>\$ 14,295,782</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 (12/31/2023)	Investment Maturities (in Years)	
		Less Than 1	1-5
Debt Securities			
US Treasuries	\$ 5,401,983	\$ 4,119,022	\$ 1,282,961
US Agencies	4,047,929	-	4,047,929
State and Local Government	1,590,450	-	1,590,450
International	1,090,104	793,211	296,893
Corporate Bonds	2,165,315	-	2,165,315
Total Debt Securities		\$ 4,912,233	\$ 9,383,549
Total Investments	\$ 14,295,782		

Investment Type	Fair Value (12/31/2023)	Credit Rating	Credit Rating	Credit Rating
		AAA Aaa	AA Aa	A a
US Treasuries	\$ 5,401,983	\$ 5,401,983		
US Agencies	4,047,929	4,047,929		
State and Local Government	1,590,450	729,973	860,477	
International	1,090,104	296,893		793,211
Corporate Bonds	2,165,315	199,715.75	519,243	1,446,356
Totals	\$ 14,295,782	\$ 10,676,494	\$ 1,379,720	\$ 2,239,569

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, 2023 and December 31, 2022 are:

Excess Insurance Contracts	Carrier (1)	2023	Retention 2022	Excess/Reinsurance 2023	Excess/Reinsurance 2022
General Liability	NLC MIC (2023/2022), Hallmark (2023/2022)	\$ 500,000	\$ 500,000	\$ 15,000,000	\$ 15,000,000
Automobile Liability	NLC MIC (2023/2022), Hallmark (2023/2022)	\$ 500,000	\$ 500,000	\$ 15,000,000	\$ 15,000,000
Public Officials E&O	NLC MIC (2023/2022), Hallmark (2023/2022)	\$ 500,000	\$ 500,000	\$ 15,000,000	\$ 15,000,000
Police Professional Liability	NLC MIC (2023/2022), Hallmark (2023/2022)	\$ 500,000	\$ 500,000	\$ 15,000,000	\$ 15,000,000
Excess Liability Aggregate	NLC MIC - No aggregate limit for GL			NA	NA
All Lines Aggregate	Hallmark - Errors & Omissions, Employment Practices Liability, and Police Duties Coverage.			\$ 18,000,000	\$ 18,000,000
Property	NLC MIC (2023/2022), AIG/Lexington (2023/2022), Chubb Bermuda (2023/2022)	\$ 300,000	\$ 200,000	\$ 250,000,000	\$ 250,000,000
Auto Physical Damage	NLC MIC (2023/2022), AIG/Lexington (2023/2022), Chubb Bermuda (2023/2022)	\$ 300,000	\$ 200,000	\$ 13,000,000	\$ 13,000,000
Crime	NLC MIC (2023/2022)	\$ 300,000	\$ 200,000	\$ 1,000,000	\$ 1,000,000
Pollution	Chubb (2023/2022)	\$ 50,000	\$ 50,000	\$ 2,000,000	\$ 2,000,000
Cyber Liability	XL Catlin (2023/2022)	\$ 250,000	\$ 250,000	\$ 3,000,000	\$ 3,000,000

Note:

In 2022 and 2023, National League of Cities Mutual Insurance Company provided \$9,500,000 in liability reinsurance excess of the \$500,000 SIR, with no aggregate limit for GL

In 2022 and 2023, Hallmark Specialty Insurance Company provided \$5,000,000 in liability coverage excess of \$10,000,000.

In 2022, National League of Cities Mutual Insurance Company provided \$2,800,000 in property reinsurance excess of the \$200,000 SIR.

In 2023, National League of Cities Mutual Insurance Company provided \$2,700,000 in property reinsurance excess of the \$300,000 SIR.

In 2022 and 2023, AIG/Lexington provided \$47,000,000 in property coverage excess of \$3,000,000.

In 2022 and 2023, CHUBB provided \$200,000,000 in property coverage excess of \$50,000,000.

In the past three years (2023, 2022, 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 2022 and 2021 were \$4,502,985 and \$4,358,408, respectively. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet as of December 31, 2023 and 2022 are \$0 and \$331,380, 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, 2023. Claim coverage is provided on an occurrence basis.

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Auto Physical Damage***	\$ -	\$ 300,000	\$ 13,000,000
Property Loss:			
Buildings and Content	\$ - *	\$ 300,000	\$ 250,000,000
Terrorism	\$ - *	\$ 300,000	\$ 250,000,000
Boiler and Machinery	\$ 5,000	\$ 300,000	\$ 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	\$ - *	\$ 500,000	\$ 15,000,000
Terrorism Liability	\$ -	\$ -	\$ -
Auto Liability	\$ - *	\$ 500,000	\$ 15,000,000
Public Officials Errors and Omissions	\$ - *	\$ 500,000	\$ 15,000,000
Employment Practices Liability	\$ - *	\$ 500,000	\$ 15,000,000
Blanket Employee Dishonesty, Named Position	\$ -	\$ 300,000	\$ 1,000,000
Pollution Liability	\$ -	\$ 100,000	\$ 2,000,000
Cyber Liability	\$ -	\$ 150,000	\$ 3,000,000
Aviation Liability**	\$ -	\$ -	\$ 2,000,000
Drone Liability/Property**	5% of the property loss	\$ -	\$1,000,000****, \$25,000 PD aggregate

*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 \$25,000 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 years 2023 and 2022, 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, 2023 and December 31, 2022 is \$15,000 and \$17,500, 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 29 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, 2023 and 2022.

The Pool's equity interest in NLC MIC as of December 31, 2023 and 2022 totaled \$3,487,038 and \$3,345,102, respectively, for the thirty-three and thirty-two 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 12/31/2023	Year Ended 12/31/2022
Personnel Costs	\$ 1,101,587	\$ 1,100,858
Administrative	\$ 1,285,738	\$ 1,209,299
Staff Travel	\$ 49,997	\$ 35,700
Board Expense	\$ 34,374	\$ 45,627
Communications/Marketing	\$ 15,102	\$ 10,730
Subscription & Dues	\$ 21,406	\$ 19,729
Member Education/Training	\$ 9,763	\$ 10,329
Annual Meeting Expense	\$ -	\$ 14,520
Information Technology	\$ -	\$ 3,807
Other	\$ 6,536	\$ 354
Total	\$ 2,524,503	\$ 2,450,953

Services payable to AWC were \$217,076 and \$307,461 at December 31, 2023 and December 31, 2022, respectively.

During 2023 and 2022, 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 12/31/23	Year Ended 12/31/22
Unpaid claims and claim adjustment expenses/claim reserves at beginning of the fiscal year	\$ 6,497,487	\$ 6,603,093
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year	3,184,000	3,678,000
Increase/Decrease in provision for insured events of prior years	<u>(113,086)</u>	<u>(1,158,426)</u>
Total incurred claims and claim adjustment expenses	<u>\$ 3,070,914</u>	<u>\$ 2,519,574</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	\$ 710,705	\$ 1,042,296
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>2,740,427</u>	<u>1,582,884</u>
Total payments	<u>\$ 3,451,132</u>	<u>\$ 2,625,180</u>
Total unpaid claims and claim adjustment expense/claim reserves at end of the fiscal year	\$ 6,117,269	\$ 6,497,487
Unallocated loss adjustment expense/claims reserves at end of year	<u>\$ 200,000</u>	<u>\$ 220,000</u>
Total claim reserves at end of year	<u>\$ 6,317,269</u>	<u>\$ 6,717,487</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, 2023 and December 31, 2022.

	Year Ended 12/31/2023	Year Ended 12/31/2022
Primary Asset Test:		
Primary Assets	17,544,000	17,576,000
Unpaid Claims - Expected Level	6,317,000	6,717,000
Results	Pass	Pass
Primary and Secondary Test:		
Secondary Assets	3,978,000	4,110,000
Primary and Secondary	21,523,000	21,686,000
Unpaid Claims - 80% Confidence Level	8,263,000	8,667,000
Results	Pass	Pass

NOTE L – LEGAL COMPLIANCE AND SUBSEQUENT EVENTS

The Pool is in compliance with all contractual provisions. In February 2021, 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 were ordered. These measures included closing schools, colleges, and universities, cancelling public events, and limiting gathering sizes.

The full extent of the impact of COVID-19 on the Pool's operational and financial performance is unknown at this time and may continue to develop over time. Certain factors, including how the duration and spread of the outbreak impacted our members and vendors, may continue to impact claims activities and financial results for several years.

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2023 through December 31, 2023**

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, 2023

	<u>2013</u>	<u>2014</u>	<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>
1 Required contribution and investment revenue:											
Earned	\$ 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	\$ 10,001,641	\$ 10,776,977
Ceded	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	4,358,408	4,502,985
Net earned	\$ 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	\$ 5,643,233	\$ 6,273,992
2 Unallocated Expenses	\$ 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	\$ 3,583,402	\$ 3,870,146
3 Estimated claims and expenses end of policy year:											
Incurred	\$ 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	\$ 3,678,000	\$ 3,184,000
Ceded	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	1,560,058	1,453,034
Net incurred	\$ 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	\$ 2,117,942	\$ 1,730,966
4 Net Paid (cumulative as of):											
End of Year	\$ 423,978	\$ 563,681	\$ 474,055	\$ 470,167	\$ 499,337	\$ 387,470	\$ 750,245	\$ 735,712	\$ 754,880	\$ 1,042,296	\$ 710,705
One year later	951,795	1,269,113	954,454	857,463	927,762	868,356	1,483,050	1,482,501	1,358,254	2,343,307	
Two years later	1,233,903	1,713,746	1,237,209	1,062,080	1,290,247	1,226,689	2,117,774	1,886,182	1,729,484		
Three years later	1,526,233	1,775,279	1,492,387	1,281,577	1,599,511	1,621,793	2,455,281				
Four years later	1,661,315	1,821,872	1,538,114	1,590,942	2,050,241	1,727,460	2,665,184				
Five years later	1,691,303	1,837,189	1,572,363	1,624,480	2,084,257	1,908,174					
Six years later	1,707,438	1,837,159	1,753,299	1,715,319	2,083,957						
Seven years later	1,870,642	1,837,160	1,751,243	1,758,424							
Eight years later	1,870,642	1,837,160	1,748,757								
Nine years later	1,870,634	1,837,160									
Ten years later	1,870,634										
5 Restimated ceded claims and expenses	\$ 388,162	\$ 1,431,037	\$ 4,431,598	\$ 1,061,235	\$ 1,100,412	\$ 1,318,058	\$ 6,908,536	\$ 4,388,667	\$ 1,255,073	\$ 1,469,871	\$ 1,453,034
6 Re-estimated incurred claims and expenses											
End of Year	\$ 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	\$ 3,678,000	\$ 3,184,000
One year later	2,908,446	2,563,863	2,511,872	2,148,852	2,800,163	3,180,865	3,411,290	3,411,102	2,836,833	4,151,429	
Two years later	2,240,831	2,473,287	2,674,684	2,090,219	2,550,382	3,273,053	3,244,726	2,956,444	2,444,579		
Three years later	2,000,252	2,190,739	2,298,979	2,010,636	2,384,634	2,283,922	3,033,441				
Four years later	1,924,942	2,116,248	1,971,324	1,894,423	2,437,136	2,202,496	2,927,991				
Five years later	1,863,515	1,966,248	1,819,807	1,845,688	2,224,976	2,194,686					
Six years later	1,823,515	1,861,218	1,783,290	1,822,019	2,131,676						
Seven years later	1,878,515	1,844,357	1,763,570	1,800,329							
Eight years later	1,870,642	1,837,160	1,755,323								
Nine years later	1,870,634	1,837,160									
Ten years later	1,870,634										
7 Increase (Decrease) in estimated incurred claims from end of policy year.	\$ (554,366)	\$ (1,387,840)	\$ (739,677)	\$ (554,671)	\$ (718,324)	\$ (285,314)	\$ (447,009)	\$ (306,054)	\$ (550,421)	\$ 473,429	\$ -

**Association of Washington Cities
Risk Management Service Agency
Required Supplementary Information
January 1, 2023 through December 31, 2023**

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	
	2023	2022	2023	2022
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 5,704,699	\$ 5,936,097	\$ 792,788	\$ 666,996
Incurred Claims and Claim Adjustment Expenses:				
Provision for the Current Year:	2,456,000	2,685,000	728,000	993,000
Change in Provision for Prior Years:	(450,761)	(1,284,868)	337,675	126,442
Total Incurred Claims and Claim Adjustment Expenses	2,005,239	1,400,132	1,065,675	1,119,442
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	303,159	546,684	407,546	495,612
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Years	1,888,779	1,084,846	851,648	498,038
Total Payments:	2,191,938	1,631,530	1,259,194	993,650
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 5,518,000</u>	<u>\$ 5,704,699</u>	<u>\$ 599,269</u>	<u>\$ 792,788</u>

DES Schedule of Expenses
Association of Washington Cities
Risk Management Service Agency
For the Fiscal Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
EXPENSES		
Contracted Services:		
Administration (AWC)	2,387,325	\$2,310,157
Pre-Litigation Expense	350,518	327,089
Consultant Services	349,604	241,917
General Legal Counsel	31,574	20,392
Coverage Counsel	6,946	14,037
Information Technology	210,717	157,532
Investment Services	17,701	17,528
Claims/Financial Audit	20,816	11,552
General Administrative Expenses:		
Loss Prevention	245,744	248,717
Member Education/Training	76,075	80,256
Travel and Training	51,224	39,145
Communications and Marketing	14,853	13,584
Board & Officer Expense/Training	45,491	37,314
Operating Committee	20,023	20,509
Subscriptions and Dues	23,115	20,502
Annual Meeting	2,231	14,520
State Risk Manager Fee	7,325	4,350
Printing and Publications	2,482	1,110
Board E&O Insurance	0	1,019
Postage and Office Expense	1,285	1,476
Cyber Liability Insurance	5,096	776
Claims Loss Expenses:		
Current Claims Loss Expenses	3,184,000	3,678,000
Prior Year Actuarial Adjustments	90,213	(1,158,597)
Unallocated Loss Adjustment Expenses	(20,000)	(10,000)
Insurance Premiums:		
Property Excess Insurance	0	-
Excess Liability Insurance	578,556	1,817,004
Second Excess Liability Insurance	1,178,345	229,725
Third Excess Liability Insurance	224,620	0
Pollution Liability Insurance	66,096	59,778
Airport Liability	18,018	16,406
Cyber Liability Insurance	192,908	178,118
First Layer Property Reinsurance	694,092	721,320
Second Layer Excess Property Insurance	1,255,354	1,071,284
Third Layer Excess Property Insurance	235,000	211,500
Second Layer Excess APD Insurance	54,118	48,120
Drone Property/Liability Insurance	5,878	2,435
Fidelity Insurance	2,427	2,718
Total Operating Expenses	<u>\$11,629,771</u>	<u>\$10,451,293</u>

**Association of Washington Cities
Risk Management Service Agency
2023 Membership**

2023 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
Bucoda	9
Carbonado	10
Carnation	11
Castle Rock	12
Castle Rock Transportation Benefit District	13
Cathlamet	14
Chippewa Water and Sewer District	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
Odessa Metropolitan Park District	62
Olympic Area Agency on Aging	63
Pacific	64
Palouse Regional Transportation Planning Organization	65

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

Whitman County Fire Protection District #1	100
Whitman County Fire Protection District #3	101
Wilson Creek	102
Winthrop	103
Yacolt	104
Yakima Valley Emergency Management	105
Yelm	106

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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.

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