

STATE RISK MANAGER'S REPORT
REVIEW OF REGULATORY COMPLIANCE
OF
ASSOCIATION OF WASHINGTON CITIES RISK MANAGEMENT
SERVICE AGENCY

As of December 31, 2011
Issued December 5, 2012

Results:

Based on audited financial information, Association of Washington Cities Risk Management Service Agency meets standards adopted by the State Risk Manager in the areas tested.

Background:

The State Risk Manager in the Office of Risk Management, a division of the Department of Enterprise Services, State of Washington, is responsible for regulatory oversight of local government joint self-insured risk pools formed under the authority of chapter 48.62 RCW. The law requires the State Risk Manager to adopt rules for risk pools to follow, adopted as Washington Administrative Code (WAC) 200-100. Those rules include standards for solvency, operations and management and require that risk pools maintain certain financial reserves in order to ensure that claims are funded.

The State Risk Manager determines whether risk pools are operating in a safe financial condition, according to the solvency regulations. The pool's compliance with those regulatory requirements is based on audited financial information provided by the Washington State Auditor's office. Pools that operate in an unsafe financial condition or in violation of statutory or regulatory requirements may cause the State Risk Manager to take administrative action.

Areas Covered:

We examined the Pool's compliance with regulatory standards adopted in rule by the State Risk Manager in the following areas:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability
2. Financial Solvency/Required Assets
3. Presentation of Liabilities
4. Compliance with Reporting Requirements
5. Compliance with Membership Requirements
6. Financial Trends

Results of Review of Regulatory Compliance:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability

Requirement: Risk pools must obtain an annual actuarial review which meets the following criteria:

WAC 200-100-03001 requires that “(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end which provides estimates of the unpaid claims measured at the expected and the seventy percent confidence level. . .”

WAC 200-100-020 (1) "Actuary" means any person who is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Result: A review of the actuarial report of Kevin Wick, FCAS, MAAA, of Price Waterhouse Coopers, indicates that an actuary meeting the qualifications set forth above estimated the Pool’s liability for both property and liability claims at both the expected and the 70% confidence level. The Association of Washington Cities Risk Management Service Agency has met this requirement.

2. Financial Solvency/Required Assets

Requirement 2.a: Risk pools must ensure claims liabilities are funded at the expected level by meeting certain standards for solvency and liquidity as follows:

WAC 200-100-03001 states, in part “ . . .(2) The governing body of the joint self-insurance program shall establish and maintain primary assets in an amount at least equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (20) "Primary assets" means cash and investments (less any nonclaims liabilities).

Results: The Association of Washington Cities Risk Management Service Agency met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected levels as determined by the Pool’s actuary.

Requirement 2.b: Risk pools must meet the above requirement to maintain primary assets and must also maintain other assets to fund claims liabilities at the 70% confidence level as follows:

WAC 200-100-03001 states, in part, “. . . (3) The governing body of the joint self-insurance program shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the seventy percent confidence level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (23) states that "Secondary assets" means insurance receivables, real estate or other assets (less any nonclaims liabilities) the value of which can be independently verified by the state risk manager.

Results: The Association of Washington Cities Risk Management Service Agency met this requirement by funding claim liabilities in excess of the 70% confidence level required, as determined by the Pool’s actuary. The secondary assets consist of additional cash reserves, investments and other assets (property and equipment are excluded from this calculation). Also excluded were nonclaims liabilities, including prepaid contributions.

	Test 1 - Primary Asset Test		Test 2 - Secondary Asset Test
	(WAC 200-100-03001(2))		(WAC 200-100-03001(3))
\$9,977,000	Primary Assets	\$12,813,000	Secondary Assets
\$7,172,000	Estimated Claim Liabilities at the expected level per actuarial estimate	\$8,342,000	Estimated Claim Liabilities at the 70% confidence level per actuarial estimate
RESULT:	PASS	RESULT:	PASS
	<i>Estimated outstanding liabilities at the expected level must be less than primary assets (cash and investments less nonclaims liabilities)</i>		<i>Estimated outstanding liabilities at the seventy percent confidence level must be less than combined primary assets and secondary assets (receivables, recoverables, real estate and other assets that can be independently verified by the State Risk Manager)</i>

(Note 1) The outstanding liabilities are estimated by an independent actuary meeting the requirements of WAC 200-100-020(1). Actuarial reports submitted as part of the annual report to the State Risk Manager are available by contacting LuAnn Hopkins, Chief Operating Officer, at the Association of Washington Cities at (360)-753-4137. Contact information is also available by visiting the Pool's website at <http://www.awcnet.org/Home.aspx> .

(Note 2) The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The audit reports are available on the State Auditor's Office website at <http://www.sao.wa.gov/EN/Pages/default.aspx> , or by telephone at (360) 902-0370.

3. Presentation of Liabilities

Requirement 3.a: The estimated liability for unpaid claims as presented in the Pool's financial statements is supported by the actuarial report.

RCW 43.09.200 Local government accounting — Uniform system of accounting. The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Result: The Association of Washington Cities Risk Management Service Agency meets this requirement by reporting the amount of the total liability for unpaid claims in its 2011 audited financial reports as \$7,172,000, which is supported by the report of the independent actuary.

4. Compliance with Reporting Requirements

Requirement: The pool is required by WAC 200-100-060 to provide unaudited annual financial statements to the State Risk Manager within 150 days of fiscal year end, and audited financial statements are to be provided to the State Risk Manager within one year of the fiscal yearend date. If required by the State Risk Manager, a pool must provide quarterly reports based on its financial condition.

WAC 200-100-60 requires that “. . . (1) Every joint property and liability self-insurance program authorized to transact business in the state of Washington shall submit the annual report to the state risk manager.

(2) The annual report to the state risk manager shall require the following information to be submitted in electronic form:

(a) Unaudited annual financial statements, including attestation, as provided to the state auditor's office;

(b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the unaudited financial statements are based;

(c) Copies of all insurance coverage documents;

(d) List of contracted consultants;

(e) Details of changes in articles of incorporation, bylaws or foundation agreement;

(f) Details of services provided by contract to nonmembers;

(g) List of members added or terminated.

Such reports shall be submitted to the state risk manager no later than one hundred fifty days following the completion of the joint program's fiscal year.

(3) Audited financial statements shall be provided to the state risk manager within one year of the program's fiscal year end and comply with requirements for submission of audited financial statements established by the state risk manager.

(4) All joint self-insurance programs shall submit quarterly financial reports if, in the estimation of the state risk manager, the financial condition of a program warrants additional quarterly reporting requirements. . .”

Results: The Pool met this requirement by providing audited and unaudited financial statements and documents listed above within the time required. The Pool is not required to report quarterly. The Association of Washington Cities Risk Management Service Agency received an unqualified opinion on its audited financial statements for FY 2011.

5. Compliance with Membership Requirements

Requirement: Only members of the pool who have signed the interlocal agreement may participate in the Pool's insurance program. The agreement must provide for the contingent liability of the members if assets are insufficient.

WAC 200-100-02005 provides that "Membership in a joint self-insurance program requires the execution of a foundation agreement. Only members may participate in risk-sharing. Only members may participate in the self-insured retention layer, and only members may participate in the joint purchase of insurance or reinsurance".

RCW 48.62.141 requires that "Every joint self-insurance program covering liability or property risks, excluding multistate programs governed by RCW 48.62.081, shall provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities".

Results: The Pool is in compliance with this requirement. Our review of the membership list and interlocal agreements indicates that participation in the Pool's excess and self-insured retention layer is limited only to those local government members signing the Pool's interlocal agreement which provides for shared risk and joint responsibility for liabilities. The agreement also provides that members are responsible for the contingent liabilities of the program if assets are insufficient.

6. Financial Trends

Requirement: Risk pools are required to notify the State Risk Manager if solvency requirements are not met (WAC 200-100-03001(2)) and the State Risk Manager is required to monitor trends over time and take action when programs experience adverse trends which may require the State Risk Manager to take additional actions.

WAC 200-100-03001 states, in part “. . . (4) The state risk manager shall evaluate the operational safety and soundness of the program by monitoring changes in liquidity, claims reserves and liabilities, member equity, self-insured retention, and other financial trends over time. Programs experiencing adverse trends may cause the state risk manager to increase frequency of on-site program review and monitoring, including increased communication with the governing body and requirements for corrective plans. . .”

Results: Financial trends show the increases and decreases in assets, liabilities, revenues and expenses. The information below was taken directly from the audited financial statements of FY 2011. Upon review, no adverse financial trends were noted (See Attachments A & B).

Attachment A	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/06	12/31/05	12/31/2004	12/31/2003
ASSETS:									
Current Assets:									
Cash/Cash Equivalents	\$10,164,338	\$9,336,548	\$8,760,677	\$8,523,466	\$9,099,846	\$8,674,089	\$8,342,631	\$7,413,710	\$6,399,214
Receivable from Reinsurer	\$16,312	\$61,560	\$19,424	\$313,711	\$1,359,766	\$1,201,943	\$1,087,736	\$1,374,327	\$336,166
Member Deductibles	\$40,550	\$42,733	\$14,644	\$0	\$0	\$0	\$0	\$0	\$0
Reassessment Premium Receivable		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$247,639
Prepaid Expense	\$501,222	\$563,999	\$549,392	\$496,911	\$371,412	\$294,469	\$287,322	\$358,498	\$410,658
Total Current Assets	\$10,722,422	\$10,004,840	\$9,344,137	\$9,334,088	\$10,831,024	\$10,170,501	\$9,717,689	\$9,146,535	\$7,393,677
Noncurrent Assets:									
Equipment,Net of Acc Depreciation		\$0	\$0	\$0	\$6,519	\$13,039	\$19,558	\$26,077	\$0
Contract Receivable	\$45,000	\$47,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends Receivable from Reinsurer		\$0	\$2,335	\$2,335	\$2,335	\$2,335	\$2,335	\$2,335	\$2,335
Reinsurance Deposit	\$239,149	\$239,149	\$239,149	\$239,149	\$239,149	\$239,149	\$239,149	\$146,157	\$146,157
Equity in NLC MIC	\$2,094,930	\$1,994,419	\$1,885,724	\$1,679,039	\$1,679,039	\$1,679,039	\$1,581,287	\$1,667,568	\$1,642,628
Total Noncurrent Assets	\$2,379,079	\$2,281,068	\$2,127,208	\$1,920,523	\$1,927,042	\$1,933,562	\$1,842,329	\$1,842,137	\$1,791,120
TOTAL ASSETS	\$13,101,501	\$12,285,908	\$11,471,345	\$11,254,611	\$12,758,066	\$12,104,063	\$11,560,018	\$10,988,672	\$9,184,797
Current Liabilities:									
IBNR-Current	\$825,882	\$1,291,220	\$4,417,358	\$6,899,504	\$4,966,069	\$4,638,503	\$4,360,460	\$4,068,892	\$4,412,803
Unpaid Claims-Current	\$1,238,760	\$860,813	\$3,059,683						
Reserve for ULAE	\$290,000	\$300,000	\$300,000	\$265,850					
Accts Payable	\$125,022	\$242,125	\$122,043	\$138,943	\$103,058	\$73,118	\$37,225	\$78,568	\$28,956
Unearned Member Assessments	\$62,657								
Total Current Liabilities	\$2,542,321	\$2,694,158	\$7,899,084	\$7,304,297	\$5,069,127	\$4,711,621	\$4,397,685	\$4,147,460	\$4,441,759
Noncurrent Liabilities:									
IBNR-Noncurrent	\$4,332,948	\$3,800,561							
Unpaid Claims-Noncurrent	\$484,764	\$1,917,946							
Compensated Absences		\$0	\$0	\$0	\$0	\$0	\$0	\$4,886	\$4,957
Total Noncurrent Liabilities	\$4,817,712	\$5,718,507	\$0	\$0	\$0	\$0	\$0	\$4,886	\$4,957
TOTAL LIABILITIES	\$7,360,033	\$8,412,665	\$7,899,084	\$7,304,297	\$5,069,127	\$4,711,621	\$4,397,685	\$4,152,346	\$4,446,716
Net Assets									
Invested in Capital Assets	\$0	\$0	\$0	\$0	\$6,519	\$13,039	\$19,558	\$26,077	\$0
Unrestricted	\$5,741,468	\$3,873,243	\$3,572,261	\$3,950,314	\$7,682,420	\$7,379,403	\$7,142,775	\$6,810,249	\$4,738,081
TOTAL NET ASSETS	\$5,741,468	\$3,873,243	\$3,572,261	\$3,950,314	\$7,688,939	\$7,392,442	\$7,162,333	\$6,836,326	\$4,738,081
Members	87	86	86	86	84	82	73	64	63
Avg Equity Per Member (See Note)	\$65,993	\$45,037	\$41,537	\$45,933	\$91,534	\$90,151	\$98,114	\$106,817	\$75,207

Note: The actual equity per member is determined by the terms of the interlocal agreement signed by every member of a joint self-insurance program (risk pool) formed under RCW 48.62. Because membership in a risk pool is not a transfer of risk to an insurer, but is a shared assumption of risk among the members, the board of each risk pool contracts with an actuary to estimate the amount of the claims that will occur during the coming plan year. To fund those estimated claims, along with other administrative expenses, the members make a payment to the pool at the beginning of each year (called a contribution), similar to paying an insurance premium. Unlike transferring risk to an insurance company through payment of a premium, if catastrophic or increased frequency of claims result in higher claims costs than originally estimated, members are responsible to fund those costs later by making additional payments to the pool to pay for prior year claims (known as “re-assessments”). Many local government self-insurance pools choose to maintain additional reserves as a financial cushion which reduces the risk of re-assessments to the members. The amount of these additional reserves is determined by the governing board of each pool, depending on the level of re-assessment risk the members want to assume.

The total net assets listed in Attachment A above is the amount of the unencumbered reserves that could be applied to any deficiencies in funding for claims if catastrophic or frequent claims pushed costs higher than the amounts estimated by the pool’s actuary. When divided by the amount of members, the average equity per member provides an estimate of the assets which could be used by members before any reassessment would be necessary.

Attachment B	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating Revenues									
Member Assessments	\$7,239,580	\$6,634,509	\$5,826,844	\$4,902,219	\$4,718,773	\$4,561,339	\$5,021,674	\$4,611,479	\$4,549,829
Assessments For Coverage Over \$1 Million		\$0	\$0	\$0	\$0	\$0	\$0	\$338,115	\$332,127
Assessments For Coverage Over \$5 Million		\$0	\$86,016	\$79,352	\$68,244	\$0	\$0	\$0	\$0
Other Income	\$61,297	\$39,407	\$44,334	\$97,163	\$1,770	\$16,448	\$2,582	\$0	\$793
Total Operating Revenues	\$7,300,877	\$6,673,916	\$5,957,194	\$5,078,734	\$4,788,787	\$4,577,787	\$5,024,256	\$4,949,594	\$4,882,749
Operating Expenses									
Claims Loss Expense -- Current Year	\$2,685,000	\$2,740,000	\$2,879,000	\$3,085,000	\$2,348,000	\$1,812,000	\$1,415,000	\$1,430,000	\$1,684,950
Change in Claims Loss Expense -- Prior Years	(\$1,062,140)	\$59,945	\$493,158	\$2,614,015	(\$72,274)	\$592,524	\$564,199	(\$903,379)	(\$2,184,029)
Change in Unallocated Loss Adjustment Expenses	(\$10,000)	\$0	\$34,150	\$265,850	\$0	\$0	\$0	\$0	\$0
Insurance Premiums	\$2,369,407	\$2,434,543	\$2,062,943	\$2,062,551	\$1,669,609	\$1,588,899	\$1,742,289	\$1,354,760	\$1,887,732
Insurance Premiums - Coverage Over \$1 Million	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$338,115	\$332,127
Insurance Premiums - Coverage Over \$5 Million	\$0	\$0	\$82,213	\$79,352	\$68,244	\$0	\$0	\$0	\$0
Claims Administration and Loss Control Services	\$323,226	\$260,096	\$297,752	\$722,719	\$714,684	\$647,311	\$564,479	\$481,112	\$441,549
General and Administrative Expenses	\$1,246,962	\$1,003,370	\$762,590	\$256,091	\$272,739	\$267,370	\$262,504	\$281,446	\$288,535
Total Operating Expenses	\$5,552,455	\$6,497,954	\$6,611,806	\$9,085,578	\$5,001,002	\$4,908,104	\$4,548,471	\$2,982,054	\$2,450,864
Operating Income (Loss)	\$1,748,422	\$175,962	(\$654,612)	(\$4,006,844)	(\$212,215)	(\$330,317)	\$475,785	\$1,967,540	\$2,431,885
Non-Operating Revenues and Expenses									
Interest Income	\$19,292	\$18,659	\$69,874	\$268,219	\$508,712	\$462,674	\$273,559	\$105,765	\$57,205
Increase/<Decrease> in Equity in NLC MIC	\$100,511	\$106,361	\$206,685	\$0	\$0	\$97,752	(\$86,281)	\$24,940	\$151,014
Total Non-Operating Revenues and Expenses	\$119,803	\$125,020	\$276,559	\$268,219	\$508,712	\$560,426	\$187,278	\$130,705	\$208,219
Income (Loss) Before Equity Distribution	\$1,868,225	\$300,982	(\$378,053)	(\$3,738,625)	\$296,497	\$230,109	\$663,063	\$2,098,245	\$2,640,104
Equity Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$337,056	\$0	\$406,653
Change in Net Assets	\$1,868,225	\$300,982	(\$378,053)	(\$3,738,625)	\$296,497	\$230,109	\$326,007	\$2,098,245	\$2,233,451

Conclusion: We appreciate the cooperation and assistance of the staff and management of Association of Washington Cities Risk Management Service Agency during this process. No exceptions were noted and no recommendations were made as a result of this review.

About Association of Washington Cities Risk Management Service Agency:

The Association of Washington Cities Risk Management Service Agency is a municipal self-insurance pool that was formed on January 1, 1989. Located in Thurston County, the Agency provides property and casualty insurance coverage to 87 participating member cities of the Association of Washington Cities (AWC). The Agency does not have employees; rather, the Agency contracts with the AWC for administrative services.

An elected, seven-member Board of Directors governs the Agency. The Board is comprised of elected city officials within the state. The primary source of revenue for the Agency comes from member assessment fees.

Further information about the Association of Washington Cities Risk Management Service Agency can be obtained by visiting the Pool's website at

<http://www.awcnet.org/Insurance/RiskManagementServiceAgency/AboutRMSA.aspx> , or by contacting Luann Hopkins, Chief Operating Officer, Association of Washington Cities Risk Management Service Agency, 1076 Franklin Street SE, Olympia, WA 98501-1346.

About State Risk Manager Regulatory Compliance Reviews:

RCW 48.62 provides authority for local governments to join or form a self-insurance program together with other entities, to jointly purchase insurance or reinsurance with other entities, and to contract for or hire personnel to provide risk management, claims and other administrative services. The State Risk Manager in the Office of Risk Management, Department of Enterprise Services, is authorized by RCW 48.62 to adopt rules for self-insurance programs formed under this chapter to follow. The rules contain standards for operations and management, claims administration, solvency, including frequency of actuarial studies and claims audits, and standards for contracts between self-insurance programs and private businesses.

In order to ensure compliance with these standards, which are adopted as Washington Administrative Code (WAC) 200-100, the Local Government Self-Insurance Program, under the direction of the State Risk Manager, conducts periodic reviews of joint self-insurance programs and, when necessary, provides for further investigation of those programs that are not operating in a safe and sound financial manner as required. The State Risk Manager may take certain administrative actions, including the issuance of a cease and desist order, when a program operates in violation of chapter 48.62 RCW or does not operate in a financially safe manner.

Each local government member of a joint self-insurance program is responsible for providing monies to the pool to pay claims for the years in which they were a member of the pool. Even if a member leaves a pool, a reassessment, or “cash call”, can occur in later years, requiring local government members to provide additional monies for past funding deficiencies for years in which they were a member. For this reason, the Local Government Self-Insurance program takes proactive measures to monitor the financial health of local government risk pools and to communicate the results of monitoring and periodic compliance reviews before adverse financial trends affect the pool and its local government members. Frequent reviews of compliance with the State Risk Manager’s rules are undertaken and the results are reported, in writing, to the board of directors and management of the pool.

Questions about this report should be addressed to the Local Government Self Insurance Program or the State Risk Manager, located at the Department of Enterprise Services, by telephone at 360-407-8153, or at shannon.stuber@des.wa.gov. The Department of Enterprise Services is located at 1500 Jefferson Street, PO Box 41466, Olympia, WA 98504-1466.