“As for the future, your task is not to foresee it, but to enable it.” — Antoine de Saint-Exupéry

This was a year of visioning the future for WCIA. After 29 years of building WCIA into the largest municipal risk pool in the state, Executive Director Lew Leigh retired on July 31, 2013. With an eye toward the future, Lew spent the last 10 years working on a succession plan to develop in-house candidates for the Executive Director position upon his retirement.

The WCIA Board of Directors voted on November 8, 2013 to appoint Ann Bennett, a 17-year employee of WCIA, as their new Executive Director. Having served in many capacities at WCIA, the board believed she possessed an institutional knowledge, was dedicated to the continued success of WCIA, and would provide superior service to members to lead WCIA into the future.

The 2013 WCIA Executive Committee, well aware of the financial strength of WCIA, foresaw being asked the question of “how much reserve is too much.” The committee authorized a comprehensive actuarial study, conducted by PricewaterhouseCoopers, to evaluate all of the risks facing the pool and the funding levels needed to withstand those risks.

The pooling industry has, for many years, used confidence levels to measure solvency; however, it only measures one risk—claims exposures. What was learned is that there are multiple risks facing a pool that can drain equity, including reserving, underwriting, investments, and operational risks. The study tested WCIA’s equity needs against the occurrences of these possible risks. A secure rated insurance carrier should be able to withstand risks occurring between 1 in 100 years and 1 in 250 years.

What the study illustrated was that WCIA funding is within that range and the current equity is appropriate for the risk appetite of the membership. Though there may have been a perception of excess funding, an organization like WCIA, with 162 members and continual growth, needs a sufficient level of capital to survive and meet its commitments.

WCIA’s mission is to take a leadership role to provide professional risk management and stable risk financing programs that respond to its members’ needs. Even though 2013 was a year of transition and reflection on the past, WCIA was able to continue to respond to the membership through innovation, superior service and financial strength.
In 2013, WCIA exceeded $167 million in assets, of which over $57 million was undesignated member reserves to handle contingencies beyond predicted events. These are the strongest financials of any risk pool in Washington state. Approximately one-third of WCIA's 2013 administrative budget was allocated back to the members in the form of training, reimbursements and legal assistance.

WCIA was able to offer members an average rate decrease of 2.8% in their liability assessments and flat rates for their property and auto coverage in 2013. Overall revenues decreased slightly (or 1%) from 2012 to 2013. The pool saw investment income decline in 2013 as longer term investments continued to mature and were re-invested into current lower yielding or shorter term investments.

Operating expenses remained stable; however, claim payments and reserves increased significantly. Loss and loss adjustment expenses were $17 million higher in 2013 than in 2012 and claim reserves increased $22 million over last year. While the payments and reserve increases happened in 2013, the loss years in which they occurred and the types of losses were varied. The net effect was a decrease in Unrestricted Net Assets of $30 million.

Although 2013 was a very expensive year in terms of member claims, WCIA still remains well funded at a 98% actuarial confidence level.

WCIA distinguishes itself from the private insurance industry by evaluating claims based upon legal liability not financial expediency. In 2013, claim payments and reserves increased significantly with over $17.5 million being paid out on behalf of members in settlements and over $8.6 million spent on litigation defense costs. The increase was due in large part to significant settlements in a handful of cases. The types of losses were varied; however, several were due to unfavorable court rulings that reversed previous case law while others were the result of personnel actions during the recession.

WCIA is active in its defense of the membership with a goal to create good case law that benefits all public entities; with that philosophy comes risks. Seven cases were taken to trial with 3 defense verdicts, 4 plaintiff verdicts (one lower than an offer made in settlement) with 2 of the 4 plaintiff verdicts being reversed by the trial judges. The utilization of summary judgment motions resulted in the dismissal of multiple cases involving recreational immunity, landslides, excessive force and land use disputes.

To reduce the number of claims and lawsuits, WCIA offers pre-loss services, Pre-Defense Review, which allows members legal consultation on potential actions that could give rise to liability; i.e. employment practices and land use. The pool handled over 240 new requests for assistance from the membership in 2013. While significant losses were experienced in a handful of personnel cases, many more were avoided through the members’ usage of the program.

**Strength to Shoulder Loss**

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**Perservering through Challenges**

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AHEAD OF EMERGING TRENDS
To advance effective risk management practices and procedures, and members are required to actively participate in an element of pool membership known as the COMPACT. Members annually undergo a risk management audit regarding a specific department or loss exposure.

In 2013, the COMPACT focused on the emerging trend of cyber exposures. With an exposure checklist and audit, free vulnerability testing, policy development assistance and on-site Information Technology (IT) consultations, members were advised of their exposures and what controls could be implemented. Members participated in an IT committee who developed practical strategies to assist the membership, and prioritized the SANS Institute’s 20 Critical Controls to give members advice on where to start their remediation.

The WCIA Risk Management Representatives assisted the membership in 2013 by providing detailed risk analysis, on-site risk management advice and loss control inspections, along with being a daily resource for general risk management advice. Members are assigned their own Risk Management Representative, and in 2013 the department saw the addition of another representative to continue the mission of superior service.

The Risk Management Consultation Program provided legal assistance in 2013 to 61% of the membership. Members used the program for employment policy review, land use code development, review of interlocal agreements and review of public safety procedures; the results of which were utilized to develop guidelines and Risk Management Bulletins to benefit the entire membership.

“You cannot escape the responsibility of tomorrow by evading it today.”
—Abraham Lincoln

“Education is the most powerful weapon which you can use to change the world.”
—Nelson Mandela

EDUCATION AND DEVELOPMENT OF MEMBER EMPLOYEES
WCIA has developed an extensive training and education program offering municipal risk management trainings statewide. WCIA collaborates with municipal organizations resulting in an expanded offering of co-sponsored trainings. Members with travel restrictions benefit from our website’s virtual classroom that offers video check out or on-demand videos. In 2013, over 300 sessions were conducted with over 8,500 attendees, a record for WCIA.

Of WCIA’s classroom trainings, personnel was the most popular and increased by 25% from 2012. Public Safety training also increased primarily due to WCIA’s partnership with the Criminal Justice Training Commission (CJTC) and Law Enforcement Information and Records Association (LEIRA). Drawing from member loss experience, WCIA was proud to assist and promote the CJTC Crisis Intervention Team (CIT) trainings for law enforcement personnel on how to deal with individuals suffering from mental disabilities.

In addition to the comprehensive training programs offered, WCIA provides a Member Reimbursement program to assist members in the professional development and accreditation of their staff. Approximately 81% of the membership received reimbursements for municipal accreditations, individual and group certifications, and registration for association schools and institutes. The average amount each member received was approximately $1,800.
2013 Members

Aberdeen
Anacortes
ARCH
Arlington
Arlington TBD
Auburn
Bainbridge Island
Bainbridge Island TBD
Battle Ground
Benton City
Benton County Emergency Services
Bonney Lake
Bothell
Brewster
Brier
Burien
Burlington
Camas
Cashmere
Centralia
Chehalis
Chelan
Cheney
Chewelah
Clarkston
Cle Elum
Clyde Hill
Coupeville
Covington
Cowlitz-Wahkiakum COG
CRESA
Des Moines
Des Moines Pool MPD
Des Moines TBD
eCity Gov Alliance
Edgewood
Edmonds
Edmonds TBD
Ellensburg
Elma
Enumclaw
EPSCA
ESCA
Fife
George
Goldendale
Grandview
Grandview TBD
Grays Harbor Communications E-911
Hoquiam
Issaquah
Jefferson County 911
Kelso
Kenmore
Kenmore TBD
Kennewick
Kirkland
Kitsap Regional Coordinating Council
La Conner
Lacey
Lake Forest Park
Lake Forest Park TBD
Lake Stevens
Lakewood
Leavenworth
Leavenworth TBD
Long Beach
Longview
LOTT Clean Water Alliance
Mabton
MACC 911
MACECOM
Maple Valley
Marysville
Marysville Fire District
McCleary
Medical Lake
Medina
Mercer Island
Metropolitan Parks District of Tacoma
Mill Creek
Millwood
Milton
Monroe
Monroe Fire District
Moses Lake
Mount Vernon
Mountlake Terrace
Mountlake Terrace TBD
Mukilteo
Newcastle
Normandy Park
Normandy Park MPD
North Bonneville
Northshore Utility District
NW Incident Management Team
Oak Harbor
Ocean Shores
Olympia
Olympia TBD
Othello
Pasco
PENCOM
Port Angeles
Port Townsend
Pullman
Pullman MPD
Pullman-Moscow Regional Airport Board
Puyallup
Renton
Richland
Ridgefield
Sammamish
SCORE
SERS
Shelton
Shelton MPD
Shoreline
Shoreline TBD
Silver Lake Water & Sewer District
Skagit 911
SNOCOM
Snohomish
SNO PAC
Snoqualmie
Snoqualmie TBD
Soap Lake
South Sound 911
Spokane Valley
Stanwood
Stanwood TBD
Steilacoom
Sumner
Sunnyside
Three Rivers Regional Wastewater Authority
Thurston 911 Communications
Thurston Public Utilities District
Thurston Regional Planning Council
Toppenish
Tukwila
Tukwila Pool MPD
Tumwater
Union Gap
University Place
Valley Communications Center
Valley Regional Fire Authority
Walla Walla
Walla Walla Joint Community Development Agency
Walla Walla Metropolitan Planning Organization
Walla Walla TBD
Warden
Washougal
Water Operating Board
West Richland
Westport
WHITCOM 911
William Shore MPD
Woodinville
Woodway
Yakima Valley COG
Yarrow Point
Zillah
**Statement of Net Position**

**As of December 31, 2013**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
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<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$38,958,024</td>
<td>$106,062,369</td>
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<tr>
<td>Accrued Interest</td>
<td>230,205</td>
<td>75,306</td>
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<tr>
<td>Investments</td>
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<td>57,218,533</td>
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<td>Accounts Receivable</td>
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<td>Prepaid Expenses</td>
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<td>5,377,998</td>
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<td><strong>Total Current Assets</strong></td>
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<td>$168,964,641</td>
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<td><strong>Non-current Assets</strong></td>
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<tr>
<td>Investments in GEM</td>
<td>$1,172,586</td>
<td>1,169,015</td>
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<tr>
<td>Capital Assets</td>
<td>6,189,209</td>
<td>6,211,795</td>
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<tr>
<td>Accumulated Depreciation</td>
<td>(1,540,668)</td>
<td>(1,438,064)</td>
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<tr>
<td><strong>Total Non-current Assets</strong></td>
<td>$5,821,127</td>
<td>$5,942,746</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$167,236,847</td>
<td>$174,907,387</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Position</th>
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<th></th>
</tr>
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<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
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<tr>
<td>Accounts Payable</td>
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<td>Deposits Payable</td>
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<td>330,304</td>
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<tr>
<td>Property &amp; Vehicle Claims Reserve</td>
<td>2,713,306</td>
<td>2,629,872</td>
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<tr>
<td>Reserve for Liability Claims</td>
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<tr>
<td>IBNR</td>
<td>9,384,486</td>
<td>9,810,159</td>
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<tr>
<td>Open Claims (Case Reserve)</td>
<td>10,210,758</td>
<td>6,644,747</td>
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<tr>
<td>Unallocated Loss Adjustment Expenses</td>
<td>689,750</td>
<td>624,223</td>
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<tr>
<td>Reserve for Increased Confidence Level</td>
<td>23,299,792</td>
<td>15,989,970</td>
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<td><strong>Total Current Liabilities</strong></td>
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<td>$36,123,086</td>
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<tr>
<td><strong>Non-current Liabilities</strong></td>
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<tr>
<td>Compensated Absences</td>
<td>$147,413</td>
<td>$153,494</td>
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<tr>
<td>Claim Reserve:</td>
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<tr>
<td>IBNR</td>
<td>26,709,690</td>
<td>26,523,762</td>
</tr>
<tr>
<td>Open Claims (Case Reserves)</td>
<td>29,061,388</td>
<td>17,965,426</td>
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<tr>
<td>Unallocated Loss Adjustment Expenses</td>
<td>1,963,136</td>
<td>1,687,713</td>
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<tr>
<td><strong>Total Non-current Liabilities</strong></td>
<td>$57,881,627</td>
<td>$46,330,395</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
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<td>$82,453,481</td>
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<tr>
<td><strong>Net Position</strong></td>
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<td></td>
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<tr>
<td>Invested in Capital Assets</td>
<td>$4,648,541</td>
<td>$4,773,731</td>
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<td>Unrestricted</td>
<td>57,586,592</td>
<td>87,680,175</td>
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<tr>
<td><strong>Total Net Position</strong></td>
<td>$62,235,133</td>
<td>$92,453,906</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td>$167,236,847</td>
<td>$174,907,387</td>
</tr>
<tr>
<td>Description</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Assessments - Liability</td>
<td>$23,455,378</td>
<td>$24,096,611</td>
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<tr>
<td>Member Assessments - Property</td>
<td>8,888,197</td>
<td>8,542,097</td>
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<td>Member Assessments - Fidelity</td>
<td>129,508</td>
<td>121,777</td>
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<tr>
<td>Seminar Revenues</td>
<td>29,790</td>
<td>27,135</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>$32,502,873</strong></td>
<td><strong>$32,787,620</strong></td>
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<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
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<tr>
<td>Loss and Loss Adjustment Expenses</td>
<td>$38,745,914</td>
<td>$21,820,599</td>
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<td>Confidence Level Expense (Reduction)</td>
<td>7,309,822</td>
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<td>Insurance - Members</td>
<td>7,500,229</td>
<td>7,026,955</td>
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<tr>
<td>Salaries and Wages</td>
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<td>1,900,200</td>
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<td>Personnel Benefits</td>
<td>686,109</td>
<td>616,264</td>
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<tr>
<td>Professional Services:</td>
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<td>Claims Adjusting</td>
<td>366,297</td>
<td>374,442</td>
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<td>Pre-Defense Review</td>
<td>770,540</td>
<td>921,662</td>
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<td>Consultants</td>
<td>434,840</td>
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<tr>
<td>Legal</td>
<td>39,773</td>
<td>30,052</td>
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<tr>
<td>Actuarial</td>
<td>84,000</td>
<td>32,500</td>
</tr>
<tr>
<td>Audit</td>
<td>17,509</td>
<td>29,210</td>
</tr>
<tr>
<td>Financial Services</td>
<td>20,983</td>
<td>19,519</td>
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<tr>
<td>Risk Management Audit</td>
<td>11,734</td>
<td>5,867</td>
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<tr>
<td>Rent</td>
<td>120,000</td>
<td>120,000</td>
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<tr>
<td>Transportation</td>
<td>118,847</td>
<td>85,314</td>
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<tr>
<td>Printing</td>
<td>9,558</td>
<td>10,578</td>
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<tr>
<td>Communications</td>
<td>21,642</td>
<td>25,460</td>
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<tr>
<td>Supplies</td>
<td>51,502</td>
<td>50,669</td>
</tr>
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<td>Dues and Conferences</td>
<td>28,079</td>
<td>22,520</td>
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<tr>
<td>Retreat/Board Meetings</td>
<td>23,819</td>
<td>29,472</td>
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<tr>
<td>Depreciation</td>
<td>185,456</td>
<td>179,955</td>
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<tr>
<td>Miscellaneous</td>
<td>41,219</td>
<td>39,930</td>
</tr>
<tr>
<td>Repair and Maintenance</td>
<td>4,998</td>
<td>10,463</td>
</tr>
<tr>
<td>Seminars and Training</td>
<td>733,756</td>
<td>532,428</td>
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<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$59,285,273</strong></td>
<td><strong>$35,254,741</strong></td>
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<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>($26,782,400)</td>
<td>($2,467,121)</td>
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<tr>
<td><strong>Non-Operating Revenue (Loss)</strong></td>
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<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>2,704,626</td>
<td>3,445,864</td>
</tr>
<tr>
<td>Net Increase (Decrease) in the Fair Value Investments</td>
<td>(6,368,963)</td>
<td>2,387,615</td>
</tr>
<tr>
<td>Income (Loss) from Investment in GEM</td>
<td>3,571</td>
<td>101,933</td>
</tr>
<tr>
<td>Net Profit (Loss) from Building Operations</td>
<td>224,393</td>
<td>178,179</td>
</tr>
<tr>
<td><strong>Total Non-Operating Revenue</strong></td>
<td>($3,436,373)</td>
<td>$6,113,591</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>($30,218,773)</td>
<td>$3,646,470</td>
</tr>
<tr>
<td><strong>Net Position - January 1</strong></td>
<td>92,453,906</td>
<td>88,807,436</td>
</tr>
</tbody>
</table>

**NET POSITION AS OF DECEMBER 31**

<table>
<thead>
<tr>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>$62,235,133</td>
<td>$92,453,906</td>
</tr>
</tbody>
</table>
2013 Executive Committee & Staff — L-R: Dave Zabell (Fife), Eric Larson, Jared Burbidge (TRPC), Reed Hardesty, Paul Loveless (Steilacoom), Mark Bucklin, Allen Johnson (Arlington), Lisa Roberts, Brenda Heineman (Auburn), Pete Rose (Lake Forest Park), Dave Timmons (Port Townsend), Jill Marcell, Patti Crane, Ann Bennett, and Arlene Fisher (Cheney).

Contracted Service Vendors

Accountant:
Baber & Mason, CPAs

Actuary:
PricewaterhouseCoopers

Claims Service Company:
Evergreen Adjustment Service

General Counsel:
Keating, Bucklin & McCormack Inc., P.S.

Insurance Broker:
Marsh USA, Inc.

Lobbyist:
Lisa Thatcher, Inc.