James Marta & Company
Certified Public Accountants

Accounting Auditing Tax and Consulting

January 15, 2010

Shannon Stuber, Program Administrator
Local Government Self-Insurance Program
Office of Financial Management
PO Box 41027
Olympia, WA 98504-1027

Dear Ms. Stuber,

Please find our report on our review of the financial position of Cities Insurance Association of Washington. It has been a pleasure working with you and we are available to answer any additional questions you may have.

If you need anything else please contact me.

Sincerely,

James Marta

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Principal
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James Marta & Company
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Accountants

Local Government Self-Insurance Program
Office of Financial Management
Special Purpose Agreed Upon Procedures Report
Review of
Cities Insurance Association of Washington

SUBMITTED BY:

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Certified Public Accountants

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BACKGROUND

The State Risk Manager as part of the Office of Financial Management under authority of RCW 39.34, RCW 48.62, WAC 82-60 and others provides oversight for self-insurance risk pools in the state of Washington. “Programs are allowed maximum flexibility, as long as they operate in a safe and sound manner, and must comply with regulatory and statutory standards (RCW 48.62.011). Whenever the state risk manager determines that a joint self-insurance program is in violation of the chapter or is operating in an unsafe financial condition, the state risk manager may issue and serve upon the program an order to cease and desist from the violation or practice.” The Office of Financial Management has concerns over particular financial and operational conditions for the Cities Insurance Association of Washington (CIAW).

REPORTING

We have performed the procedures enumerated below, which were agreed to by the Washington State Office of Financial Management to assist in evaluating certain conditions with the Cities Insurance Association of Washington This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Washington State Office of Financial Management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is intended solely for the information and use of on behalf of the Washington State Office of Financial Management and is not intended to be and should not be used by anyone other than these specified parties.

ASSURANCES

We affirm that we meet the independence requirement of the Government Auditing Standards published by the United States General Accounting Office. In addition, we affirm that we do not have any record of substandard audit work and we meet all specific requirements imposed by state or local law or rules or regulations. We are not aware of any relationship with Cities Insurance Association of Washington that results in a conflict of interest.

ENGAGEMENT METHODOLOGY

Our approach had a strong emphasis on early planning and was designed to gain a thorough understanding of the conditions and the environment as discussed above. We worked with the Office of Financial Management and the Cities Insurance Association of Washington's administrator to identify these risks and performed a high quality detailed review of financial operations. We tailored our approach by focusing our procedures. Our approach for this engagement involved:

- *Areas of Concern.* We identified and assessed the areas of concern with the Office of Financial Management. This involved a review of CIAW's financial statements, actuarial report and other reports and analysis provided by the Office of Financial Management.

    1. Tax status
    2. Financial position
    3. Valuation and collectability of receivables
    4. Valuation of claim liabilities
    5. Coverage assets as it relates to restructure of excess, reinsurance and stop-loss

- *Open communication.* Throughout the engagement, we provided explanations regarding the procedures to the OFM and CIAW. More importantly, we made every attempt to keep the engagement liaison informed and appraised of our findings and the status of our work from the preliminary work through the delivery of the report.

AREAS OF REVIEW

1. Tax Status:

CIAW is tax exempt under IRC 115, which provides for exempt from taxation governmental entities and their political subdivisions. Concern has arisen about the availability of this exemption if tribal governments are included as members of CIAW. ***Effect: if improperly included, the exemption from tax for CIAW could be terminated and its activities would be fully taxable.***

2. Financial Position

Membership and Funding: The CIAW is made up of Associate Members and Pooled Members, the Associate Members are not subject to any assessment. The concern is if the assets are not sufficient to cover the anticipated claim liabilities, is the assessable base sufficient to fund the remaining claims and is it probable that the collection would be timely enough to meet liquidity requirements.

Net Assets: Unrestricted net assets are reported to be $404,879 as of August 31, 2008. The ratio of claim liabilities to net assets as an industry standard is suggested to be no more than 3.5 to 1. The claim liabilities to net assets as of August 31, 2009 are in excess of 18:1. The ratios of net assets are quite lean to be evaluated as a "safe" financial position.

3. Valuation and collectability of receivables:

The receivables of $7,000,796 at August 31, 2008 are reported in the audit to be from the membership and insurance carriers. No allowance has been established. The balance of the receivables for the 2007 and 2008 is quite significant as compared to total assets, liabilities and unrestricted net assets. Our concern is over the nature of the specific receivables, the specific items that make it up, the basis for estimating the balance, the collection of these balances subsequent to the financial statement date, and the liquidity of these receivables in terms of the ability to meet the current claim payment obligations recorded of $7,428,339. The significant concern to financial position is that if the balance is overstated by only 6% then CIAW would be in a deficit position.

4. Valuation of Claims Liability:

The balance of the unpaid claims liability increased from $4,864,482 in 2007 to $7,428,339 as of August 31, 2008. This is an increase of $2,563,857 or 52.7%. Industry standards express concern of claim liability changes of 20% or more. In addition, per review of the claim liability reconciliation, the claim liability from 2006 to 2007 increased from $2,475,194 to $4,864,482; $2,389,288 or 96.5%. The total two year increase is $4,953,145 or 200%. The questions to review are: What are the principle conditions causing the recorded claims to increase? Are they re-evaluation of prior estimates, claims development, restructure of program coverage, changes in covered exposures during the past year? If the claim liabilities are understated or continue to develop by only 6%, CIAW would be in a deficit position.

5. Coverage as it relates to restructure of excess, reinsurance and stop loss:

The pool states that it is changing its business practices, which seems to indicate that reinsurance receivables will be recovered more quickly, but again, no specifics were given. The state risk manager's office needs to know whether the pool's plan to increase reserves will meet our regulatory requirements to increase reserves of cash and cash equivalents to the 55% confidence level, with additional less liquid reserves at 70%. Most importantly, we need to know whether the receivable is real and can be collected in a reasonable amount of time to meet our requirements, or whether the pool will need to reassess members in order to continue operating.

PROCESS

The following were the key phases of our process.

Process		
1	Planning	Ø Review areas of concern Ø Obtain an understanding of the entity and areas of concern Ø Prepare summary of requried information Ø Discuss approach with engagement liason Ø Determine planned approach Ø Obtained review information Ø Review documents and develop initial information
2	Fieldwork	Ø Meet with CIAW personnel Ø Obtain supportive information Ø Analyze supportive information Ø Evaluate supportive information Ø Meet with CIAW personnel
4	Completion	Ø Review overall evidence and analysis Ø Develop conclusions Ø Prepare draft report Ø Discuss draft report with Department of Financial Management Ø As directed discuss draft report with CIAW management Ø Finalize and issue report

EXECUTIVE SUMMARY

1. TAX STATUS

Based on the information reviewed, we believe at a minimum the Tribal Nation Insurance Program income is taxable. Some of the tax years may be beyond the filing statute. The CIAW administrator should prepare tax returns to properly report this activity. In preparing these returns, consider whether it is warranted to tax only the TNIP activity. If so consider requesting a waiver for the remaining CIAW activity income. We suggest that based on the above, a liability for at least $150,000 be recorded for projected taxes, interest and penalties with the current information without consideration of the expiration of the statute.

2. FINANCIAL POSITION

As discussed further under the valuation and collectability of receivables, we recommend the financial statements be adjusted to remove aggregate stop loss receivable of $4,774,849.16 as of August 31, 2008. This leaves an aggregate stop loss receivable of $1,277,963 for the 1999-00, 2001-02 and 2002-03 policy years, in addition to member receivable of $948,484. We also recommend an allowance for doubtful accounts for an uncollectable receivable from the City of Federal Way of $195,900 for the fiscal year 2008/2009.

Upon review of the preliminary trial balance as of August 31, 2009, we noted that $3,167,000 was recorded as a member receivable. Upon review with the CIAW accountant, it was noted that this amount is part of the CIAW plan proposed by the program administrator to increase equity over the next five years. This is a plan or goal of the organization. As a plan this is not a recordable asset. A recordable asset would be when the board takes specific action to fix an assessment against the members. At that date the receivable would be recordable and assessment notices should be sent to members. Further, the assessment should be recorded at the net realizable value; net of estimated uncollectable amounts if any.

Adjusted net assets with our proposed changes are a deficit of $4,197,382 as of August 31, 2008 and a deficit of $3,048,618 as of August 31, 2009. The CIAW does not meet state funded guidelines.

The administrator advised us that they fund at a planned 70% confidence level and associate members, who cannot be assessed, are surcharged a 15% amount on their contribution. However, the total funding was still capped to the 70% level. This resulted in the regular members contributing at a level less than the 70% confidence level.

3. VALUATION AND COLLECTABILITY OF RECEIVABLES

Based on review of the insurance contracts for the 2002 through the 2009 policy years and the loss runs as of August 31, 2008 and August 31, 2009, there should be stop loss receivable of $1,277,963 and $481,422.44 respectively. This represents an adjustment down of the stop loss receivable of $4,774,849.16 as of August 31, 2008. The stop loss receivables at August 31, 2009 of 481,422.44 have been collected through the date of our fieldwork (12/16/09).

Other significant receivables: there were significant outstanding receivables billed to the City of Yakima and City of Federal Way. As of November 19, 2009, CIAW received payment of outstanding amounts from the City of Yakima. However, there was still a large outstanding amount to the City of Federal Way in the amount of about $195,900. Since the City of Federal Way has not been an active member since August 31, 2008 and there has not been activity on this account, we recommend creating an allowance for doubtful accounts for this amount.

4. VALUATION OF CLAIM LIABILITIES

The recorded claims appear in agreement with the loss runs and the actuary valuation. Upon review of the preliminary claims audit, there were no significant concerns over the claims payments and reserve valuations.

Upon review of the administrative contract; as of August 31, 2009, there was no language in the contact about continuous costs relating to claims handling. The administrator indicated that they would begin the process of changing the language of the contract with the CIAW board to relieve the CIAW pool of any future liability for claims adjusting expense. However, based on the current contract, we believe a provision for ULAE should be recorded.

The financial statements were understated by an estimated:

2008 fiscal year: $371,417 - $742,834
2009 fiscal year: $225,818 - $451,636

As of January 10, 2010, the language in the contract was changed to reflect the claims handling costs and relieving CIAW of any of these expenses. Based on this language, no provision would have to be recorded as of the date of the contract provision, January 10, 2010. The amendment refers to the appropriateness of not recording the ULAE liability in the past; based on the contract we disagree.

We reviewed the financial reconciliation in the audit report of the claims expense. We noted:

The reported claims expense shows an amount that is $3,113,495 less then the amount that is reconciled. The reconciliation is a very important part of tracking payments and this difference may indicate a material weakness in the accounting for claims.

A. 2007/2008 expense on general ledger at $3,113,495 less then the reconciliation.
B. 2006/2007: expense on general ledger at $2,625,499 less then the reconciliation.
C. 2005/2006: expense on general ledger at $1,022,226 less then the reconciliation.
D. 2004/2005: expense on general ledger at $442,348 less then the reconciliation.
E. 2003/2004: expense on general ledger at $117,763 less then the reconciliation.

5. COVERAGE ASSETS AS IT RELATES TO RESTRUCTURE OF EXCESS, REINSURANCE AND STOP-LOSS

A. We reviewed insurance policies as provided by the administrator for the 2002-2003 policy year through the 2008-2009 policy year.

   We noted that the aggregate receivables recorded as of August 31, 2008 were not valid after comparing the loss run, claims summary and the insurance policy. This resulted in a recommended adjustment to the August 31, 2008 receivables and net equity of $4,197,386 for stop loss receivables. This difference was principally due to the administrator recording stop loss receivable based on an expectation that the carrier would modify the contract for the 2008 and prior policy years.

   The 2009-2010 Binder for coverage from Munich Re provides for an aggregate coverage in addition to the Traveler St. Paul for the 2002-2009 for $12 million dollars in aggregate for the seven year period. The actuary used this amount to limit CIAW's retained ultimate loses.

B. Reviewed coverage amounts as reported. We used this information to evaluate stop loss and excess receivables. We compared this to the loss runs as of August 31, 2008 and August 31, 2009 to arrive at the adjusted receivable valuations.

C. As discussed under section 3. Valuation and Collectability of Receivables, the receivables after our suggested adjustment appear to be collectable as we reviewed documentation of collection of a majority of the excess balances.

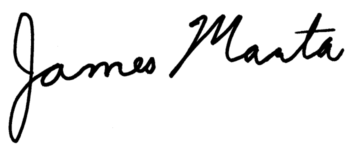
Conclusion

Based on our overall review of the finding philosophy and practice, the Cities Insurance Association of Washington has been run very lean. The financial position as of August 31, 2008 was overstated by over $4.7 million. The financial reporting is deficient.

The CIAW administrator and Board of Directors needs to review the results of these adjustments on the financial position of the Association and develop a plan to adequately fund the deficit that contemplates sufficiency to meet cash-flow requirements and the State Risk Manager's requirements.

The administrator should gain a better understanding of the financial reporting and disclosure requirements to produce a report that meets disclosure standards. In addition, the administrator and board should develop an improved understanding of the use of the financial reporting and related analysis as a basis for judgments and decisions.

SINCERELY,



James P. Marta, CPA, ARM
Principal
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1. TAX STATUS

Objective:

Assess whether a potential tax liability exists based on the operations of the pool involving potentially disqualified members, Tribal Nations Insurance Program (TNIP).

Background

In the 2003-04 fiscal year CIAW began offering coverage to Indian tribes, known as the Tribal Nations Insurance Program, (TNIP). CIAW is currently operating as if it is tax exempt under IRC 115, which provides for exempt from taxation governmental entities and their political subdivisions. This exemption is a rebuttable assumption, which means if CIAW does not operate under the definition in form, activity or membership, the service may tax CIAW's activities. Concern has arisen about the availability of this exemption if tribal governments are included as members of CIAW. *Effect: if improperly included, the exemption from tax for CIAW could be terminated and its activities would be fully taxable.*

Resources:

1) Memorandum from Robert T Manicke, attorney with Stoel Rives, LLP.
2) Letter from CIAW attorney, Robert E Kovacevich dated April 1, 2009 shared by the administrator of CIAW.
3) Letter dated January 5, 2009 from the OFM to Mr. Cherf, this letter advises that based on legal advice received from by the OFM that CIAW may have a potential tax liability related to the activities of insuring the Indian tribes as part of CIAW.

Procedures:

1) Reviewed the letters provided by the OFM regarding the related laws and rulings under section 115 and the insurance pooling.
2) Evaluated the relevant code and rulings
3) Reviewed the arguments put forth from Robert E Kovacevich, (CIAW attorney) in his letter dated April 1, 2009.
4) Reviewed Private Letter Ruling 200637031 where the IRS addresses a similar issue
5) Reviewed taxable transactions:
   a) the fiscal year accounting for the Tribal Nations Insurance Program.
   b) Reviewed available loss runs for the Tribal Nations Insurance Program (only the 2008 and 2009 fiscal year loss runs were made available to us.)
6) Estimated the tax effect of the IRS ruling.

Results:

1. In Mr. Robert T Manicke's opinion he states: "The IRS interprets the "accruing to" requirement, narrowly, denying the exclusions under IRC section 115 to any risk pool that includes members under other than a state, a political subdivision of a state, or any other entity that is eligible for the IRC section 115 exclusion

because of its close connection with state or local government. This was concluded in Private Letter Ruling PLR 200637031."

2. Per review of the relevant Code I found:
    a. In PLR 200214026, the IRS discussed the rational exempting a group of governments pooling of risks but specifically required them to terminate participation by the affiliate members to ensure all of the members would be either a political subdivision of a state, an integral part of a political subdivision or an entity whose entire income is excludable from section 115(1) of the Code.

    b. Rev. Rul. 90-74, 1990-2 C.B. 34, concerns an organization that is formed, operated and funded by political subdivisions to pool their casualty risks and other risks arising from their obligations concerning public liability, workers' compensation, or employees' health.

    c. Rev. Rul. 90-74 states that the income of the organization is excluded from gross income under section 115(1) of the Code if private interests do not participate in the organization or benefit more than incidentally from the organization.

    d. In Rev. Rul. 90-74, the benefit to the employees of the political subdivisions was excepted as incidental. Furthermore, upon dissolution, the organization will distribute its assets to its members. Therefore, the income of the organization accrues to a political subdivision with the meaning of section 115(1).

    e. In addition, Under IRS Section 6110(k)(3) of the Code, Private Letter Rulings may not be used or cited as a precedent when applying to the IRS, as the IRS determination may depend on particular facts of the case. However, in these rulings and interpretations submitted by Robert T Manicke, attorney with Stoel Rives, LLP. , the Attorney's General Office and our independent research, the Indian Tribe members do not meet the very narrow definition of an exempt entity under section 115 of the Code.

3. Mr. Robert E Kovacevich, attorney for CIAW, puts forth several arguments:

    a. Mr. Kovacevich refers to several statutes, which by his own admission, that do not apply. Foreign Immunities Act, 28 U.S. C Sections 1602-1611.

    b. He discusses government function.

    c. He discusses that a pool can be comprised of many governments. Where aggregate of governments creating the pool as free from tax. .."If tainted by private interests the entire pool is tainted and apparently loses its non-taxable status under 25 U.S.C. 115.

d. Background of Section 115, where it refers to "essential government function" This section only speaks to states or its political subdivisions.

e. The Partnership Approach.; under this approach Mr. Kovacevich takes a novel approach where the taxability would somehow be determined with respect to each individual participant as a "partner" thus the tax determination would be assessed to each member based on their unique characteristics similar to the pass through rules that would be used for a partnership. Mr. Kovacevich concedes that this approach would not work for CIAW as there is already an adverse letter ruling from the IRS. However, this approach also fails because it pre-assumes that the IRS would suspend any review of the primary pool and only look to the taxability of the member itself. This fails to consider the following. A partnership under the IRC provides for special pass through treatment to each partner and the divided share of the partnership activity would be taxed at the individual level. The pool is not a partnership under the IRC and though the members share in participation, the debts of the pool are not the debts of the members per the agreement. The IRS must provide for this special treatment as it has also done in the special case of certain distributive shares in a trust and in the case of an S-Corporation, however, even an S-Corporation must follow certain tax rules that the corporation level and if it were primarily an insurance or risk sharing organization as a corporation, it would be subject to tax as an insurance company at the pool layer (if not otherwise exempted under section 115. Further, formation as a corporation or partnership is determined by state law. If the CIAW were formed as a partnership under state law then it may be eligible for treatment under IRC 701. These facts however are not in evidence.

f. Income of Indian Tribes: Mr. Kovacevich presents the exemption of income for Indian tribes. But the pool is not an Indian tribe. Including the Indian tribe into the pool does not make the pool an Indian tribe. In addition the IRS as been only very narrowly defined exempt pools under section 115 and strictly excludes from exemption pools that include Indian Tribes, and Nonprofit entities even though these entities may otherwise be exempt form federal taxation. The test of a 115 exemption is not just the activities. The entity being exempt under 115 and the pools to be exempt under section 115 must be a State government or political subdivision. Neither an Indian tribe nor a nonprofit meet this test.

4. Private Letter Ruling 20063703

a. Finally, the similar facts and circumstances were submitted to the IRS and a Private Letter Ruling was obtained in 2006; Private Letter Ruling 200637031.This ruling specifically concluded that With the proposed addition of Corporation B as a member of Corporation A, the primary beneficiaries of the insurance coverage provided by Corporation A would no longer be limited to states, political subdivisions of state or entities the income of which is excluded from gross income under section 115 because Corporation B is not a state, a political subdivision of a state or an entity the income of which is excluded from gross income under section 115. Corporation B, as a section 17 corporation, has a tax status similar to that of a federally recognized Indian tribe. See, Rev. Rul. 94-16, 1994-1 C.B. 19. However, the courts held that a tribe is not a state. White Mountain Apache Tribe v. Bracker, 448 U.S. 136, 143 (1980); United States v. Kagama, 118 U.S. 375, 381-84 (1886).

b. Congress, concluding that it was appropriate to provide Indian tribal governments with a status under the Internal Revenue Code similar to what is now provided to the states, responded by enacting section 7871. S. Rep. No. 97-646, 97th Cong,. 2nd Sess. 1, 11 (1982), 1983-1 C.B. 514, 518. This provision of the Code provides that a federally recognized Indian tribal government is treated like a state for certain specifically identified sections of the Code. However, section115 is not one of the code sections identified in section 7871 under which a tribe is treated like a state. The letter ruling for CIAW concluded; Accordingly, after adding Corporation B as a member, the income of Corporation A will no longer accrue only to states, political subdivisions of states or entities the gross income of which is excluded from income under section 115(1). Based on the information and representations submitted by Corporation A, we hold that when Corporation B becomes a member of Corporation A, Corporation A will not meet the requirements of section 115(1) of the Code. This ruling letter is effective as of the date the proposed amendments to Corporation's articles of incorporation and by-laws are adopted.

5. Reviewed taxable transactions:

i) the fiscal year accounting for the Tribal Nations Insurance Program.

(see fiscal year accounting information collected from CIAW on next page)

Tribal Nations Insurance Program
Financial Statements
08/31/09

	08/31/09	08/31/08	08/31/07	08/31/06	08/31/05	08/31/04
Operating Revenues:						
Member assessments	$ -	$ -	$ -	$ -	$ 1,872,284	$ 1,605,825
Excess insurance and service fees	-	-	-	1,952,672	5,616,854	2,459,555
Total Operating Revenues	-	-	-	1,952,672	7,489,138	4,065,380
Operating Expenses:						
Claims Expense	(1,500)	(5,719)	(13,509)	101,769	1,521,804	1,313,360
General and administrative fees	177	200	685,337	1	361,321	299,883
Excess insurance premiums	260,969	-	(778,410)	1,795,946	5,599,854	2,455,022
Total Operating Expenses	259,646	(5,519)	(106,582)	1,897,716	7,482,979	4,068,265
Operating Income (Loss)						
Nonoperating Revenues (Expenses)						
Interest income	633	291	3,120	17,348	17,420	8,100
Miscellaneous income						
Total Nonoperating Revenues (Expenses)	633	291	3,120	17,348	17,420	8,100
Change in Net Assets	(259,013)	5,810	109,702	72,304	23,579	5,215
Net Assets, Beginning	216,026	210,716	101,014	28,709	5,131	0
Net Assets, End	$ (42,987)	$ 216,526	$ 210,716	$ 101,013	$ 28,710	$ 5,215

As provided by CIAW administrator

ii) Reviewed available loss runs for the Tribal Nations Insurance Program *(only the 2008 and 2009 fiscal year loss runs were made available to us.)*

6. Estimated the tax effect of the IRS ruling .
   a. Based on review of the private letter ruling 20063703 the service determined that the pool was not tax exempt under section 115 once they brought in the Indian Tribe members.
      i. This can be interpreted on its face that all activities are taxable. Net taxable income (under IRS rules for Property Casualty Insurance Companies)
      ii. Alternatively, this can be interpreted that the activities that are not exempted are taxable. (Just the Tribal Nations Insurance Program)
      iii. We believe that CIAW would have to make the argument that only the TNIP income is taxable and specifically request a waiver for the other activity. We believe it would be a reasonable request but cannot conclude whether the service would grant such a waiver.
   b. Estimated tax impact.
      i. The tax calculation for Property Casualty Insurance companies does not simply take the net income from the financial statements. Instead there are certain book to tax adjustments that must be made. For the TNIP these adjustments are principally the following:
         1. Requirement to recognize currently 20% of the deferred income as taxable.
         2. Reduce the recorded claims expense for required discounting under the regulations, which typically equates to reducing the effect of the accrual portion of the claims expense by about 15%.
      ii. Based on preliminary information reviewed, the projected tax for each year is as follows.
         1. This was prepared based on basic claims information provided, however, certain detail was not available for 2004, 2005, 2006 and 2007.

Fiscal Year	Projected Tax	Potential Carryback Value	Projected Net Tax
2004	$ 238,584		$ 238,584
2005	(30,377)	(68,855)	(68,855)
2006	(50,600)	(115,403)	(115,403)
2007	20,063		20,063
2008	(2,349)	(5,324)	(5,324)
2009	(39,786)	(69,065)	(69,065)
Total	$ 135,535	$ (258,647)	$ -

2. This is a projection at this time, but believe this is a fair estimate of the calculated tax liability had the returns been prepared with the information we were provided for each fiscal year.
3. This estimate is for federal income tax only and does not include any provisions for potential interest and penalties, which could be substantial. Penalties a calculated based on when the required payments should be paid and include an interest and penalty charge. Although we have not calculated the interest and penalty, the penalty and interest could easily exceed $100,000 for 2004 liability.
4. Audit or adjustment for certain periods may be beyond current statute of limitations.

Conclusion:

Based on the information reviewed, we believe at a minimum the Tribal Nation Insurance Program income is taxable. The CIAW's attorney has not demonstrated "substantial authority" under guidelines for preparers to exclude this income from tax. The 2008 Act revised section 6694(a) to provide that a position would be treated as unreasonable unless (i) there is or was substantial authority for the position or (ii) the position was properly disclosed and had a reasonable basis. The 2008 Act also enacted a special rule under which a position is treated as unreasonable unless it is reasonable to believe that the position would more likely than not be sustained on the merits. The 2008 Act did not modify the section 6694(b) penalty for understatements due to willful or reckless conduct.

We noted some of the tax years may be beyond the filing statute. We believe the CIAW administrator should prepare tax returns to tax the TNIP activities as a property casualty insurance company using form 1120PC In preparing these returns, consider whether it is warranted to tax only the TNIP activity. If so consider requesting a waiver for the remaining CIAW activity income. We suggest that based on the above, a liability for at least $150,000 be recorded for projected taxes, interest and penalties with the current information.

2. FINANCIAL POSITION

Objective

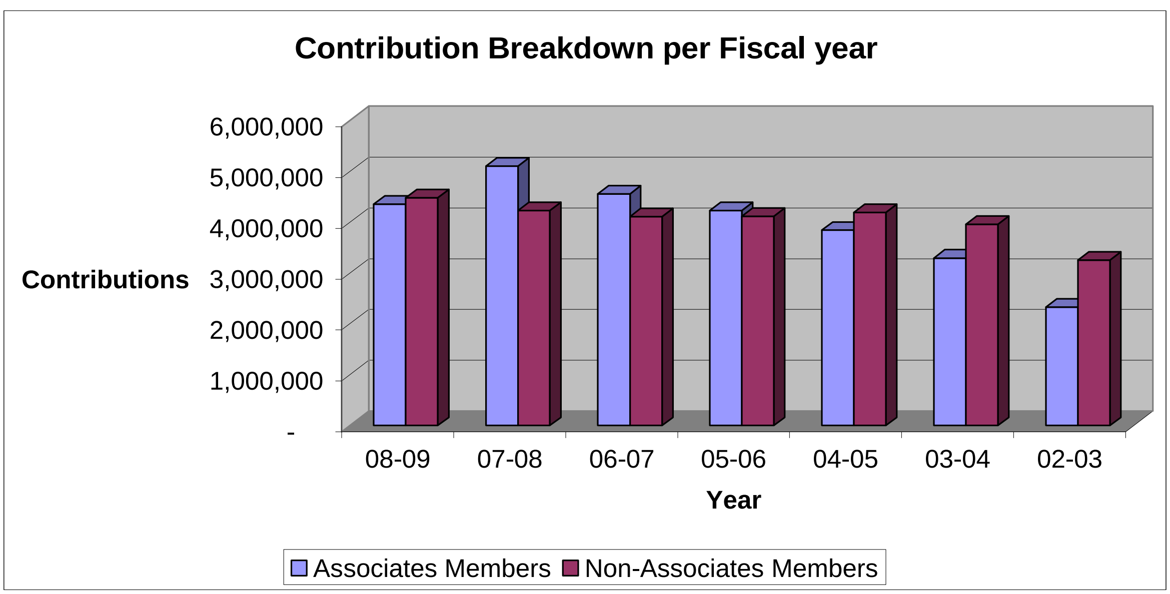
Our objective was to evaluate the financial condition and position to assist the State Risk Manager to assess whether CIAW is operating in a safe manner. Determine if the pool, after review, meets regulatory requirements to maintain reserves of cash and cash equivalents to the 55% confidence level, with additional less liquid reserves at 70%.

Background

Financial position as of August 31, 2008 shows $832,422 in cash and equivalents, $7,000,796 in receivables, and $7,428,339 of current claim liabilities leaving net assets unrestricted of $404,879.

Net Assets: Unrestricted net assets are reported to be $404,879 as of August 31, 2008. The ratio of claim liabilities to net assets as an industry standard is suggested to be no more than 3.5 to 1. The claim liabilities to net assets as of August 31, 2009 are in excess of 18:1. As discussed under the receivables and the unpaid claims liability sections, the ratios of net assets is quite lean to be evaluated as "safe" financial position.

Membership and Funding: The CIAW is made up of Associate Members and Pooled Members, the Associate Members are not subject to any assessment. The concern is if the assets are not sufficient to cover the anticipated claim liabilities, is the assessable base sufficient to fund the remaining claims and is it probable that the collection would be timely enough to meet liquidity requirements. The following chart shows the breakdown of membership.



Procedures:

1. Reviewed all prior year audited financials
2. Noted questionable amounts that need to be reviewed in full
3. Reviewed support for receivables and claims liabilities to note if recorded properly

Results:

As discussed further under the valuation and collectability of receivables, we recommend the financial statements be adjusted to remove aggregate stop loss receivable of $4,774,849.16 as of August 31, 2008. This leaves an aggregate stop loss receivable of $1,277,963 for the 1999-00, 2001-02 and 2002-03 policy years, in addition to member receivable of $948,484. We also recommend an allowance for doubtful accounts for an uncollectable receivable from the City of Federal Way of $195,900.

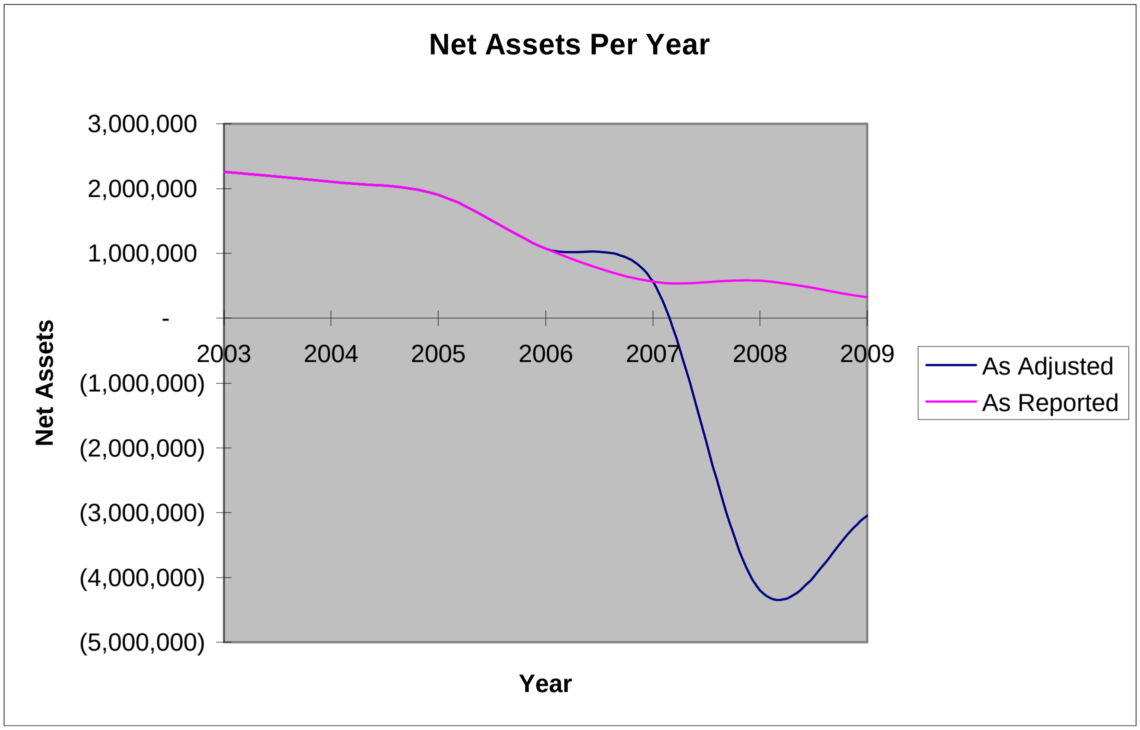
CIAW Response: *CIAW is reviewing their history to make sure what they billed agrees with what should be have been billed. There were a couple years the City of Federal Way made some big changes to their coverages and we want to be sure that all endorsements were properly applied to their account. The other item is to review the deductibles with the claims staff to ensure that none of the invoices were waived due to subrogation or that they were already deducted from a payment to the City. Once CIAW has finished with that, they are drafting a strongly-worded letter to the City to get the outstanding balances cleared up.*

Upon review of the preliminary trial balance as of August 31, 2009, we noted that $3,167,000 was recorded as a member receivable. Upon review with the CIAW accountant, it was noted that this amount is part of the CIAW plan proposed by Jim Cherf to increase equity over the next five years. This is a plan or goal of the organization. As a plan this is not a recordable asset. A recordable asset would be when the board takes specific action to fix an assessment against the members. At that date the receivable would be recordable and assessment notices should be sent to members. Further, the assessment should be recorded at the net realizable value; net of estimated uncollectable amounts.

Adjusted net assets as adjusted is a deficit of $4,197,382 as of August 31, 2008 and a deficit of $3,048,618 as of August 31, 2009. Based on this CIAW does not meet state funded guidelines.

The administrator advised us that they fund at a planned 70% confidence level and associate members, who cannot be assessed, are surcharged a 15% amount on their contribution. However, the total funding was still capped to the 70% level. This resulted in the regular members contributing at a level less than the 70% confidence level. The associate members funded the program at above the 70% confidence level but this was not used to supplement the program to add to the risk margin in the net asset balance. Instead, the regular members contribution was reduced.

The following graph shows the net assets as reported versus as we suggest they need to be adjusted.



Good decisions depend on good information and understanding. We reviewed the audited financial statements for the year 03/04 through the year 07/08 because we were concerned about that adjustments we proposed may be an indicator of other deficiencies. We found deficiencies in the reporting in addition to the adjustments suggested above.

The following chart shows areas in which the audit report is deficient.

Local Government Self-Insurance Program
Audit Report Review for Cities Insurance Association of Washington

GFOA Checklist Question	Description of Deficiency	Condition present in report for the fiscal year 2008	2007	2006	2005	2004
E4.1 If comparative financial statements are presented, does MD&A provide condensed financial data for three years (i.e. the current year, the previous year, and the year preceding the previous year)?	The fiscal year 2005 audit report includes comparative financial statements, but does not show condensed financial data for three years. Reviewer noted that in the previous year, comparative financials were not presented.	No	No	No	Yes	No
4.1e Does MD&A provide an overall analysis of the entity's financial position and results of operations? Explanation: *Analysis,* properly speaking, should focus on the *reasons for changes* rather than just their sizes.	The analysis presented in the MD&A of the audit report does not describe the reasons for changes in CIAW's financial position.	Yes	No	Yes	No	Yes
4.1e1 Does it specifically address whether the entity's overall financial position has improved or deteriorated? Explanation: It is not necessary for the discussion to use the word "improved" or "deteriorated." A statement that net assets have increased or decrease is sufficient.	The analysis presented in the MD&A of the audit report does not specifically address whether the entity's overall financial position has improved or deteriorated.	Yes	Yes	Yes	No	No
Observation	The 2007 Report MD&A states that "…the program moved some funds from net assets into the unpaid claims liabilities for potential claims." Strictly speaking, funds were not "moved". Also see Note 23 on the 2007 audit report.	No	Yes	No	No	No
4.1h1 Does the discussion of capital asset and long-term debt activity refer readers interested in more detailed information to the notes to the financial statements?	The discussion of capital asset activity presented in the MD&A of the audit report does not refer readers interested in more detailed information to the notes to the financial statements.	Yes	Yes	No	No	No
4.1j Do the amounts reported in the MD&A agree with related amounts in the basic financial statements?	The amounts for the following figures do not agree with related amounts in the basic financial statements: 2007 - on 2008 report Transfers ($510,734) (($510,735) on fs) Change in Net Assets ($512,519) (($512,520 on fs)) Ending Net Assets $563,787 ($563,786 on fs) 2007 - on 2007 report Transfers ($510,734) (($510,735) on fs) Change in Net Assets ($512,519) (($512,520 on fs)) Ending Net Assets $563,787 ($563,786 on fs) 2004 - on 2004 report	Yes	Yes	No	No	Yes

5.2 Are all the basic financial statements referred to by their appropriate titles?	The Statement of Net Assets is titled Comparative Balance Sheet.	Yes	No	No	No	No
5.7 Do the enterprise fund financial statements articulate (i.e. tie)?	On the 2008 report, the condensed financials in the MD&A do not correctly calculate ending net assets. The MD&A presents: 2007 Ending Net Assets $563,787 2008 Change Net Assets $13,681 2008 Ending Net Assets $577,467 The result of adding 2008 change in net assets to the 2007 ending net assets is $577,468 not $577,467 On the 2007 report, the 2007 Ending Net Assets on the Statement of Revenues, Expenses, and Changes in Fund Net Assets ($563,786) does not match the Total Net Assets on Statement of Net Assets ($563,787).	Yes	Yes	No	No	Yes
Observation	The detail of Capital Assets are presented on the Statement of Net Assets. The total net of accumulated depreciation would suffice for the financial statements.	Yes	No	No	No	No
E5.1 If the enterprise fund is a component unit, has the enterprise fund refrained from reporting transfers of capital assets or financial assets from the primary government at an amount other than the carrying value at the time of transfers?	While it does not appear that CIAW is a component unit, no disclosure is made regarding the substance of the Transfers In (Out) that appear on the statement of revenues, expenses and changes in fund net assets.	Yes	Yes	Yes	No	No
E5.2 If the enterprise fund is a fund or department of a primary government, has the enterprise fund refrained from reporting transfers of capital assets or financial assets from the PRIMARY government at an amount other than their carrying value at the time of the transfer?	While it does not appear that CIAW is a fund or department of a primary government, no disclosure is made regarding the substance of the Transfers In (Out) that appear on the statement of revenues, expenses and changes in fund net assets.	Yes	Yes	Yes	No	No
9.9* Are assets and liabilities classified as *current* and *long-term*?	CIAW has classified the entirety of its Unpaid Claims Liability as current. This liability should be split between its current and long-term portions. Investments are classified as current assets. Investments with a maturity date over one year should be classified as non-current assets, as applicable.	Yes	Yes	Yes	Yes	Yes

Financial Position

Observation	On the 2008 and 2007 audit reports, the 2007 Ending Net Assets on the Statement of Revenues, Expenses and Changes in Fund Net Assets ($563,786) does not match the 2007 Ending Net Assets on the Balance Sheet ($563,787).	Yes	Yes	No	No	No
9.15 If capital assets are reported, is depreciation expense reported separately from other expenses?	The statement of revenues, expenses and changes in fund net assets does not report depreciation expense separately from other expenses.	Yes	Yes	Yes	Yes	Yes
Observation	No disclosure is made regarding the substance of the Special Items that appear on the statement of revenues, expenses and changes in fund net assets.	No	Yes	No	No	No
Observation	No disclosure is made regarding the substance of the Extraordinary Items that appear on the statement of revenues, expenses and changes in fund net assets.	No	Yes	No	No	No
9.18a* Are cash flows from operating activities reported by major classes of receipts and disbursements (i.e., the *direct* method)?	The only cash flows from operating activities listed on statement of cash flows are Cash payments to suppliers for goods and services. Cash payments for claims expenses and Cash payments to excess insurers should be separated from Cash payments to suppliers for goods and services.	Yes	Yes	Yes	Yes	Yes
11.8 Does the SSAP address the enterprise fund's accounting policies for capital assets?	The Summary of Significant Accounting Policies (SSAP) references Note 10. Note 10 does address CIAW's accounting policies for capital assets.	Yes	Yes	Yes	Yes	Yes
11.12 Does the SSAP disclose whether the enterprise fund has implemented private-sector guidance issued after November 30, 1989?	The Summary of Significant Accounting Policies (SSAP) does not disclose whether the enterprise fund has implemented private-sector guidance issued after November 30, 1989.	Yes	No	No	No	Yes
11.14 Does the SSAP indicate how investments are valued?	The SSAP (nor the Note 3 referenced in the SSAP) indicates how investments are valued.	Yes	Yes	No	No	No
Observation	Note 3 - Deposits and Investments does not include comparative information or tie in total to the statement of net assets.	Yes	Yes	Yes	No	Yes

12.3 Do the notes disclose the enterprise fund's policy for custodial credit risk associated with deposits or indicate that it does not have such a policy? *If the enterprise fund participates in an external investment pool and the pool is not registered with the Securities and Exchange Commission, the notes should disclose the nature of any regulatory oversight of the pool and state whether the fair value of its position in the pool is the same as the value of the pool shares.*	The Deposits and Investments footnote does not disclose CIAW's policy for custodial credit risk associated with deposits or indicate that it does not have such a policy. Further, CIAW should disclose the nature of any regulatory oversight of the State Investment Pool and state whether the fair value of its position in the pool is the same as the value of the pool shares.	Yes	Yes	Yes	Yes	Yes
12.7 Do the notes disclose the credit ratings (or explain that credit ratings are not available) for investments in debt securities (other than debt issued by or explicitly guaranteed by the U.S. government), as well as for positions in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities?	The Deposits and Investments footnote does not disclose the credit ratings (or explain that credit ratings are not available) for its holdings with the State Investment Pool.	Yes	Yes	Yes	Yes	Yes
Observation ***An enterprise fund should disclose concentrations of 5 percent or more of net investments in securities of a single organization (other than those issued or explicitly guaranteed by the U.S. government, as well as investments in mutual funds, external investment pools, and other pooled investments.)***	If CIAW held 5 percent or more of net investments in securities of a single organization, this should be disclosed in the financials.	Yes	Yes	Yes	Yes	Yes
12.8 If some investments are valued on a basis other than fair value (e.g. amortized cost), do the notes disclose the fair value of such investments (or state that there is no material difference from fair value)?	Note 3 - Deposits and Investments does not disclose the valuation basis of the investment in the State Investment Pool.	Yes	Yes	No	No	No
Observation	Note 3 - Deposits and Investments should disclose who administrates and how to obtain financials for the State Investment Pool.	Yes	Yes	Yes	Yes	Yes
Observation	Note 8 - Unpaid Claims Liability: The Total Insured Claims and Claim Adjustment Expenses does not equal the claims expense per the Statement of Revenues, Expenses and Change in Net Assets.	Yes	Yes	Yes	Yes	Yes
12.41 Has the enterprise fund refrained from negative disclosure? *Explanation: There generally is no need to disclose that a particular situation is* not *applicable to the enterprise fund. There are two exceptions to this basic rule:* *>Situations where GAAP specifically require the disclosure of* whether *a given set of circumstances apply to the enterprise fund; and* *>Situations where the absence of a given set of circumstances is so unusual that the omission of a particular disclosure is likely to be viewed by financial statement users as an oversight.*	Many notes in the report provide negative assurance (e.g. As of August 31, 2008, the CIAW has no deferred debits or credits).	Yes	Yes	Yes	Yes	Yes

14.7* If the enterprise fund sponsors a public-entity risk pool, does the RSI present ten years of data on revenues and claims development (unless the notes contain a reference to a separately issued report)? *Explantion: The specific contents of RSI for risk pools are as follows:* *>A table displaying:* *1. Premium and investment revenues (past 10 fiscal years), presented as follows:* *-gross amounts earned* *-amounts ceded (for example, reinsurance)* *-net revenues* *2. Unallocated claim adjustment expenses and other costs (past 10 fiscal years)* *3. Incurred claims and allocated claim adjustment expenses as originally reported (past 10 fiscal years), presented as follows:* *-gross amounts incurred* *-amounts ceded (for example, reinsurance)* *-net incurred* *4. Cumulative payments related to item no. 3 at the end of the each policy year* *5. Re-estimated ceded losses and expenses* *6. Re-estimated net incurred claims and claim adjustment expenses at the end of each year* *7. The change between nos. 3 and 6*	The Ten Year Claims Development Information in the CIAW audit report does not present (line 1) the premiums and investment revenues in gross or the amounts ceded. It also does not show (line 3) the gross amount incurred, amount ceded and net incurred. There is no reconciliation of claims liability by type of contract presented in the required supplementary information.	Yes	Yes	Yes	Yes	Yes
Observation	On the 2004, 2005 and 2006 audit reports Ten Year Claims Development Information column for 1997, the Estimated incurred, claims and expense, end of policy year (Line 3) does not match the first item (End of Policy Year) in under Reestimated incurred claims and expense (these two figures should be the same).	No	No	Yes	Yes	Yes

3. VALUATION AND COLLECTIBLITY OF RECEIVABLES

Background:

At August 31, 2008 the audit report shows receivables of $7,000,796 from the membership and insurance carriers. No allowance has been established. The balance of the receivables for the 2007 and 2008 is quite significant as compared to total assets, liabilities and unrestricted net assets. Concern is over the nature of the specific receivables, the specific items that make it up, the basis for estimating the balance, the collection of these balances subsequent to the financial statement date, and the liquidity of these receivables in terms of the ability to meet the current claim payment obligations recorded of $7,428,339. The significant concern to financial position is that if the balance is overstated by only 6% then CIAW would be in a deficit position.

Procedures:

Member receivable

1. Reviewed member receivable balances for the 08/09 and 07/08 fiscal years
2. Inquired about the nature of these balances and if all were expected to be collected
3. Reviewed support for collected receivables after the year ended for 8/31/09 for existence of receivable.

Excess and Stop Loss

1. Reviewed recorded balance.
2. Reviewed relevant insurance policies
3. Reviewed Loss Runs
4. Reviewed Actuary Report
5. Discussed with the program manager the losses above the self-insured retention and aggregate stop loss.

Results:

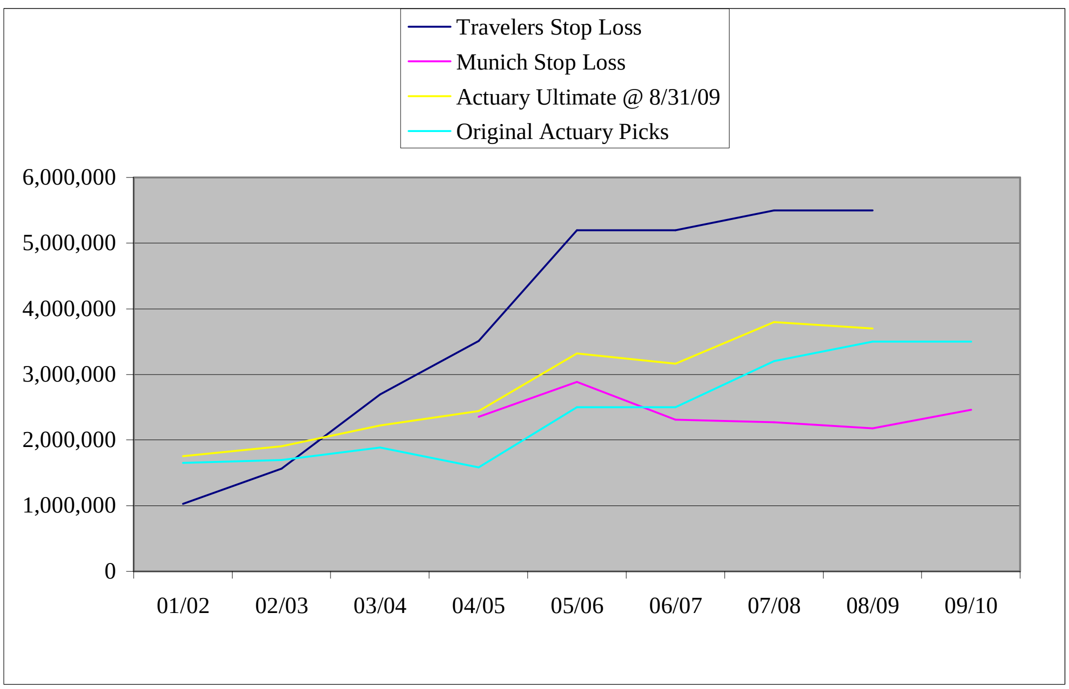
<u>Member Receivable</u>

There were many outstanding receivables billed to the City of Yakima. CIAW received payment of $154k from these billings at 11/19/09. There is still a large outstanding amount to the City of Federal Way in the amount of about $195,900 as of 8/31/09. As of 9/1/08, the City of Federal Way was not a member of CIAW. This brings into questions the collectability of this receivable. We recommend for reporting purposes that an allowance for doubtful accounts be established for $195,900 for this account.

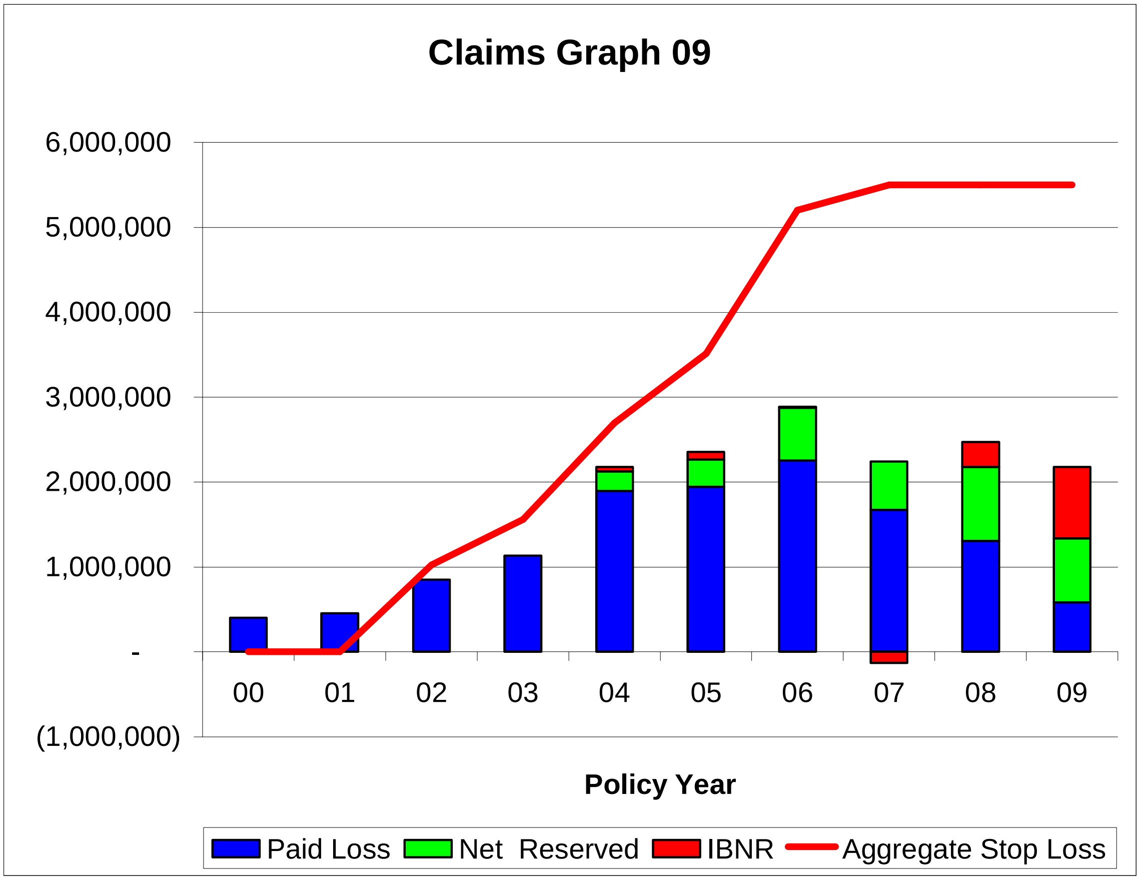
Also, upon review of the preliminary trial balance as of August 31, 2009, we noted that $3,167,000 was recorded as a member receivable. Upon review with the CIAW accountant, it was noted that this amount is part of the CIAW plan proposed by Jim Cherf to increase equity over the next five years. This is a plan or goal of the organization. As a plan this is not a recordable asset. A recordable asset would be when the board takes specific action to fix an assessment against the members. At that date the receivable would be recordable and assessment notices should be sent to members. Further, the assessment should be recorded at the net realizable value; net of estimated uncollectable amounts.

Excess and Stop Loss

Based on review of the insurance contracts for the 2002 through the 2009 policy years and the loss runs as of August 31, 2008 and August 31, 2009, there should be stop loss receivable of $1,277,963 and $481,422.44 respectively. This results in an adjustment of the audited figure for August 31, 2008 of $ 4,774,849. The stop loss receivables, as adjusted, the billed portion of $279,383.87 and 481,422.44 have been collected through the date of our fieldwork (12/16/09). The following graph breaks down the stop losses per year.



The following graph shows the claims liability amount compared to the aggregate stop loss amount:



The following adjusted financials show the effect of the adjustments, as stated above, to the receivables and the booking of an allowance for doubtful accounts.

	08/31/09	Adjustments	08/31/09 as adjusted
Assets:			
Current Assets:			
Cash and equivalents	$ 1,272,530	$ -	$ 1,272,530
Investments	-	-	-
Receivables	4,163,348	(3,176,000)	987,348
Less: Allowance for doubtful accounts		(195,900)	(195,900)
Prepaid expenses	-	-	-
Total Current Assets	5,435,878	(3,371,900)	2,063,978
Noncurrent Assets:			
Equipment Purchased (Net)	217,042	-	217,042
Records Purchased (Net)	50,000	-	50,000
Total Noncurrent Assets	267,042	-	267,042
Total Assets	$ 5,702,920	$ (3,371,900)	$ 2,331,020
Liabilities			
Current Liabilities			
Accounts payable	$ -	$ -	$ -
Deferred revenue	789,640	-	789,640
Unpaid Claims Liability	4,589,998	-	4,589,998
Total Current Liablities	5,379,638	-	5,379,638
Total Liabilities	5,379,638	-	5,379,638
Net Assets			
Invested in capital assets net of related debt	267,042	-	267,042
Unrestricted	56,240	-	(3,315,660)
Total Net Assets	323,282		(3,048,618)
Total Net Assets and Liabilities	$ 5,702,920	$ -	$ 2,331,020

This is the effect of the adjustments to the Net Assets as of 8/31/09:

	08/31/09	Adjustments	08/31/09 as adjusted
Operating Revenues:			
Member assessments	$ 5,147,122	$ (3,176,000)	$ 1,971,122
Allowance for doubtful accounts	-	(195,900)	(195,900)
Excess insurance and service fees	3,701,764	-	3,701,764
Total Operating Revenues	8,848,886	(3,371,900)	5,476,986
Operating Expenses:			
Claims Expense	3,331,699	-	3,331,699
General and administrative fees	1,334,186	-	1,334,186
Excess insurance premiums	4,529,959	-	4,529,959
Total Operating Expenses	9,195,844	-	9,195,844
Operating Income (Loss)			
Nonoperating Revenues (Expenses)			
Interest income	88,556	-	88,556
Miscellaneous income	-	-	-
Total Nonoperating Revenues	88,556	-	88,556
Income Before Contributions, Transfers, Special, and Extraordinary Items	(258,402)	(3,371,900)	(3,630,302)
Capitol Contributions	-		
Transfers In (Out)	-		
Special Items	-		
Extraordinary Items	-		
Net Assets, Beginning	581,684		581,684
Net Assets, End	$ 323,282	$ (3,371,900)	$ (3,048,618)

For the year ending 8/31/08, we felt that an adjustment was needed (as stated above) based on the review of the stop loss amount that CIAW had booked. The following balance sheet shows the result of the adjustment.

	08/31/08	Adjustments	08/31/08 as adjusted
Assets:			
Current Assets:			
Cash and equivalents	$ 832,482	$ -	$ 832,482
Investments	-	-	-
Receivables	7,001,296	(4,774,849)	2,226,447
Prepaid expenses	-	-	-
Total Current Assets	7,833,778	(4,774,849)	3,058,929
Noncurrent Assets:			
Equipment Purchased (Net)	109,528	-	109,528
Records Purchased (Net)	62,500	-	62,500
Total Noncurrent Assets	172,028	-	172,028
Total Assets	$ 8,005,806	$ (4,774,849)	$ 3,230,957
Liabilities			
Current Liabilities			
Accounts payable	$ -	$ -	$ -
Deferred revenue	-	-	-
Unpaid Claims Liability	7,428,339	-	7,428,339
Total Current Liablities	7,428,339	-	7,428,339
Total Liabilities	7,428,339	-	7,428,339
Net Assets			
Invested in capital assets net of related debt	172,028	-	172,028
Unrestriced	405,439	-	(4,369,410)
Total Net Assets	577,467		(4,197,382)
Total Net Assets and Liabilities	$ 8,005,806	$ -	$ 3,230,957

The following shows the effect of the adjustment to Net Assets:

	08/31/08	Adjustment	08/31/08 as adjusted
Operating Revenues:			
Member assessments	$ 4,740,715	$ -	$ 4,740,715
Excess insurance and service fees	4,579,976	-	4,579,976
Total Operating Revenues	9,320,691	-	9,320,691
Operating Expenses:			
Claims Expense	3,743,385	4,774,849	8,518,234
General and administrative fees	1,094,380	-	1,094,380
Excess insurance premiums	4,590,124	-	4,590,124
Total Operating Expenses	9,427,889	4,774,849	14,202,738
Operating Income (Loss)			
Nonoperating Revenues (Expenses)			
Interest income	120,879	-	120,879
Miscellaneous income	-	-	-
Total Nonoperating Revenues (E	120,879	-	120,879
Income Before Contributions, Transfers, Special, and Extraordinary Items	13,681	(4,774,849)	(4,761,168)
Capitol Contributions	-	-	-
Transfers In (Out)	-	-	-
Special Items	-	-	-
Extraordinary Items	-	-	-
Net Assets, Beginning	563,786	-	563,786
Net Assets, End	$ 577,467	$ (4,774,849)	$ (4,197,382)

4. VALUATION OF CLAIM LIABILITIES

Objective:

Claim liabilities recorded are only a little larger then the accounts receivable. We reviewed the basis for valuation of the liability; claim reconciliation, and actuary. Also, Risk Management Dept at State of Washington is conducting as separate claims audit. We will review this if available.

Background:

The balance of the unpaid claims liability increased from $4,864,482 in 2007 to $7,428,339 as of August 31, 2008. This is an increase of $2,563,857 or 52.7%. Industry standards express concern of claim liability changes of 20% or more. In addition, per review of the claim liability reconciliation, the claim liability from 2006 to 2007 increased from $2,475,194 to $4,864,482; $2,389,288 or 96.5%. The total two year increase is $4,953,145 or 200%. The questions to review are: What are the principle conditions causing the recorded claims to increase? Are they re-evaluation of prior estimates, claims development, restructure of program coverage, changes in covered exposures during the past year? If the claim liabilities are understated or continue to develop by only 6%, CIAW would be in a deficit position.

Procedures:

1. Reviewed prior year audited financials for claims liability totals.
2. Tied out the audited totals of claims liability to the actuary reports which tied out in total to the loss runs.
3. Created claims reconciliation for the 08/09 year to tie out recorded amounts.

Results

Though the claims liabilities do match the reconciliation in conjunction with the actuary report and the loss runs. The recorded claims appear in agreement with the loss runs and the actuary valuation. Upon review of the preliminary claims audit, there were no significant concerns over the claims payments and reserve valuations. However, there had been no provision for Unallocated Loss Adjustment Expenses (ULAE).

> *In accordance with Governmental Accounting Standards Board Statement No. 10 and accrual accounting, the accrual of claim liabilities should include ULAE. The member contribution collected for a policy year should be matched to the incurred expenses related to the coverage granted under the agreement. The incurred claim expense should also include the related allocated and unallocated claim adjustment expense to ultimately settle the projected claims.*

We discussed with CIAW management team this liability and methods to estimate the amount. Preliminarily we estimate the ULAE would range from 5% to 10% of outstanding claims. Based on this range the additional claim related liability for ULAE should be:

i. 2008 policy year: $371,417 - $742,834
ii. 2009 policy year: $225,818 - $451,636

Response by CIAW: '*As a result of the CIAW pool contractual relationship with Canfield & Associates, We have always considered the cost of the claims handling throughout the claims development cycle to be included in our claims handling fee. ULAE is more of an integral financial issue to executive director structured programs. Should Mr. Marta believe he must include an estimated fee for a service we anticipate performing at no additional cost then the 5% of total outstanding loss reserves from exhibit 1-1b is agreeable to Canfield & Associates.*'

Upon review of the administrative contract; as of 8/31/09, there was no language in the contact about continuous costs relating to claims handling. The administrator indicated that they would begin the process of changing the language of the contract with the CIAW board to relieve the CIAW pool of any future liability for claims adjusting expense. However, based on the current contract, we believe a provision for ULAE should be recorded.

As of January 10, 2010, the language in the contract was changed to reflect the claims handling costs and relieving CIAW of any of these expenses. Based on this language, no provision would have to be recorded as of the date of the contract provision, January 10, 2010. The amendment refers to the properness of not recording the ULAE liability in the past; based on the contract as of August 31, 2008 and 2009 we disagree.

Reconciliation of Claims on the Financial Statements

While reviewing the audit report for the year ending 8/31/08, there was a difference of close to $3,113,495 between the recorded claims expense on the financials and the reconciled amount in the footnote.

The reconciliation of claims liability schedule in the audit report should agree beginning claims liability plus current year provision for claims and adjustment of prior year provision, less claims paid to the recorded claim liabilities. The current year provision and the change in prior years should equal the reported claims expense.

The following is from the financial audit report for year end 8/31/08 on page 10. The claims expense recorded on the financials totals $3,743,385 (as shown below by the sum of the amounts shaded).

OPERATING EXPENSES:	
Claims Paid on Current Losses	$1,529,860
General and Administrative Fees	$1,094,379
Established Claims Reserves	$2,563,856
Adjustment to Prior Years' Claims Reserves	($350,331)
Excess Insurance Premiums	$4,590,124
Total Operating Expenses	$9,427,888

Comparing this amount to the reconciliation on page 17 of the same report shows this difference.

INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:	
Provision for Insured Events of the Current Year	4,464,805
Increases in Provision for Insured Events of Prior Years	2,392,075
Total Insured Claims and Claim Adjustment Expenses	6,856,880

The reported claims expense shows an amount that is $3,113,495 less then the amount that is reconciled. The reconciliation is a very important part of tracking payments and this difference may indicate a material weakness in the accounting for claims.

There are also reported differences in the prior years claims as follows:
A. 2006/2007: expense on general ledger at $2,625,499 less then the reconciliation.
B. 2005/2006: expense on general ledger at $1,022,226 less then the reconciliation.
C. 2004/2005: expense on general ledger at $442,348 less then the reconciliation.
D. 2003/2004: expense on general ledger at $117,763 less then the reconciliation.

ULTIMATE ESTIMATION

The schedule below is the Claims Development Schedule from the August 31, 2008 Audit Report. Line 6 in the chart below shows the increase/(decrease) in estimated incurred claims and expense from the end of policy year. CIAW did not use an actuary to come up with their ultimate loss numbers until 2007. Prior to that, the administrator would predict what the ultimate loss should be for the year. While reviewing the chart below we notice the large differential between what has been estimated and the current estimate. Although differences are normal, all of the differences being higher by significant amounts is a concern. A review of the loss development triangle is an important process both the administrator and board should go through in assessing its basis for funding the program. In addition, if the program exhibits volatility, the pool needs more equity to provide for these variances.

TEN YEAR CLAIMS DEVELOPMENT INFORMATION
Fiscal and Policy Year Ended August 31

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1.	Net earned required contribution and investment revenues	1,313,530	1,406,520	1,579,635	1,768,430	2,275,660	4,364,239	5,388,348	3,554,174	3,781,532	4,861,593
2.	Unallocated expenses	291,486	303,460	346,607	446,961	511,829	1,023,528	1,320,739	1,064,895	1,370,326	1,094,379
3.	Estimated incurred claims and expense, end of policy year	726,476	834,502	930,990	1,361,826	1,886,303	3,742,416	3,721,737	2,873,177	3,070,039	4,464,805
4.	Paid (cumulative) as of:										
	End of Policy Year	542,653	639,749	754,441	987,486	1,061,269	1,960,115	2,705,213	1,890,138	1,776,874	1,900,949
	One year later	840,408	890,856	1,038,469	1,424,419	1,588,084	2,550,300	3,614,551	2,568,052	2,604,627	
	Two years later	1,102,405	1,217,353	1,239,416	1,944,806	2,095,794	3,173,927	4,045,699	3,288,453		
	Three years later	1,188,859	1,509,312	1,290,171	2,123,861	2,423,193	3,647,011	4,626,289			
	Four years later	1,445,529	1,422,194	1,444,446	1,879,947	2,433,666	4,115,153				
	Five years later	1,204,133	1,305,106	1,540,002	1,889,668	2,361,953					
	Six years later	1,244,908	1,321,520	1,498,286	1,884,796						
	Seven years later	949,412	1,117,811	1,510,521							
	Eight years later	996,297	1,035,683								
	Nine years later	937,963									
5.	Reestimated incurred claims and expense:										
	End of Policy Year	726,476	834,502	930,990	1,361,826	1,886,303	3,742,416	3,721,737	2,873,177	3,070,039	4,464,805
	One year later	845,206	911,584	1,043,111	1,443,441	1,986,113	3,755,071	4,394,916	3,542,677	4,408,916	
	Two years later	1,106,858	1,217,353	1,239,416	1,944,806	2,096,156	3,885,716	4,387,625	4,899,606		
	Three years later	1,188,859	1,509,312	1,290,171	2,123,861	2,423,193	4,833,604	5,526,346			
	Four years later	1,445,529	1,422,194	1,444,446	1,879,947	2,751,351	4,664,137				
	Five years later	1,204,133	1,305,106	1,540,002	2,159,466	2,361,953					
	Six years later	1,244,908	1,321,520	1,880,432	1,884,796						
	Seven years later	949,412	1,153,489	1,510,521							
	Eight years later	1,017,037	1,035,683								
	Nine years later	937,963									
6.	Increase (decrease) in estimated incurred claims and expense from end of policy year	211,487	201,181	579,531	522,970	475,650	921,721	1,804,609	2,026,429	1,338,877	0

5. COVERAGE AS IT RELATES TO RESTRUCTURE OF EXCESS, REINSURANCE AND STOP LOSS:

Objective:

To review CIAW program coverage and how it relates to the state of Washington's regulatory requirements. As well as to evaluate the insurance contracts related to the receivables and the potential liquidity problems based on the contract language.

Background:

The pool states that it is changing its business practices, where reinsurance receivables will be recovered more quickly, but again, no specifics were given. The OFM wants to have evaluated the validity of the recorded receivable as of August 31, 2008 and whether it be collected in a reasonable amount of time to meet our requirements, or whether the pool will need to reassess members in order to continue operating.

Procedure:

1. Reviewed insurance policies as provided by administrator
2. Reviewed coverage amounts as reported
3. Reviewed the collections (discussed under section 3. Valuation and Collectability of receivables)

Concerns:

1. Why weren't recoveries made more timely?
    a. was it a function of the contract? no
    b. was it a function of administration? Yes, was requested to be conducted by this but based on our review and CIAW's subsequent activity (this past year) they can collect in accordance with provision number 22, with in 30 days of submitting proof. CIAW has clarified this with the excess carrier and collections for excess claims have improved.

2. Note Munich is to cover aggregate stop from 2004-2009 (past) if presented this year if exceeds $12,000,000 aggregate for total period.

Results:

A. We reviewed insurance policies as provided by administrator for the 2002-03 policy year through the 2008-2009 policy year.

   We noted that the aggregate receivables recorded as of August 31, 2008 were not valid after comparing the loss run, claims summary and the insurance policy. This resulted in a recommended adjustment to the August 31, 2008 receivables and net equity of $4,197,386 for stop loss receivables. This difference was principally due to the administrator recording stop loss receivable based on an expectation that the carrier would modify the contract for the 2008 and prior policy years.

The 2009-10 Binder for coverage from Munich Re provides for an aggregate coverage in addition to the Traveler St. Paul for the 2002-2009 for $12 million dollars in aggregate for the seven year period. The actuary used this amount to limit CIAW's retained ultimate loses.

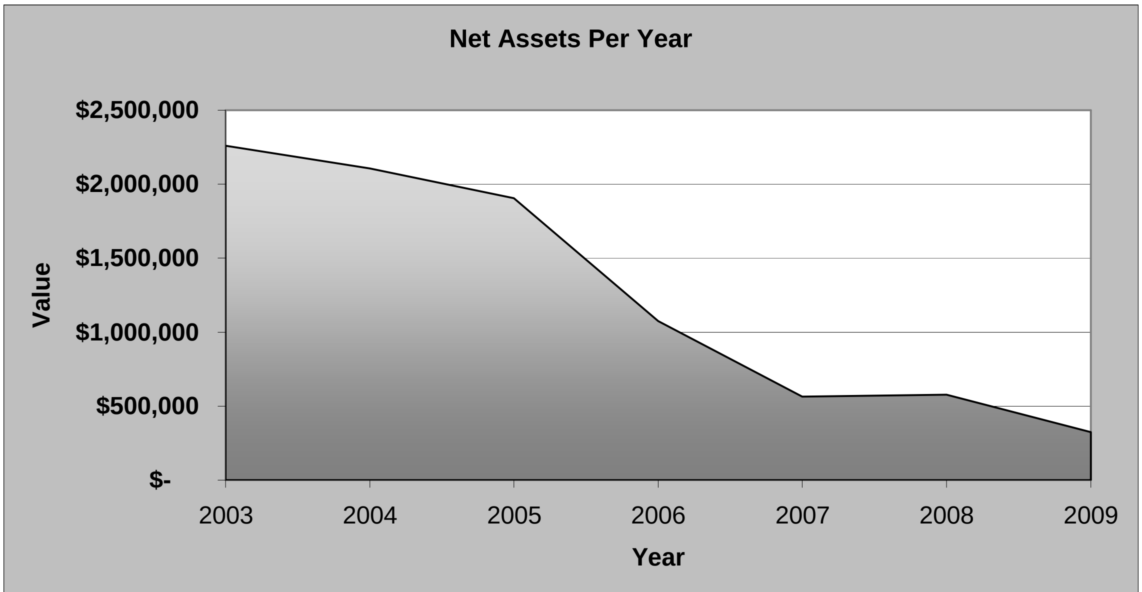
B. Reviewed coverage amounts as reported. We used this information to evaluate to evaluate stop loss and excess receivables. We compared this to the loss runs as of August 31, 2008 and August 31, 2009 to arrive at the adjusted receivable valuations.

C. As discussed under section 3. Valuation and Collectability of Receivables, the receivables after our suggested adjustment appear to be collectable as we reviewed documentation of collection of a majority of the excess balances.

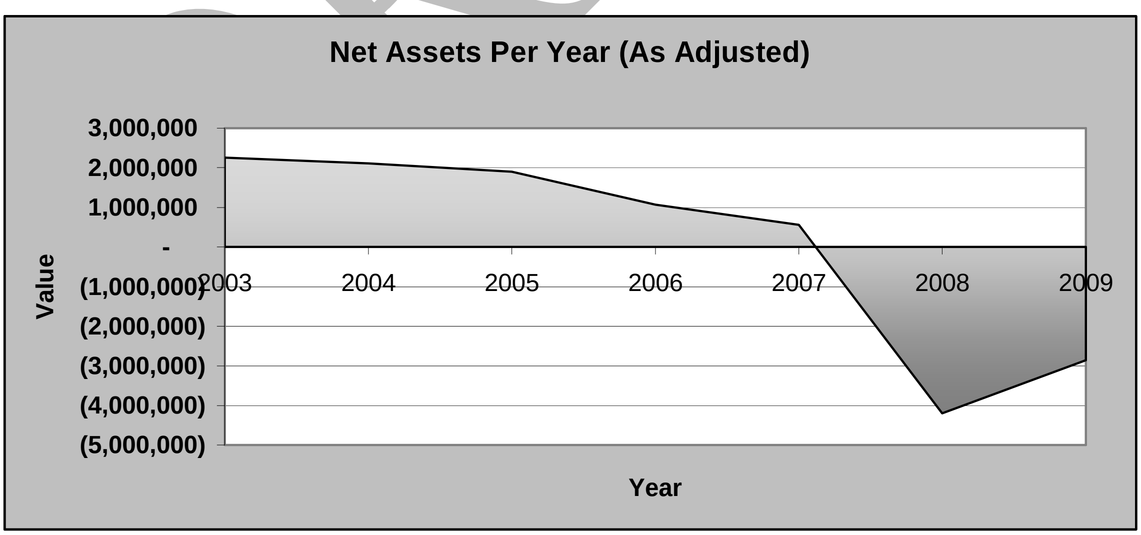
APPENDIX

GRAPH OF NET ASSETS
AS REPORTED
AND AS ADJUSTED

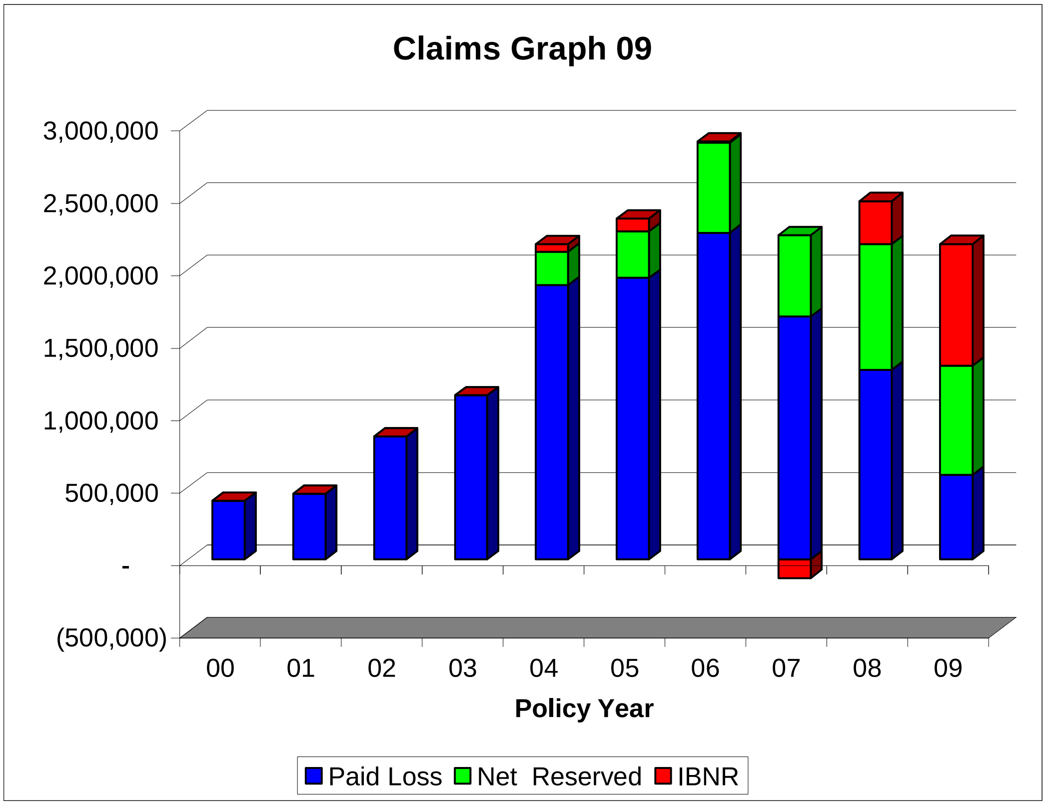
NET ASSETS PER YEAR AS REPORTED

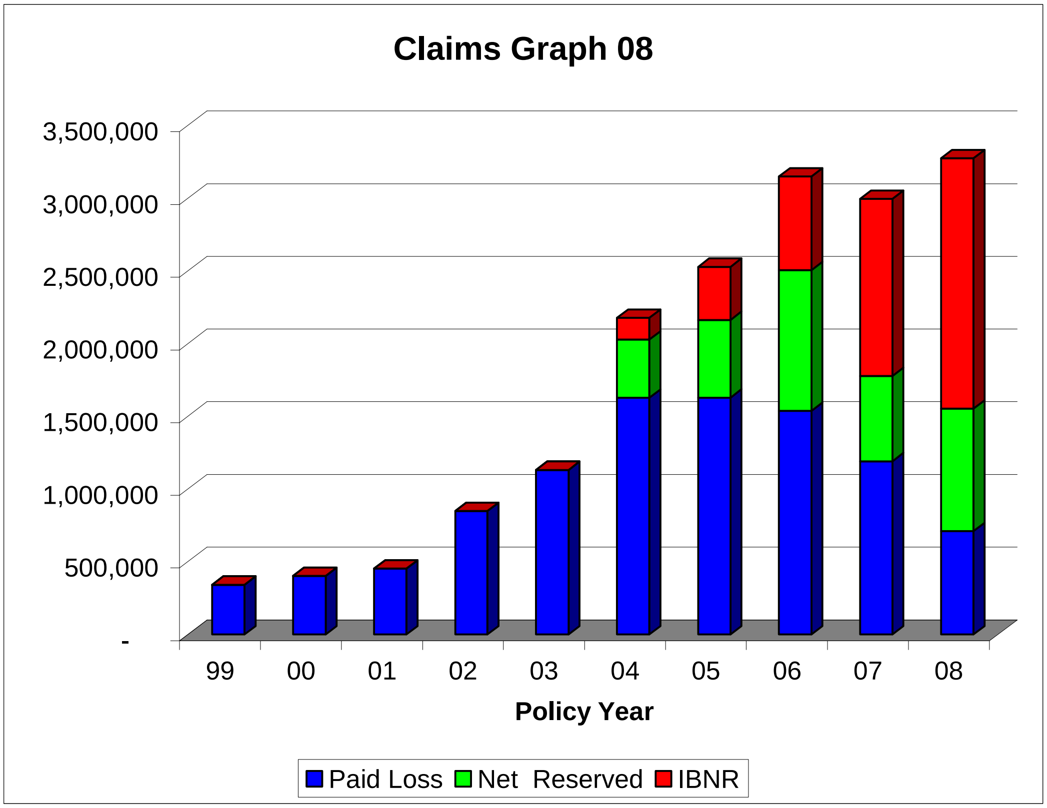


NET ASSETS PER YEAR AS ADJUSTED



CLAIMS GRAPHS


Claims Graph 09
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
(500,000)
00
01
02
03
04
05
06
07
08
09
Policy Year
Paid Loss
Net Reserved
IBNR


Claims Graph 08
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
99
00
01
02
03
04
05
06
07
08
Policy Year
Paid Loss
Net Reserved
IBNR

ANALYSIS FOR DEVELOPMENT OF EQUITY TARGETS

These were prepared to review the financial condition and indicators based on industry applicable benchmarks

IRIS Tests - Insurance Regulatory Information Systems
CIAW

	IRIS Ratios	Over	Under	AM Best Results	08-09	07-08	06-07	05-06	04-05	03-04	02-03
1	Gross Premiums to Surplus	900		174	2,415.95	1,614.06	1,539.78	961.16	733.08	541.76	252.27
2	Net Premiums to Surplus	300		29	1,250.42	819.19	776.24	306.30	236.11	217.79	107.01
3	Change in Net Writings	33	-33	-2	-3.19	8.09	32.75	-32.15	5.90	89.68	n/a
6	Investment Yield	10	3	4	9.10	12.15	9.80	5.25	2.52	3.49	n/a
7	Change in Surplus	50	-10	-23	-36.57	2.43	-47.62	-49.46	1.08	-6.80	n/a
8	Liabilities to Liquid Assets	105		71	422.75	892.31	420.59	206.34	210.40	159.76	61.84

These ratios are based on the information that we received. There are some IRIS ratios that we were not able to complete based on incomplete information.

Analysis for development of equity target

CIAW

Data as of: 31-Aug-09

Yellow = Input

	08/31/09	08/31/08	08/31/07
1 Gross Contributions	8,848,886	9,320,691	8,681,067
2 Less insurance / reinsurance premiums	4,008,021	4,590,124	4,304,736
3 Net Contributions	4,840,865	4,730,567	4,376,331
4 Net Assets (Equity)	366,269	577,467	563,785
5 Invested in building and equipment or other	267,042	172,028	75,000
6 Net available to fund claims	99,227	405,439	488,785
7 Claim Liabilities (outstanding claims; reserved and IBNR)	4,516,358	7,428,339	4,864,483
8 Self-Insured Retention - (pooled portion of each claim) *	100,000	100,000	100,000
9 Claim funding (6+7)	4,615,585	7,833,778	5,353,268

Date of Actuary Study

Confidence Level Factors	Required Margin	Total		Required Margin	Total		Required Margin	Total	
Expected	-	4,516,358	met	-	7,428,339	Not Met	-	4,864,483	Not Met
70%	406,472	4,922,830	Not Met	668,551	8,096,890	Not Met	437,803	5,302,286	Not Met
75%		-			-			-	
80%	722,617	5,238,975	Not Met	1,188,534	8,616,873	Not Met	778,317	5,642,800	Not Met
85%		-			-			-	
90%	1,309,744	5,826,102	Not Met	2,154,218	9,582,557	Not Met	1,410,700	6,275,183	Not Met
95%	-	-		-	-		-	-	

		Workers' Compensation			Workers' Compensation			Workers' Compensation		
Equity Target Formulas		**Factor**	**Calculated**		**Factor**	**Calculated**		**Factor**	**Calculated**	
Current balance no provision			99,227			405,439			488,785	
Contributions to equity	less than 3:1	3.0	89.18	NotMet	3.0	22.99	NotMet	3.0	17.76	NotMet
Equity to SIR		4	400,000	NotMet	4	400,000	NotMet	4	400,000	NotMet
Equity to SIR		5	500,000	NotMet	5	500,000	NotMet	5	500,000	NotMet
Equity to SIR		6	600,000	NotMet	6	600,000	NotMet	6	600,000	NotMet
Equity to SIR		7	700,000	NotMet	7	700,000	NotMet	7	700,000	NotMet
Equity to SIR		10	1,000,000	NotMet	10	1,000,000	NotMet	10	1,000,000	NotMet
Loss reserves to equity	less than 4:1	4	46	NotMet	4	18	NotMet	4	10	NotMet
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.25	2,131,095	NotMet	0.25	3,004,616	NotMet	0.25	2,292,305	NotMet
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.50	4,262,190	NotMet	0.50	6,009,232	NotMet	0.50	4,584,610	NotMet

Analysis for development of equity target

CIAW

Data as of: 31-Aug-09

Yellow = Input

	08/31/06	08/31/05	08/31/04
1 Gross Contributions	10,344,990	15,610,272	11,413,416
2 Less insurance / reinsurance premiums	7,048,270	10,582,465	6,825,088
3 Net Contributions	3,296,720	5,027,807	4,588,328
4 Net Assets (Equity)	1,076,304	2,129,399	2,106,736
5 Invested in building and equipment or other	87,500	100,000	112,500
6 Net available to fund claims	988,804	2,029,399	1,994,236
7 Claim Liabilities (outstanding claims; reserved and IBNR)	2,475,193	2,221,657	2,180,330
8 Self-Insured Retention - (pooled portion of each claim) *	100,000	100,000	100,000
9 Claim funding (6+7)	3,463,997	4,251,056	4,174,566

Date of Actuary Study

Confidence Level Factors	Required Margin	Total		Required Margin	Total		Required Margin	Total	
Expected	-	2,475,193	met	-	2,221,657	met	-	2,180,330	met
70%	222,767	2,697,960	met	199,949	2,421,606	met	196,230	2,376,560	met
75%		-			-			-	
80%	396,031	2,871,224	met	355,465	2,577,122	met	348,853	2,529,183	met
85%		-			-			-	
90%	717,806	3,192,999	met	644,281	2,865,938	met	632,296	2,812,626	met
95%	-	-		-	-		-	-	

Equity Target Formulas		**Factor**	**Workers' Compensation Calculated**		**Factor**	**Workers' Compensation Calculated**		**Factor**	**Workers' Compensation Calculated**	
Current balance no provision			988,804			2,029,399			1,994,236	
Contributions to equity	less than 3:1	3.0	10.46	NotMet	3.0	7.69	NotMet	3.0	5.72	NotMet
Equity to SIR		4	400,000	NotMet	4	400,000	NotMet	4	400,000	NotMet
Equity to SIR		5	500,000	NotMet	5	500,000	NotMet	5	500,000	NotMet
Equity to SIR		6	600,000	NotMet	6	600,000	NotMet	6	600,000	NotMet
Equity to SIR		7	700,000	NotMet	7	700,000	NotMet	7	700,000	NotMet
Equity to SIR		10	1,000,000	NotMet	10	1,000,000	NotMet	10	1,000,000	NotMet
Loss reserves to equity	less than 4:1	4	3	Met	4	1	Met	4	1	Met
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.25	2,380,866	NotMet	0.25	3,201,031	NotMet	0.25	2,251,355	NotMet
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.50	4,761,732	NotMet	0.50	6,402,061	NotMet	0.50	4,502,709	NotMet

Analysis for development of equity target

CIAW

Data as of: 31-Aug-09

Yellow = Input

		08/31/03
1	Gross Contributions	5,702,520
2	Less insurance / reinsurance premiums	3,283,536
3	Net Contributions	2,418,984
4	Net Assets (Equity)	2,260,505
5	Invested in building and equipment or other	125,000
6	Net available to fund claims	2,135,505
7	Claim Liabilities (outstanding claims; reserved and IBNR)	921,666
8	Self-Insured Retention - (pooled portion of each claim) *	100,000
9	Claim funding (6+7)	3,057,171

Date of Actuary Study

Confidence Level Factors	Required Margin	Total	
Expected	-	921,666	met
70%	82,950	1,004,616	met
75%		-	
80%	147,467	1,069,133	met
85%		-	
90%	267,283	1,188,949	met
95%	-	-	

Equity Target Formulas		**Factor**	**Workers' Compensation Calculated**	
Current balance no provision			2,135,505	
Contributions to equity	less than 3:1	3.0	2.67	Met
Equity to SIR		4	400,000	NotMet
Equity to SIR		5	500,000	NotMet
Equity to SIR		6	600,000	NotMet
Equity to SIR		7	700,000	NotMet
Equity to SIR		10	1,000,000	NotMet
Loss reserves to equity	less than 4:1	4	0	Met
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.25	1,051,301	NotMet
Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.50	2,102,601	NotMet

TAX CALCULATIONS 2004-2009

The following are worksheets used to project the tax by fiscal year for the Tribal Nations Insurance Program

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2004

	F/S	Adj		Adj	Form 1120PC
Contribution Revenue	4,065,380		4,065,380	(1,830,681)	2,234,699
80% discount unearned premiums cy			-		-
80% unearned prem prior yr			-		-
Interest	8,100		8,100	-	8,100
Dividend		-	-		-
Dividend deduction			-		-
ST cap gain (loss)			-		-
LT cap gain (loss)		0	-		-
Change in market value			-		-
Net other investment income			-		-
Other Income	0		-		-
Special loss credit adj			-	-	-
Loss Cont'l adj			-		-
Investment fees (move to expense)			-		-
Total Revenues	4,073,480	-	4,073,480	(1,830,681)	2,242,799
					-
					-
Expenses:					-
Excess Ins / Brokerage	2,455,022		2,455,022	(2,455,022)	-
			-		-
Administration	299,883		299,883		299,883
Consultants/Professional			-		-
Interest			-		-
Legal	0		-		-
Contract	0		-		-
Other	0		-		-
Claims	1,313,360	-	1,313,360	(72,163)	1,241,197
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
Claims handling	0	-	-		-
State WC assessment			-		-
Actuary			-	-	-
ULAE		-	-		-
taxes			-	-	-
deferred taxes			-		-
Amortization			-	-	-
Tax penalty N/A				-	-
Special loss adj.				-	-
	0				-
Total Expenses	4,068,265	-	4,068,265	(2,527,185)	1,541,080
Excess Rev/(exp)	5,215		5,215		701,718
50% M&E					-
Tax benefit of special loss adjust (form 8816)					-
Dividends Received Deduction					-
Income Taxes	0		-	-	-
Deferred Taxes (net)	0		-	-	-
Net	5,215		5,215		701,718
					-
Beg RE	0		-		-
Adj				-	-
End RE	5,215		5,215	(8,715,732)	701,718

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
1,241,197	1,313,360	(72,163)
-	-	-
1,241,197	1,313,360	(72,163)

Adjust to zero
adjust for state tax

-

zero out to calc tax

-

Tax calculation		**Alt min**
alt min taxable		with spec deduction
70,172		701,718
	-	-
exemption AMT		
taxable		701,718
tax		**238,584**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses 26CFR 601.201
38,230.00

Year	Case Reserve	IBNR	Total (Per client Financials 2200)	Discount	Discounted	Discounted	Total Discounted	Section 847 diff	Section 847 diff
	0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
	0.00		0.00	1.00	0.00		0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
04	0.00	0.00 ✓	627,491.00	0.884998	555,328.28	0.00	555,328.28	72,162.72	0.00
05	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
06	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
07	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
08	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	627,491.00		555,328.28	0.00	555,328.28	72,162.72	0.00
	0.00					0.00	0.00	0.00	0.00

				1.00	0.00			
				1.00	0.00	0.00	claims paid	685,869.00
				1.00	0.00	0.00	Discounted unpaid cy	555,328.28
				1.00	0.00	0.00	Less Discounted unpaid py	0.00
	0.00			1.00	0.00	0.00	Plus Estimated recoverable py	0.00
				1.00	0.00	0.00	Less Estimated recoverable cy	0.00
				1.00	0.00	0.00	sub total	1,241,197.28
				1.00	0.00	0.00	Dividend received deduction	0.00
				1.00	0.00	0.00	Reduciton of div received sec 832b	0.00
				0.95	0.00	0.00		
				0.97	0.00	0.00		
Claims handling		0.00	0.00		0.00		Calculated claims expense	1,241,197.28
	0.00						per f/s	1,313,360.00
TOTAL	0.00	0.00	**627,491.00**		555,328.28		claims adjustment	-72,162.72

TNIP
Calculation of Net Premiums Earned
August 31, 2004

Premiums liab			4,065,380
Premiums loss control adj			-
Premiums pd			-
plus current deferred			-
less prior deferred			-
		-	
Equals gross premiums written			4,065,380
Less reinsurance/ Excess insurance		-	(2,455,022)
Equals net premiums written			**1,610,358**
Prior year unearned premiums	-		-
add: unearned premiums 20%			624,341
Subtotal (C)			2,234,699
adjustment			NA
NetPremiums Earned			2,234,699
Adjustment			1,830,681

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2005

	F/S	Adj		Adj	Form 1120PC
Contribution Revenue	7,489,138		7,489,138	(5,838,523)	1,650,615
80% discount unearned premiums cy			-		-
80% unearned prem prior yr			-		-
Interest	17,420		17,420	-	17,420
Dividend		-	-		-
Dividend deduction			-		-
ST cap gain (loss)			-		-
LT cap gain (loss)		0	-		-
Change in market value			-		-
Net other investment income			-		-
Other Income	0		-		-
Special loss credit adj			-	-	-
Loss Cont'l adj			-		-
Investment fees (move to expense)			-		-
Total Revenues	7,506,558	-	7,506,558	(5,838,523)	1,668,035
					-
					-
Expenses:					-
Excess Ins / Brokerage	5,599,854		5,599,854	(5,599,854)	-
			-		-
Administration	361,321		361,321		361,321
Consultants/Professional			-		-
Interest			-		-
Legal	0		-		-
Contract	0		-		-
Other	0		-		-
Claims	1,521,804	-	1,521,804	(12,575)	1,509,229
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
Claims handling	0	-	-		-
State WC assessment			-		-
Actuary			-	-	-
ULAE		-	-		-
taxes			-	-	-
deferred taxes			-		-
Amortization			-	-	-
Tax penalty N/A				-	-
Special loss adj.				-	-
	0				-
Total Expenses	7,482,979	-	7,482,979	(5,612,429)	1,870,550
Excess Rev/(exp)	23,579		23,579		(202,515)
50% M&E					-
Tax benefit of special loss adjust (form 8816)					-
Dividends Received Deduction					-
Income Taxes	0		-	-	-
Deferred Taxes (net)	0		-	-	-
Net	23,579		23,579		(202,515)
					-
Beg RE	5,131		5,131		5,131
Adj				-	-
End RE	28,710		28,710	(22,901,904)	(197,384)

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
1,509,229	1,521,804	(12,575)
-	-	-
1,509,229	1,521,804	(12,575)

Adjust to zero
adjust for state tax

-

zero out to calc tax

-

Tax calculation		**Alt min**
alt min taxable		with spec deduction
(20,252)		(202,515)
	-	-
exemption AMT		
taxable		(202,515)
tax		**(30,377)**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses 26CFR 601.201
38,595.00

Per client Financials
2200

	Year	Case Reserve	IBNR	Total	Discount	Discounted	Discounted	Total Discounted	Section 847 diff	Section 847 diff
Contribution Revenue										
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00		0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	04	0.00	0.00	150,000	0.860000	129,000.00	0.00	129,000.00	21,000.00	0.00
	05	0.00	0.00	554,230	0.884998	490,492.44	0.00	490,492.44	63,737.56	0.00
	06	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	07	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	08	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	704,230.00		619,492.44	0.00	619,492.44	84,737.56	0.00
		0.00					0.00	0.00	0.00	0.00
					1.00	0.00				
					1.00	0.00	0.00	claims paid		1,445,065.00
					1.00	0.00	0.00	Discounted unpaid cy		619,492.44
					1.00	0.00	0.00	Less Discounted unpaid py		-555,328.28
		0.00			1.00	0.00	0.00	Plus Estimated recoverable py		0.00
					1.00	0.00	0.00	Less Estimated recoverable cy		0.00
					1.00	0.00	0.00	sub total		1,509,229.16
					1.00	0.00	0.00	Dividend received deduction		0.00
					1.00	0.00	0.00	Reduciton of div received sec 832b		0.00
					0.95	0.00	0.00			
					0.97	0.00	0.00			
Claims handling			0.00	0.00		0.00		Calculated claims expense		1,509,229.16
		0.00						per f/s		1,521,804.00
	TOTAL	0.00	0.00	**704,230.00**		619,492.44		claims adjustment		-12,574.84

Finish Line SIG
Calculation of Net Premiums Earned
August 31, 2005

Premiums liab			7,489,138
Premiums loss control adj			-
Premiums pd			-
plus current deferred			-
less prior deferred			-
		-	
Equals gross premiums written			7,489,138
Less reinsurance/ Excess insurance		-	(5,599,854)
Equals net premiums written			**1,889,284**
Prior year unearned premiums	-		(624,341)
Less unearned premiums 80%			385,672
Subtotal (C)			1,650,615
adjustment			NA
NetPremiums Earned			1,650,615
Adjustment			5,838,523

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2006

	F/S	Adj		Adj	Form 1120PC
Contribution Revenue	1,952,672		1,952,672	(2,181,618)	(228,946)
80% discount unearned premiums cy			-		-
80% unearned prem prior yr			-		-
Interest	17,348		17,348	-	17,348
Dividend		-	-		-
Dividend deduction			-		-
ST cap gain (loss)			-		-
LT cap gain (loss)		0	-		-
Change in market value			-		-
Net other investment income			-		-
Other Income	0		-		-
Special loss credit adj			-	-	-
Loss Cont'l adj			-		-
Investment fees (move to expense)			-		-
Total Revenues	1,970,020	-	1,970,020	(2,181,618)	(211,598)
					-
					-
Expenses:					-
Excess Ins / Brokerage	1,795,946		1,795,946	(1,795,946)	-
			-		-
Administration	1		1		1
Consultants/Professional			-		-
Interest			-		-
Legal	0		-		-
Contract	0		-		-
Other	0		-		-
Claims	101,769	-	101,769	26,054	127,823
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
Claims handling	0	-	-		-
State WC assessment			-		-
Actuary			-	-	-
ULAE		-	-		-
taxes			-	-	-
deferred taxes			-		-
Amortization			-	-	-
Tax penalty N/A				-	-
Special loss adj.				-	-
	0				-
Total Expenses	1,897,716	-	1,897,716	(1,769,892)	127,824
Excess Rev/(exp)	72,304		72,304		(339,421)
50% M&E					-
Tax benefit of special loss adjust (form 8816)					-
Dividends Received Deduction					-
Income Taxes	0		-	-	-
Deferred Taxes (net)	0		-	-	-
Net	72,304		72,304		(339,421)
					-
Beg RE	28,709		28,709		28,709
Adj				-	-
End RE	101,013		101,013	(7,903,019)	(310,712)

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
127,823	101,769	26,054
-	-	-
127,823	101,769	26,054

Adjust to zero
adjust for state tax
-

zero out to calc tax
-

Tax calculation		**Alt min**
alt min taxable		with spec deduction
(33,942)		(339,421)
	-	-
exemption AMT		
taxable		(339,421)
tax		**(50,913)**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses
38,960.00

26CFR 601.201

From F/S
2200

								Total		
Contribution Revenue	**Year**	**Case Reserve**	**IBNR**	**Total**	**Discount**	**Discounted**	**Discounted**	**Discounted**	**Section 847 diff**	**Section 847 diff**
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00		0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	04	0.00	0.00	100,000.00	0.835940	83,594.00	0.00	83,594.00	16,406.00	0.00
	05	0.00	0.00	292,798.00	0.855608	250,520.31	0.00	250,520.31	42,277.69	0.00
	06	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	07	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	08	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	392,798.00		334,114.31	0.00	334,114.31	58,683.69	0.00
		0.00					0.00	0.00	0.00	0.00
					1.00	0.00				
					1.00	0.00	0.00	claims paid		413,201.00
					1.00	0.00	0.00	Discounted unpaid cy		334,114.31
					1.00	0.00	0.00	Less Discounted unpaid py		-619,492.44
		0.00			1.00	0.00	0.00	Plus Estimated recoverable py		0.00
					1.00	0.00	0.00	Less Estimated recoverable cy		0.00
					1.00	0.00	0.00	sub total		127,822.87
					1.00	0.00	0.00	Dividend received deduction		0.00
					1.00	0.00	0.00	Reduciton of div received sec 832b		0.00
					0.95	0.00	0.00			
					0.97	0.00	0.00			
Claims handling			0.00	0.00		0.00		Calculated claims expense		127,822.87
		0.00						per f/s		101,769.00
	TOTAL	0.00	0.00	**392,798.00**		334,114.31		claims adjustment		26,053.87

TNIP
Calculation of Net Premiums Earned
August 31, 2006

Premiums liab			1,952,672
Premiums loss control adj			-
Premiums pd			-
plus current deferred			-
less prior deferred			-
		-	
Equals gross premiums written			1,952,672
Less reinsurance/ Excess insurance		-	(1,795,946)
Equals net premiums written			**156,726**
Prior year unearned premiums	-		(385,672)
Less unearned premiums 80%			-
Subtotal (C)			(228,946)
adjustment			NA
NetPremiums Earned			(228,946)
Adjustment			2,181,618

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2007

	F/S	Adj		Adj	Form 1120PC	
Contribution Revenue	0		-	778,410	778,410	
80% discount unearned premiums cy			-		-	
80% unearned prem prior yr			-		-	
Interest	3,120		3,120	-	3,120	
Dividend		-	-		-	
Dividend deduction			-		-	
ST cap gain (loss)			-		-	
LT cap gain (loss)		0	-		-	
Change in market value			-		-	
Net other investment income			-		-	
Other Income	0		-		-	
Special loss credit adj			-	-	-	
Loss Cont'l adj			-		-	
Investment fees (move to expense)			-		-	
Total Revenues	3,120	-	3,120	778,410	781,530	
					-	
					-	
Expenses:					-	
Excess Ins / Brokerage	(778,410)		(778,410)	778,410	-	
			-		-	
Administration	685,337		685,337		685,337	
Consultants/Professional			-		-	
Interest			-		-	
Legal	0		-		-	
Contract	0		-		-	
Other	0		-		-	
Claims	(13,509)	-	(13,509)	18,222	4,713	
			-	-	-	
			-	-	-	
			-	-	-	
			-	-	-	
			-	-	-	
Claims handling	0	-	-		-	
State WC assessment			-		-	
Actuary			-	-	-	
ULAE		-	-		-	
taxes			-	-	-	Adjust to zero
deferred taxes			-		-	adjust for state tax
Amortization			-	-	-	
Tax penalty N/A				-	-	-
Special loss adj.				-	-	
	0				-	
Total Expenses	(106,582)	-	(106,582)	796,632	690,050	
Excess Rev/(exp)	109,702		109,702		91,480	zero out to calc tax
50% M&E					-	
Tax benefit of special loss adjust (form 8816)					-	-
Dividends Received Deduction					-	
Income Taxes	0		-	2,086	2,086	
Deferred Taxes (net)	0		-	-	-	
Net	109,702		109,702		93,566	
					-	
Beg RE	101,014		101,014		101,014	
Adj				-	-	
End RE	210,716		210,716	3,152,169	194,580	

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
4,713	(13,509)	18,222
-	-	-
4,713	(13,509)	18,222

Tax calculation		**Alt min**
alt min taxable		with spec deduction
9,357		93,566
	-	-
exemption AMT		
taxable		93,566
tax		**20,063**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses 26CFR 601.201
39,325.00

	Year	Case Reserve	IBNR	Total	Discount	Discounted	Discounted	Total Discounted	Section 847 diff	Section 847 diff
Contribution Revenue										
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00		0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	04	0.00	0.00	80,000.00	0.855608	68,448.64	0.00	68,448.64	11,551.36	0.00
	05	0.00	0.00	173,689.00	0.833549	144,778.29	0.00	144,778.29	28,910.71	0.00
	06	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
	07	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
	08	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
		0.00	0.00	253,689.00		213,226.93	0.00	213,226.93	40,462.07	0.00
		0.00					0.00	0.00	0.00	0.00
					1.00	0.00				
					1.00	0.00	0.00	claims paid		125,600.00
					1.00	0.00	0.00	Discounted unpaid cy		213,226.93
					1.00	0.00	0.00	Less Discounted unpaid py		-334,114.31
		0.00			1.00	0.00	0.00	Plus Estimated recoverable py		0.00
					1.00	0.00	0.00	Less Estimated recoverable cy		0.00
					1.00	0.00	0.00	sub total		4,712.62
					1.00	0.00	0.00	Dividend received deduction		0.00
					1.00	0.00	0.00	Reduciton of div received sec 832b		0.00
					0.95	0.00	0.00			
					0.97	0.00	0.00			
Claims handling			0.00	0.00		0.00		Calculated claims expense		4,712.62
		0.00						per f/s		-13,509.00
	TOTAL	0.00	0.00	**253,689.00**		213,226.93		claims adjustment		18,221.62

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2008

	F/S	**Adj**		**Adj**	**Form 1120PC**
Contribution Revenue	0		-	-	-
80% discount unearned premiums cy			-		-
80% unearned prem prior yr			-		-
Interest	291		291	-	291
Dividend		-	-		-
Dividend deduction			-		-
ST cap gain (loss)			-		-
LT cap gain (loss)		0	-		-
Change in market value			-		-
Net other investment income			-		-
Other Income	0		-		-
Special loss credit adj			-	-	-
Loss Cont'l adj			-		-
Investment fees (move to expense)			-		-
Total Revenues	291	-	291	-	291
					-
					-
Expenses:					-
Excess Ins / Brokerage	0		-	-	-
			-		-
Administration	200		200		200
Consultants/Professional			-		-
Interest			-		-
Legal	0		-		-
Contract	0		-		-
Other	0		-		-
Claims	(5,719)	-	(5,719)	21,470	15,751
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
Claims handling	0	-	-		-
State WC assessment			-		-
Actuary			-	-	-
ULAE		-	-		-
taxes			-	-	-
deferred taxes			-		-
Amortization			-	-	-
Tax penalty N/A				-	-
Special loss adj.				-	-
	0				-
Total Expenses	(5,519)	-	(5,519)	21,470	15,951
Excess Rev/(exp)	5,810		5,810		(15,660)
50% M&E					-
Tax benefit of special loss adjust (form 8816)					-
Dividends Received Deduction					-
Income Taxes	0		-	-	-
Deferred Taxes (net)	0		-	-	-
Net	5,810		5,810		(15,660)
					-
Beg RE	210,716		210,716		210,716
Adj				-	-
End RE	216,526		216,526	42,940	195,056

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
15,751	(5,719)	21,470
-	-	-
15,751	(5,719)	21,470

Adjust to zero
adjust for state tax

-

zero out to calc tax

-

Tax calculation		**Alt min**
alt min taxable		with spec deduction
(1,566)		(15,660)
	-	-
exemption AMT		
taxable		(15,660)
tax		**(2,349)**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses 26CFR 601.201

39,691.00

		0.00								
Contribution Revenue		0.00						**Total**		
0.00	**Year**	**Case Reserve**	**IBNR**	**Total**	**Discount**	**Discounted**	**Discounted**	**Discounted**	**Section 847 diff**	**Section 847 diff**
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00		0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
	05	67,775.54	41,749.46	109,525.00	0.826595	90,532.82	0.00	90,532.82	18,992.18	0.00
	06	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	07	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	08	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
		67,775.54	41,749.46	109,525.00		90,532.82	0.00	90,532.82	18,992.18	0.00
		0.00					0.00	0.00	0.00	0.00
					1.00	0.00				
					1.00	0.00	0.00	claims paid		138,445.00
					1.00	0.00	0.00	Discounted unpaid cy		90,532.82
					1.00	0.00	0.00	Less Discounted unpaid py		-213,226.93
		0.00			1.00	0.00	0.00	Plus Estimated recoverable py		0.00
					1.00	0.00	0.00	Less Estimated recoverable cy		0.00
					1.00	0.00	0.00		sub total	15,750.89
					1.00	0.00	0.00	Dividend received deduction		0.00
					1.00	0.00	0.00	Reduciton of div received sec 832b		0.00
					0.95	0.00	0.00			
					0.97	0.00	0.00			
Claims handling			0.00	0.00		0.00		Calculated claims expense		15,750.89
		0.00						per f/s		-5,719.00
TOTAL		0.00	41,749.46	**109,525.00**		90,532.82		claims adjustment		21,469.89

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

CIAW **Reconciliation of F/S to Tax Returns**
August 31, 2009

	F/S	Adj		Adj	Form 1120PC	
Contribution Revenue	0		-	(260,969)	(260,969)	
80% discount unearned premiums cy			-		-	
80% unearned prem prior yr			-		-	
Interest	633		633	-	633	
Dividend		-	-		-	
Dividend deduction			-		-	
ST cap gain (loss)			-		-	
LT cap gain (loss)		0	-		-	
Change in market value			-		-	
Net other investment income			-		-	
Other Income	0		-		-	
Special loss credit adj			-	-	-	
Loss Cont'l adj			-		-	
Investment fees (move to expense)			-		-	
Total Revenues	633	-	633	(260,969)	(260,336)	
					-	
					-	
Expenses:					-	
Excess Ins / Brokerage	260,969		260,969	(260,969)	-	
			-		-	
Administration	177		177		177	
Consultants/Professional			-		-	
Interest			-		-	
Legal	0		-		-	
Contract	0		-		-	
Other	0		-		-	
Claims	(1,500)	-	(1,500)	6,228	4,728	
			-	-	-	
			-	-	-	
			-	-	-	
			-	-	-	
			-	-	-	
Claims handling	0	-	-		-	
State WC assessment			-		-	
Actuary			-	-	-	
ULAE		-	-		-	
taxes			-	-	-	Adjust to zero
deferred taxes			-		-	adjust for state tax
Amortization			-	-	-	
Tax penalty N/A				-	-	-
Special loss adj.				-	-	
	0				-	
Total Expenses	259,646	-	259,646	(254,741)	4,905	
Excess Rev/(exp)	(259,013)		(259,013)		(265,241)	zero out to calc tax
50% M&E					-	
Tax benefit of special loss adjust (form 8816)					-	-
Dividends Received Deduction					-	
Income Taxes	0		-	-	-	
Deferred Taxes (net)	0		-	-	-	
Net	(259,013)		(259,013)		(265,241)	
					-	
Beg RE	216,026		216,026		216,026	
Adj				-	-	
End RE	(42,987)		(42,987)	(1,031,420)	(49,215)	

Dividend Income	
Qtr 1	0
Qtr 2	0
Qtr 3	0
Qtr 4	-
	-

officers	benfits	other salry
-	0	-

M/E	travel
-	-

claims after adj	**claims before adj**	**calc difference**
4,728	(1,500)	6,228
-	-	-
4,728	(1,500)	6,228

Tax calculation		**Alt min**
alt min taxable		with spec deduction
(26,524)		(265,241)
	-	-
exemption AMT		
taxable		(265,241)
tax		**(39,786)**

Special Purpose Agreed Upon Procedures Report
Cities Insurance Association of Washington
January 15, 2010

Discounted Unpaid losses 26CFR 601.201
40,056.00

	Year	Case Reserve	IBNR	Total	Discount	Discounted	Discounted	Total Discounted	Section 847 diff	Section 847 diff
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00		0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00		0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
	05	31,763.76	41,876.24	73,640.00	0.826666	60,875.68	0.00	60,875.68	12,764.32	0.00
	06	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	07	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
	08	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00
		31,763.76	41,876.24	73,640.00		60,875.68	0.00	60,875.68	12,764.32	0.00
		0.00					0.00	0.00	0.00	0.00
					1.00	0.00				
					1.00	0.00	0.00	claims paid		34,385.00
					1.00	0.00	0.00	Discounted unpaid cy		60,875.68
					1.00	0.00	0.00	Less Discounted unpaid py		-90,532.82
		0.00			1.00	0.00	0.00	Plus Estimated recoverable py		0.00
					1.00	0.00	0.00	Less Estimated recoverable cy		0.00
					1.00	0.00	0.00	sub total		4,727.86
					1.00	0.00	0.00	Dividend received deduction		0.00
					1.00	0.00	0.00	Reduciton of div received sec 832b		0.00
					0.95	0.00	0.00			
					0.97	0.00	0.00			
Claims handling			0.00	0.00		0.00		Calculated claims expense		4,727.86
		0.00						per f/s		-1,500.00
	TOTAL	0.00	41,876.24	**73,640.00**		60,875.68		claims adjustment		6,227.86