

ANNUAL REPORT 2006



WASHINGTON COUNTIES RISK POOL

Created by Counties for Counties



WASHINGTON COUNTIES RISK POOL

Created *by* Counties *for* Counties

Annual Report 2006

CONTENTS

Officers' Messages.....	3
Mission and Core Values	4
Strategic Plan.....	5
Membership	6
Executive Director's Message.....	7
Insurance Program Summaries.....	8
Organizational Governance.....	10
Administrative Staff	11
State Audits.....	12
Financial Summary.....	16

On the cover:

Clockwise, from upper left: Spokane County Courthouse, Spokane; Lewis County Courthouse, Chehalis; Chelan County Courthouse, Wenatchee; and Clallam County Courthouse in Port Angeles.

File photos



Washington Counties Risk Pool 2006

Created by Counties for Counties

*A Message from **Randy Watts**, PY2006 President*

I want to echo the statements of our 2007 President Steve Clem (below). We do have much to be proud of in our accomplishments of last year. As Steve mentions, our equity is strong and we have premium stability for at least the next few years. We are now at full staff and we are on our way to insuring compliance with our compact.

It is through our members' loss control efforts that we will continue to show claim stability. Certainly we all know too well that we cannot eliminate all claims, but our members are showing a conscious effort to examine and work on areas of exposure to insure that our future is as bright as our recent past. Thank you for your efforts.

In addition, our property insurance program has reached 22 counties, making it very marketable to the insurance industry and very affordable for us the consumers. Our broker, Mike Croke of Willis of Seattle, Inc., has done an outstanding job putting this together.

In all we have accomplished, there is still much to do. We have the issue of a non-profit pool still under consideration. How that will look has not been decided, but with our staff and hard-working executive committee, I am confident that the vision will begin to take shape. Thank you for allowing me to have been your President for 2006. I look forward to continuing to work with this fine organization as we continue on into the future.



Randy Watts
Whatcom County
President 2006

*A Message from **Steve Clem**, PY2006 Secretary/Treasurer*



Steve Clem
Douglas
County
Secretary/
Treasurer 2006

The Washington Counties Risk Pool is pleased to present this 2006 Annual Report to its Members and Board of Directors, as well as the public served by Members throughout the State of Washington. WCRP is proud of its accomplishments over the past year.

The Risk Pool has a new office building in Tumwater, relocation of which was completed smoothly and without any impact on services. The new working environment is a vast improvement and will serve Pool staff and our Members for many years to come.

The Risk Pool is fully staffed for the first time in almost three years. Claims continued to be handled professionally and extremely effectively. The Loss Control Program has been fine-tuned and is now moving forward. Member compliance audits are on track and providing valuable information to the Pool, and feedback to Members. A suggested set of Risk Management Policies has been drafted that will be a terrific guideline for Members.

The Risk Pool management team met with reinsurance companies in New York City and, with guidance of Mike Croke of Willis of Seattle, was able to negotiate very favorable reinsurance premiums, with a three-year guaranteed rate on the Risk Pool's initial and most expensive reinsurance layer.

The net equity of the Pool's Members has skyrocketed over the past year. The Risk Pool now has the highest ratio of assets to liabilities in its 19 years of existence, leading to an underwriting confidence factor that is unprecedented.

The Risk Pool has accomplished all this while other self-insurance pools are experiencing double-digit rate increases and/or substantial program changes. What makes WCRP so successful? The Pool staff and You! Working together. The Pool's highly professional and dedicated staff, insurance brokers and underwriting actuaries cannot guarantee success working alone. You — the Members — make the difference by providing the knowledgeable and talented people who serve as officers, directors and committee members and who make this team known as the Washington Counties Risk Pool complete. It's an unbeatable combination. Thank you. And congratulations! You've earned it.



Washington Counties Risk Pool

Created by Counties for Counties

ANNUAL REPORT 2006



Washington Counties Risk Pool (WCRP) was formed by an Interlocal Agreement on August 18, 1988, pursuant to Chapters 48.62 and 39.34 RCW. The Risk Pool operates under the laws of the State of Washington applicable to joint self-insurance risk pools.

WCRP was organized to provide member counties with joint programs including self-insurance, purchasing of insurance and contracting for or hiring of personnel to provide administrative services, claims handling and risk management.

Third-party liability coverage is provided by WCRP to member counties for bodily injury, personal injury, property damage, errors and omissions, and advertising injury on a "per occurrence" basis. This includes joint self-insurance coverage of \$10 million, subject to a member's individual deductible, and up to \$15 million of "following form" excess insurance for each liability occurrence. Members elect a deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000 per occurrence. There are no annual aggregate limits to the payments the Risk Pool can make for any one county or all counties combined.

WCRP also provides its membership with a property insurance program with extraordinary limits, as well as access to insurance for both special events/concessionaires and environmental hazards.

The Risk Pool's Mission

- *To provide comprehensive and economical risk coverage*
- *Reduce the frequency and severity of losses, and*
- *Decrease costs incurred in the managing and litigation of claims.*

Core Values

WCRP is committed to learn, understand and respond to its members' insurance needs.

WCRP is committed to establish a working relationship with all members that identifies business issues and jointly develops solutions.

WCRP members commit to allocate necessary resources to risk management in their own operations.

WCRP's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards, and measurable outcomes.

WCRP is committed to continuous planning and innovation in product development and service delivery.



STRATEGIC PLAN

Each year, WCRP faces challenging issues. Many are directly related to the diversity of operations of its members and the challenge of providing insurance and risk management products in competition with a global industry.

Members of the pool recognize that they are the best judges of their own operations and their ability to pool their financial and knowledge resources offers them a potential level of service not available from commercial insurers. The Risk Pool recognizes that it must continually use its member knowledge, professional staff expertise, and sound risk management principles to continuously upgrade its products and services.

LINES OF BUSINESS

WCRP delivers a number of products and services to its members. Each comprise the business focus of the organization or its lines of business. The products and services identified here are continuously being upgraded to enhance their value.

- **Liability:** The base-line product, offered to members since the Pool was founded in 1988, with limits that have increased over the years from \$1,000,000 (first two months) to \$20,000,000 today (optional \$25,000,000).
- **Property:** An expanding product line that the Risk Pool unveiled in 2005-06.
- **Member Services:** Because it's a pool, member services becomes an opportunity for WCRP to generate lines of business that focus the operational expertise of its members, its staff, and the industry on the risk needs of its members. Some of the services are:

Risk Management and Claims Administration Roundtables: Member forums to discuss risk management and claims handling challenges and opportunities.

Training and Development: The Pool provides or sponsors training geared toward reducing risk and accident frequency rates of its members. Such training is available to member and non-member entities.

Membership Compact Compliance: Pool staff periodically reviews Member Counties' losses and risk management programs. This program provides each member with a plan to improve the effectiveness of the member's loss control program.

WCRP Certification: Pool staff work with Member Counties to insure risk management staff receive WCRP certification within two years of assignment.

Risk Management Self-Assessment: The self-assessment process provides each Member County with a process to assess its own risk program and share results with WCRP for additional assessment.

Loss Control Programs: A wide variety of programs designed to improve the professional risk management, loss ratio, and insurance costs of member counties.

Library and Research: Pool staff will continue to research risk products and loss control programs developed in industry and government that have shown promise in reducing the frequency and severity of losses.

Strategic planning can be a complex, labor-intensive process. Rather than bog down the process with inordinate amounts of staff hours and paperwork, WCRP's Board has focused on key strategic goals to improve outcomes to WCRP and its members.

The following broad strategic objectives are ongoing in nature. Each year, supporting operational plans are developed to focus on staff and membership, on continuously improving the outcomes in each general area:

Objectives

- 1) Reduce the frequency and severity of losses.
- 2) Decrease the costs incurred in the managing and litigation of claims.
- 3) Provide comprehensive and economical risk coverage.
- 4) Improve the efficiency and effectiveness of the WCRP business organization.
- 5) Use technology to increase organizational productivity and enhance membership access to programs and data.
- 6) Market WCRP products and services to current and potential members.

Achieving these objectives requires involvement of both the WCRP Board and professional staff, therefore it is important that their roles are clearly defined. The Board recognizes its role to develop the strategic direction contained in the plan, and to evaluate the organization's efforts to achieve the desired results. In this respect, the Board has committed to evaluating the progress of the Executive Director and the professional staff in its achievement of this plan.

These objectives are the basis for the draft operational plan. The Board will review and update these strategic objects each year, and provide for modifications as necessary.

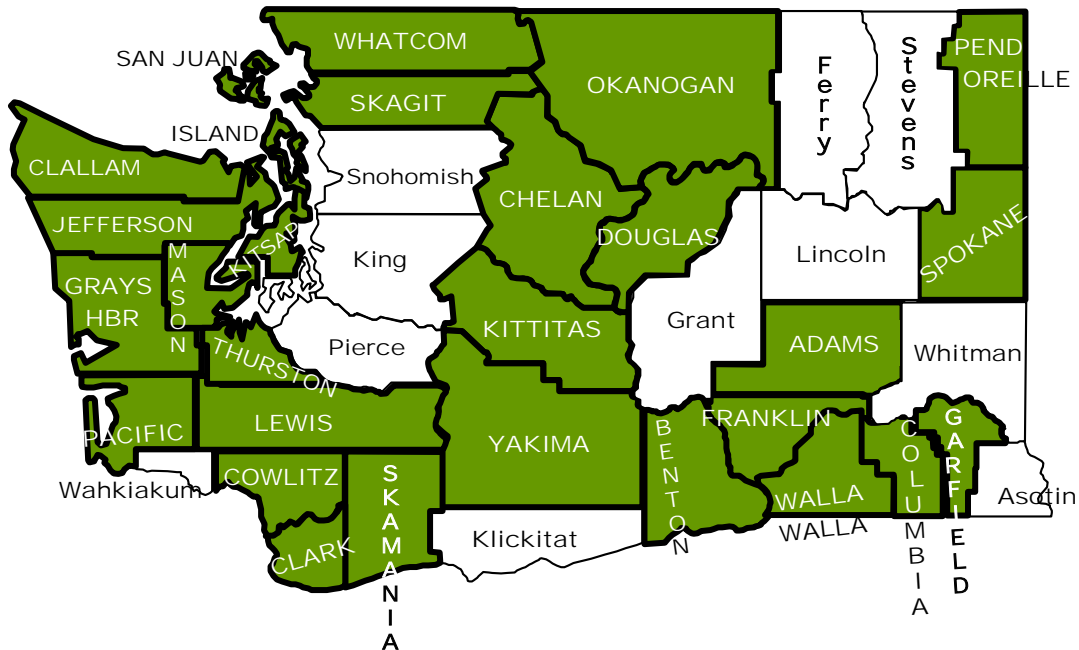


Washington Counties Risk Pool

MEMBERSHIP

FOUNDING MEMBER COUNTIES (1988-89)

Benton	Franklin	Jefferson	Mason	Spokane
Chelan	Garfield	Kitsap	Pacific	Thurston
Clallam	Grays Harbor	Klickitat	San Juan	Whatcom
Cowlitz	Island	Lewis	Skamania	



MEMBER COUNTIES - POOL YEAR 2006

Adams	Columbia	Grays Harbor	Lewis	San Juan	
Benton	Cowlitz	Island	Mason	Skagit	Walla Walla
Chelan	Douglas	Jefferson	Okanogan	Skamania	Whatcom
Clallam	Franklin	Kitsap	Pacific	Spokane	Yakima
Clark	Garfield	Kittitas	Pend Oreille	Thurston	



Washington Counties Risk Pool

From WCRP Executive Director *Vyrle Hill*

To the Board of Directors of the Washington Counties Risk Pool and its Member Counties:

During the initial meeting of the WCRP Board on August 18, 1988, the Directors agreed to offer to the original 13 member counties occurrence-based, joint self-insured coverage for third-party liabilities with \$1 million limits effective October 1, 1988. Since then, the Pool's membership has grown to 28 participating counties, liability coverage limits have increased to \$20 million (\$25 million optional), and a property insurance line has been added. The Pool's success is the result of its member knowledge, professional staff's expertise, and its holding to sound risk management principles.

It is my pleasure on the staff's behalf to present this Annual Report of the Washington Counties Risk Pool for Pool Year 2006. There were many highlights during the year that ended September 30, 2006, including:

- **Washington Counties Property Program:** During the Pool's first year offering this coverage, participation in the optional property program grew from the 17 counties that had been purchasing the similar Pool-sponsored coverage, to 22. And with three early 2007 additions, there are now 25 counties participating in this still very new program.
- **Headquarters:** The Pool's Clark Place property in Tumwater sold April 10, 2006, and was replaced in September with a newly-constructed, five-unit office condominium in Mottman Plaza, 2558 R.W. Johnson Road SW, also in Tumwater. The Pool acquired two units – the larger one for its staff offices and a smaller three-room unit to be leased until needed. A third common unit with lobby, restroom and meeting rooms was acquired jointly with the Washington Counties Insurance Fund.

Our combined staffs greeted nearly 100 visitors at an open house February 1, 2007.

- **Claims Services:** The Claims Division remained busy during PY2006. The database reflected 13,643 claims and lawsuits reported to the Pool since its inception. There remained at year's end 153 lawsuits and 247 claims in "open" status carrying with them nearly \$2.7 million in outstanding Pool reserves.

An electronic claims-reporting tool was developed to make it easier for members to report their counties' claims in a timely manner. The tool works in conjunction with the RiskMaster claims-management software used by the Pool. A RiskMaster systems specialist here in the Northwest was also retained by the Pool to provide technical and administrative support for the Pool's users of these services.

- **Membership Services:** No Notices of Intent to Withdraw from Pool membership were received by the September 30 deadline. So for the next couple of years anyway, the Pool will remain with at least the 28 current member counties.

- **Financial Position:**

Total Assets grew more than 7 percent, an increase of nearly \$1.5 million to \$22.5 million. This includes cash and investments that increased by 17 percent and receivables that declined by 29 percent.

Operating Income rose over 75 percent, from \$1.8 to \$3.2 million. Included is both recovery of reinsurance receivables and reductions by the independent actuary in the estimates of claims reserves (decreased nearly 20 percent, from \$10.4 to \$8.4 million). For the first time in years, the Pool's reinsurance receivables are current. This, at least in part, resulted from face-to-face discussion between Pool leadership and reinsurance company representatives at underwriting meetings in New York.

Non-Operating Revenues increased by nearly 340 percent, more than \$0.6 million, which resulted both from a larger available surplus to invest and rising investment rates, and from the sale of the former WCRP headquarters on Clark Place in Tumwater.

Net Assets, sometimes referred to as **Members' Equity**, reached nearly \$4.8 million at September 30, 2006. \$3.1 million was reported as "restricted." This satisfied the Board of Directors July 2005 goal to achieve an actuarial 85 percent *Confidence Factor* within three to five years. In addition, nearly \$0.8 million was invested in Capital Assets (net of debt). This left nearly \$0.9 million at year's end in "Unrestricted Net Assets."

- **Financial Audit:** The Washington State Auditor's Office recently finished its annual audit of the Pool's Year 2006 financial activities with no findings reflected in its reports. It's worth noting again that the Pool has operated since its inception without any audit findings. Copies of the actual reports are readily available from the State Auditor's web-site at <http://www.sao.wa.gov/>



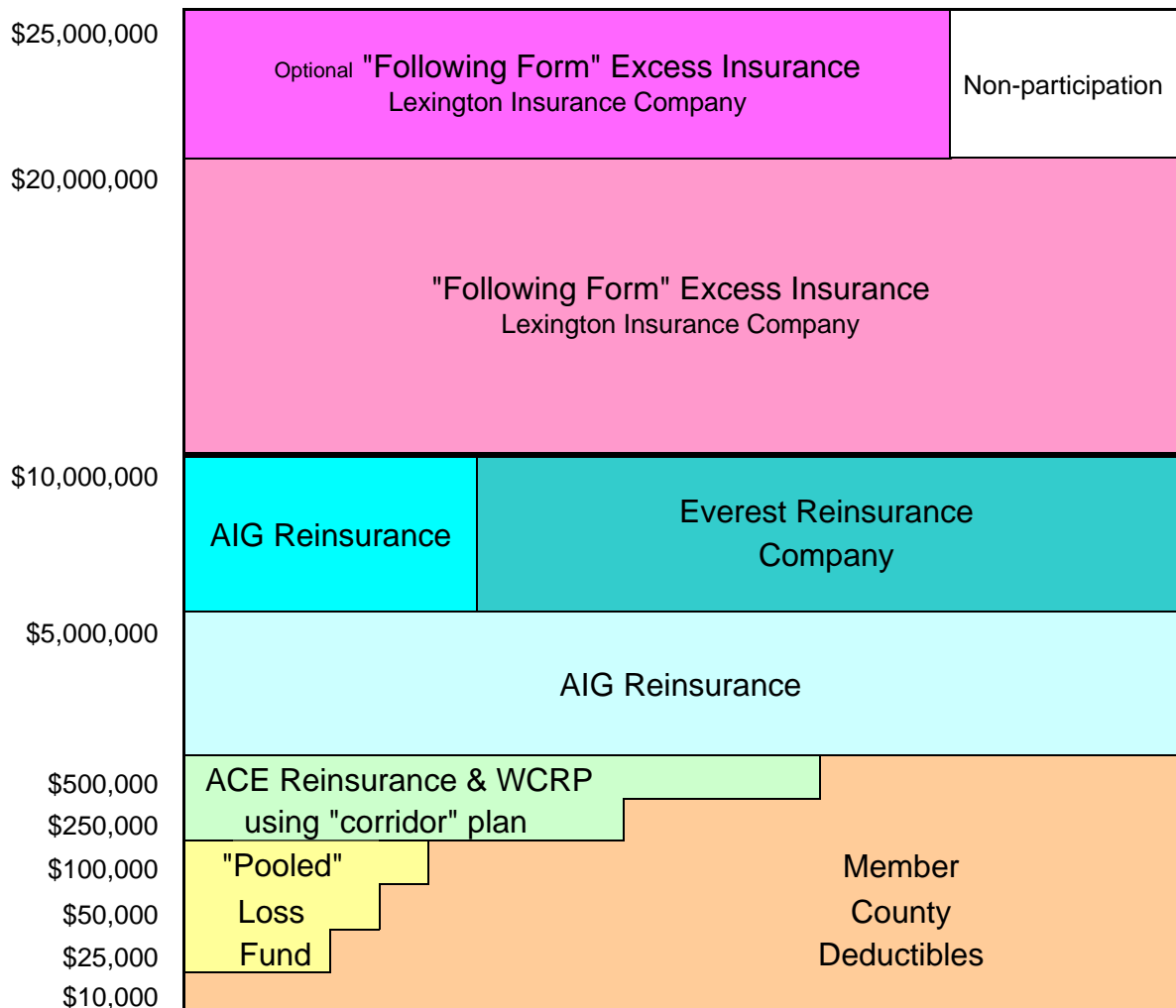
Washington Counties Risk Pool

Created by Counties for Counties

SUMMARY OF 2006-07 LIABILITY INSURANCE PROGRAM

The Washington Counties Risk Pool provides its member counties with liability insurance limits of \$20 million (\$25 million limit optional) per occurrence, no aggregates. This includes \$10 million, subject to the county-selected deductible, in joint self-insured coverage plus \$10 (or \$15 million) in "following form" excess coverage. Member counties select an occurrence deductible each policy year of either \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. There are no annual aggregate limits to the payments the Pool might make for any one member county or all member counties combined.

The insuring document for the Pool's joint self-insurance liability policy covers bodily injury, personal injury, property damage, errors and omissions, and advertising injury.

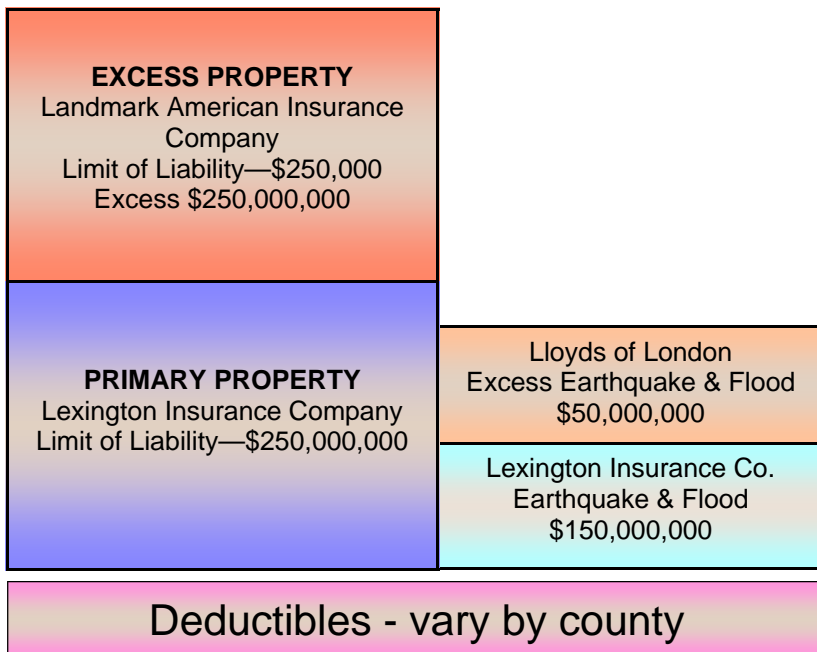




2006-07 PROPERTY INSURANCE PROGRAM SUMMARY

Participating Counties

Adams
Clallam
Chelan
Clark
Cowlitz
Douglas
Franklin
Columbia (2/07)
Garfield
Grays Harbor
Island
Jefferson
Kitsap
Kittitas
Lewis (1/07)
Mason
Okanogan (1/07)
Pacific
Pend Oreille
San Juan
Skagit
Skamania
Spokane
Thurston
Whatcom



Program Limits

Total Insured Values

\$1,987,116,237

Includes: Building, Contents, Vehicles & Equipment

Limit of Liability

\$250,000,000 - Lexington Insurance Company

\$150,000,000 - Earthquake & Flood

\$50,000,000 excess of \$150,000,000 EQ & FL - Lloyd's of London

\$250,000,000 excess of \$250,000,000 - Landmark American
(All other Perils, excluding EQ & FI)

Total Limits of Liability

\$500,000,000 AOP

\$200,000,000 EQ/FL

(\$25,000,000 Flood for Special Flood Hazard Area Locations)

Deductibles

- All Other Peril from \$5,000 to \$50,000 depending on county
- Earthquake - \$100,000 except \$100,000 or 2 percent minimum for Puget Sound
- Flood - Special Flood Hazard Areas \$1,000,000 / 5 percent
 - Named Storms \$100,000 / 5 percent
 - All Other - \$100,000



LEADERSHIP

WCRP BOARD OF DIRECTORS, POOL YEAR 2006

Member Director listed first, others are Alternate Directors

ADAMS

Jeffrey Stevens, Commissioner
Linda Reimer, Clerk of the Board

DOUGLAS

Steven Clem, Prosecuting Attorney
Ken Stanton, Commissioner
Thad Duvall, Auditor

KITTITAS

David Bowen, Commissioner
Kirk Eslinger, Human Resources Director

SKAGIT

Gary Rowe, County Administrator
Billie Kadrmas, Director, Human Resources/Risk Manager

BENTON

Melina Wenner, Director, Human Resources/Risk Manager
David Sparks, County Administrator

FRANKLIN

Neva Corkrum, Commissioner
Steve Lowe, Prosecuting Attorney

LEWIS

Dennis Hadaller, Commissioner
Harry Green, Risk Manager

SKAMANIA

Marilyn Butler, Administrative Services Director
Debra Van Camp, Human Resources Specialist

CHELAN

Keith Goehner, Commissioner
Cathy Mulhall, County Administrator

GARFIELD

Dean Burton, Commissioner
Vacant, awaiting designation

MASON

Tim Sheldon, Commissioner
Ione Siegler, Budget/Finance Director

SPOKANE

Leon Long, Risk Manager
Rob Binger, Senior Deputy Prosecutor
Steve Bartel, Risk Management Supervisor

CLALLAM

Marge Upham, Director, Human Resources/Risk Management
Toni Gilbert, Safety/Training Officer

GRAYS HARBOR

Bob Beerbower, Commissioner
Rose Elway, Director, Management Services & Budget

OKANOGAN

Heidi Smith, Chief Civil Deputy Prosecuting Attorney
Andrew Lampe, Commissioner

THURSTON

Diane Oberquell, Commissioner
Ed Holm, Prosecuting Attorney
Tammy Devlin, Risk Manager

CLARK

Ed Pavone, Risk Manager
Bronson Potter, Senior Deputy Prosecuting Attorney

ISLAND

Mike Shelton, Commissioner
Betty Kemp, Director, General Services Administration

PACIFIC

Bryan Harrison, County Administrative Officer
Pat Hamilton, Commissioner
David Burke, Prosecuting Attorney

WALLA WALLA

Jay Winter, Personnel/Risk Manager
Greg Tompkins, Commissioner

COLUMBIA

Charles Reeves, Commissioner
Andrew Woods, County Engineer/Risk Manager

JEFFERSON

John Fischbach, County Administrator
David Alvarez, Chief Civil Deputy Prosecuting Attorney

PEND OREILLE

Ken Oliver, Commissioner
Dean Cummings, Commissioner

WHATCOM

Randall Watts, Chief Civil Deputy Prosecuting Attorney
Peter Kremen, County Executive

COWLITZ

Clyde Carpenter, Risk Manager
Claire Hauge, Director, Office of Financial Management

KITSAP

Mark Abernathy, Risk Manager
Shelley Kneip, Chief Civil Deputy Prosecuting Attorney
Neil Wachter, Civil Deputy Prosecuting Attorney

SAN JUAN

Si Stephens, Auditor
David Zeretke, Administrative Services Director

YAKIMA

Ron Zirkle, Prosecuting Attorney
Larry Peterson, Senior Deputy Prosecuting Attorney

Executive Committee Pool Year 2006



Toni Gilbert
Clallam
County



Keith Goehner
Chelan
County



Steve Clem
Douglas
County



Neva Corkrum
Franklin
County



Rose Elway
Grays Harbor
County



Mike Shelton
Island
County



Leon Long
Spokane
County



Diane Oberquell
Thurston
County



Jay Winter
Walla Walla
County



Randy Watts
Whatcom
County



Ron Zirkle
Yakima
County



ADMINISTRATIVE STAFF

ADMINISTRATION



**EXECUTIVE
DIRECTOR**
Vyrle Hill



**AUDITING/
ACCOUNTING
OFFICER**
Sue Colbo



MANAGER
David Goldsmith



**EVENTS/EXEC.
ASSISTANT**
Kitty Bottemiller



**LOSS CONTROL
COORDINATOR**
*Jill Lowe

CLAIMS DIVISION



MANAGER
Susan Looker



**CLAIMS
ANALYST**
Mike Cook



**CLAIMS
ANALYST**
Candy Drews



**CLAIMS
ASSISTANT**
Claire
Thompson



**CLAIMS
REPRESENTATIVE**
*Tammy Cahill

** as of January 2007*

PROFESSIONAL SUPPORT

WCRP is backed by professionals with some of the best organizations worldwide:

PricewaterhouseCoopers LLP, for independent actuarial & claims auditing services

Kevin Wick, FCAS, MAAA
Craig Scukas, FCAS, MAAA

Willis of Seattle, Inc., for insurance brokerage and special loss control services

Mike Croke, ARM, Senior Vice President

Risk Manager - State of Washington

John Nicholson

Auditor - State of Washington

Hon. Brian Sonntag



Washington State Auditor's Office
Accountability Audit Report

Washington Counties Risk Pool
Thurston County

Report Date
February 2, 2007

Report No. 72186

Issue Date
February 23, 2007



Washington
State Auditor
Brian Sonntag

REPORTS FROM THE WASHINGTON
STATE AUDITOR'S OFFICE



Washington State Auditor
Brian Sonntag

February 23, 2007

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

Report on Accountability for Public Resources

Please find attached our report on the Washington Counties Risk Pool's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we also audit the Risk Pool's financial statements. The results of that audit will be included in a separately issued audit report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • (866) 902-3900 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • <http://www.sao.wa.gov>

To view the State Auditor's complete report,
go to <http://www.sao.wa.gov/reports/auditfinding/AuditResult.asp?f=main&opt=3>



REPORTS FROM THE WASHINGTON STATE AUDITOR'S OFFICE

Audit Summary

**Washington Counties Risk Pool
Thurston County
February 2, 2007**

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Washington Counties Risk Pool.

We performed audit procedures to determine whether the Risk Pool complied with state laws and regulations and its own policies and procedures. We also examined Risk Pool management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from October 1, 2005, through September 30, 2006.

RESULTS

The Risk Pool complied with state laws and regulations and its own policies and procedures in the areas we examined. Internal controls were adequate to safeguard public assets.

RELATED REPORTS

Our opinion on the Risk Pool's financial statements is provided in a separate report, which includes the Risk Pool's financial statements.

CLOSING REMARKS

We thank Risk Pool officials and personnel for their assistance and cooperation during the audit.

Washington State Auditor's Office

1

To view the State Auditor's complete report, go to
<http://www.sao.wa.gov/reports/auditfinding/AuditResult.asp?f=main&opt=3>



REPORTS FROM THE WASHINGTON STATE AUDITOR'S OFFICE

Washington State Auditor's Office Financial Statements Audit Report

Washington Counties Risk Pool Thurston County

Audit Period
October 1, 2005 through September 30, 2006

Report No. 72187

Issue Date
February 23, 2007



Washington
State Auditor
Brian Sonntag


Washington State Auditor
Brian Sonntag

February 23, 2007

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

Report on Financial Statements

Please find attached our report on the Washington Counties Risk Pool's financial statements.

We are issuing this report in order to provide information on the Risk Pool's financial condition. In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with Government Auditing Standards

Washington Counties Risk Pool
Thurston County
October 1, 2005 through September 30, 2006

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the year ended September 30, 2006 and have issued our report thereon dated February 2, 2007. The prior year partial comparative information has been derived from the Risk Pool's 2005 basic financial statements that we issued our report thereon dated January 20, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Risk Pool's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Risk Pool's financial statements are free of material misstatement, we performed tests of the Risk Pool's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

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

This report is intended for the information and use of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 2, 2007

To view the State Auditor's complete report, go to
[http://www.sao.wa.gov/reports/auditfinding/AuditResult.asp?
f=main&opt=3](http://www.sao.wa.gov/reports/auditfinding/AuditResult.asp?f=main&opt=3)



REPORTS FROM THE WASHINGTON STATE AUDITOR'S OFFICE

Independent Auditor's Report on Financial Statements

**Washington Counties Risk Pool
Thurston County
October 1, 2005 through September 30, 2006**

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the accompanying basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the year ended September 30, 2006, as listed on page 5. These financial statements are the responsibility of the Risk Pool's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Risk Pool's 2005 financial statements and, in our report dated January 20, 2006, we expressed an unqualified opinion on the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Risk Pool, as of September 30, 2006, and the changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Risk Pool's financial statements for the year ended September 30, 2005, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Risk Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 9 and risk pool information on page 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 2, 2007

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • (866) 902-3900 • TDD Relay (800) 833-6388
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go to <http://www.sao.wa.gov/reports/auditfinding/AuditResult.asp?f=main&opt=3>



Washington Counties Risk Pool

COMPARATIVE STATEMENT OF NET ASSETS

As of September 30, ____

ASSETS:

	2006	2005
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 18,262,636	\$ 15,453,149
Investments	-	150,000
Member Deductible & Reinsurance Receivables	1,106,316	2,218,493
Member Assessments Receivable	1,394,041	1,093,891
Retro Assessment Premium Receivable	1,022,823	1,628,287
Property Insurance Assessments Receivable	960	
Other Accounts Receivables	1,598	-
TOTAL CURRENT ASSETS	\$ 21,788,375	\$ 20,543,820
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	\$ 758,932	\$ 520,180
TOTAL ASSETS	\$ 22,547,307	\$ 21,064,000

LIABILITIES:

CURRENT LIABILITIES:		
Claim Reserves		
Reserves for Open Claims	\$ 2,680,897	\$ 3,427,367
IBNR Claims Reserve	5,058,118	6,264,233
Reserve for ULAE	644,672	727,811
Accounts Payable	224,319	46,959
Accrued Liabilities	41,870	37,438
Unearned Revenue - Members Assessments	9,141,407	9,800,082
TOTAL CURRENT LIABILITIES	\$ 17,791,283	\$ 20,303,890
NET ASSETS:		
Restricted Assets (Resolution 93-1)	\$ 3,134,357	\$ 760,110
Capital Assets Net of Debt	758,932	
Non Restricted Net Assets	862,735	
TOTAL NET ASSETS	\$ 4,756,024	\$ 760,110
TOTAL NET ASSETS AND LIABILITIES	\$ 22,547,307	\$ 21,064,000



Washington Counties Risk Pool

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND NET ASSETS

For the Fiscal Years Ended September 30, ____

OPERATING REVENUES:	2006	2005
Member Assessments	\$ 9,800,082	\$ 9,692,403
Property Insurance Assessments	1,438,461	
Insurance Recovery	1,152,678	4,151,189
Retro Assessment for Prior Years	-	(1,982,384)
Program Revenues	-	726
Total Operating Revenues	\$12,391,221	\$ 11,861,934
OPERATING EXPENSES:		
Claims Paid on Current Year Reserve	\$ 1,353,914	\$ 1,510,000
Adjustment of Prior Year's Claims Reserves	(1,520,697)	(1,239,987)
Over SIR Claims Expense (unbilled)	-	1,152,679
Reserve for ULAE	(83,139)	84,259
Reinsurance Premiums	6,398,438	7,322,313
Excess Insurance	373,681	
Property Insurance Premiums	1,443,465	
Depreciation Expense	74,235	67,525
Bad Debt Expense	-	117,616
Operating Expenditures	1,147,101	1,017,583
Total Operating Expenses	\$ 9,186,999	\$ 10,031,988
Operating Income	\$ 3,204,222	\$ 1,829,946
NON OPERATING REVENUES (EXPENSES)		
Interest Income	\$ 483,808	\$ 180,097
Miscellaneous Income	328	
Gains (Losses) on Capital Asset Disposition	307,555	-
Total Non-operating Rev. (Exp.)	\$ 791,691	\$ 180,097
CHANGES IN NET ASSETS	\$ 3,995,914	\$ 2,010,043
TOTAL NET ASSETS, Beginning of Year	\$ 760,110	\$ (1,249,933)
TOTAL NET ASSETS, End of Year	\$ 4,756,024	\$ 760,110



Washington Counties Risk Pool

COMPARATIVE STATEMENT OF CASH FLOW

For the Fiscal Years Ended September 30, ____

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Members & Insurers	\$ 11,995,129	\$ 14,652,901
Cash payments for goods and services	(9,367,268)	(10,013,081)
Cash payments to employees for services	(446,748)	(384,728)
Net Cash Provided (Used) by Operating Activities	\$ 2,181,113	\$ 4,255,092
CASH FROM CAPITAL ACTIVITIES:		
Purchase of Office Equipment & Building	\$ (710,568)	\$ (29,319)
Sale of Building	705,135	
Net Cash Provided (Used) by Capital Activities	\$ (5,433)	\$ (29,319)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	\$ 150,000	\$ 150,000
Interest received	483,807	180,097
Net Cash Provided (Used) by Investing Activities	\$ 633,807	\$ 330,097
Increase (Decrease) in Cash and Cash Equivalents	\$ 2,809,487	\$ 4,555,870
Cash and Cash Equivalents - Beginning of the Year	\$ 15,453,149	\$ 10,897,279
Cash and Cash Equivalents - End of the Year	\$ 18,262,636	\$ 15,453,149

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income	\$ 3,204,551	\$ 1,829,946
Adjustments to reconcile net income to net cash:		
Cash provided by operating activities:		
Depreciation expense	74,235	67,525
Decrease (Increase) in Accounts Receivable	1,414,932	3,836,544
Decrease (Increase) in Prepaid Expenses	-	-
Increase (Decrease) in Claims Reserves	(1,952,585)	(1,657,873)
Increase (Decrease) in Reserve for ULAE	(83,139)	84,259
Increase (Decrease) in Unearned Revenue	(658,675)	107,104
Increase (Decrease) in Accounts Payable	177,361	10,969
Increase (Decrease) in Accrued Liabilities	4,432	(23,383)
Net Cash Provided for Operating Activities	\$ 2,181,113	\$ 4,255,092

Washington Counties Risk Pool

CLAIMS DEVELOPMENT

OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 2006

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1 Net earned required contributions and investment revenues	\$ 5,827	\$ 6,617	\$ 13,194	\$ 6,342	\$ 6,800	\$ 7,056	\$ 10,416	\$ 11,716	\$ 12,042	\$ 12,391
2 Unallocated expenses	\$ 1,997	\$ 1,753	\$ 3,765	\$ 3,734	\$ 4,216	\$ 4,531	\$ 5,635	\$ 8,071	\$ 9,678	\$ 8,284
3 Estimated incurred claims and expenses, end of policy year	\$ 3,093	\$ 4,200	\$ 1,900	\$ 2,000	\$ 2,249	\$ 1,860	\$ 1,615	\$ 1,900	\$ 1,510	\$ 1,354
4 Paid (cumulative) as of:										
End of Policy Year	\$ 49	\$ 5	\$ 10	\$ 18	\$ 3	\$ 36	\$ 51	\$ 68	\$ -	\$ 100
One year later	\$ 399	\$ 362	\$ 77	\$ 205	\$ 204	\$ 160	\$ 240	\$ 274	\$ 161	
Two years later	\$ 1,643	\$ 1,366	\$ 258	\$ 365	\$ 389	\$ 282	\$ 596	\$ 426		
Three years later	\$ 2,893	\$ 2,474	\$ 424	\$ 680	\$ 695	\$ 618	\$ 836			
Four years later	\$ 3,738	\$ 3,705	\$ 636	\$ 747	\$ 725	\$ 927				
Five years later	\$ 5,409	\$ 3,985	\$ 904	\$ 788	\$ 742					
Six years later	\$ 6,871	\$ 4,687	\$ 926	\$ 825						
Seven years later	\$ 6,984	\$ 5,547	\$ 926							
Eight years later	\$ 7,014	\$ 6,073								
Nine years later	\$ 7,234									
5 Reestimate incurred claims and expense:										
End of Policy Year	\$ 3,093	\$ 4,200	\$ 1,900	\$ 2,000	\$ 2,249	\$ 1,860	\$ 1,615	\$ 1,900	\$ 1,510	\$ 1,354
One year later	\$ 4,650	\$ 4,700	\$ 1,725	\$ 1,985	\$ 1,800	\$ 1,685	\$ 1,890	\$ 1,765	\$ 1,610	
Two years later	\$ 5,550	\$ 5,100	\$ 1,650	\$ 1,580	\$ 1,730	\$ 1,380	\$ 1,950	\$ 1,510		
Three years later	\$ 5,775	\$ 5,675	\$ 1,220	\$ 1,460	\$ 1,350	\$ 1,445	\$ 1,505			
Four years later	\$ 6,320	\$ 5,416	\$ 1,115	\$ 1,370	\$ 1,150	\$ 1,432				
Five years later	\$ 7,388	\$ 5,961	\$ 1,142	\$ 1,218	\$ 935					
Six years later	\$ 8,528	\$ 6,943	\$ 1,083	\$ 1,031						
Seven years later	\$ 8,428	\$ 6,593	\$ 998							
Eight years later	\$ 8,028	\$ 6,568								
Nine years later	\$ 7,878									
6 Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ 4,785	\$ 2,368	\$ (902)	\$ (969)	\$ (1,314)	\$ (428)	\$ (110)	\$ (390)	\$ 100	-





WASHINGTON COUNTIES RISK POOL

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REQUEST FOR INFORMATION:

The information included is designed to provide a general overview of the Washington Counties Risk Pool. Questions concerning this information or requests for additional information should be addressed to Executive Director Vyrle Hill or Accounting/Auditing Officer Sue Colbo.
