## Washington State Auditor's Office

### Financial Statements Audit Report

# Washington Counties Risk Pool

## Thurston County

Audit Period

**October 1, 2010 through September 30, 2011**

**Report No. 1007461**

Issue Date

**April 9, 2012**

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

# Washington State Auditor
# Brian Sonntag

April 9, 2012

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 Pool's financial condition.

Sincerely,

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

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## Washington Counties Risk Pool
## Thurston County
## October 1, 2010 through September 30, 2011

# 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, 2010 through September 30, 2011**

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 years ended September 30, 2011 and 2010, and have issued our report thereon dated March 26, 2012. The Pool has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We conducted our audits 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.

## *INTERNAL CONTROL OVER FINANCIAL REPORTING*

In planning and performing our audits, we considered the Pool's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## *COMPLIANCE AND OTHER MATTERS*

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of the 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, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

March 26, 2012

# Independent Auditor's Report on Financial Statements

**Washington Counties Risk Pool**
**Thurston County**
**October 1, 2010 through September 30, 2011**

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 years ended September 30, 2011 and 2010, as listed on page 5. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 and claims development information on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. The Pool has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United State of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements. The List of Participating Members and OFM Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

March 26, 2012

# Financial Section

**Washington Counties Risk Pool**
**Thurston County**
**October 1, 2010 through September 30, 2011**

***REQUIRED SUPPLEMENTARY INFORMATION***



***BASIC FINANCIAL STATEMENTS***



***REQUIRED SUPPLEMENTARY INFORMATION***



***OTHER SUPPLEMENTAL INFORMATION***

# ***Management's Discussion and Analysis***

The management of the Washington Counties Risk Pool ("WCRP" or "Risk Pool") offers this narrative overview and analysis of the financial activities of the WCRP for the fiscal year that ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements for Fiscal Year ("FY") 2011 and the notes to those financial statements to enhance their understanding of the WCRP financial performance.

***<u>Overview of the Financial Statements</u>***

This discussion and analysis is intended to serve as an introduction to the basic financial statements for the Washington Counties Risk Pool. The financial statements pertain solely to the WCRP, which has no other component units for which it is financially accountable. The Risk Pool operates as a single proprietary fund in accounting for its member counties' participation in the public entity. This type of fund is used for "business type activities" that are intended to recover all or a significant portion of their costs through user fees and charges.

The primary function for the WCRP is administering a jointly funded, (third-party liability) self-insurance program for the Risk Pool's member counties from the state of Washington. Its primary source of revenue is the fees/assessments paid by its present and former member counties. And its major expenses are payments of claims and judgments, including their associated fees and charges, and payments for selected coverage options purchased from superior-rated reinsurance and excess insurance carriers. The following are some of the recent Risk Pool financial highlights:

- Operating Income was experienced during FY-2011 of nearly $0.8 million, a 58% decrease from FY-2010 but still 105% more than the average of the past ten years (2001-10). Substantially contributing to this improvement was the nearly $0.6 million (9.3%) reduction in the independent actuary's estimate for the Pool-only layer's claims reserves. And during the past five years, nearly $4.4 million has been realized in Operating Income.

- Interest Income slipped even further (-17%) due to the nearly non-existent rates available for municipal investors under Washington State's regulations and the lowered interest rates associated with the national and global recessions.

- Total Assets grew by $2.2 million (6%) during FY-2011 and $18.6 million (82%) in the past five years to more than $41.1 million. Specifically, current assets increased $2.3 million (6%) during FY-2011, while non-current assets decreased 4%.

- 744 claims (and lawsuits) were added to the Pool's claims-related database during FY-2011, a 3% decline in submissions from FY-2010 yet raising the to-date total (Oct 1988 – Sep 2011) of third-party liability claims submitted by WCRP member counties to 17,982. With 17,584 of the claims designated as *closed*, only 398 claims remained classified as *open* at year's end. Still, the Pool's independent actuary estimates another 394 claims could be filed for covered occurrences from all WCRP years through September 2011, bringing the estimated ultimate claims total to 18,376.

  Total claims reserves for the Pool's direct exposures increased to $15.0 million, up 7% from FY-2010. That total includes $5.6 million (down 9% from one year ago) for losses in the Pool-only layer; $8.6 million (up 22% from one year ago) for losses within the (automobile liability / general liability) "corridor" program's aggregated stop losses; and $0.8 million (down 5% from one year ago) for unallocated loss adjustment expenses. *NOTE: The corridor program began five years ago with the occurrence coverage maximum increased to one million dollars beginning with FY-2010, up from the half million dollar level that existed during the program's first three years. The program's occurrence coverage minimum remained the greater of the applicable member's deductible or $100,000.*

- Net Position (also referred to as "Net Assets" or "Members' Equity") increased $0.8 million during FY-2011 and $6.3 million during the past five years to in excess of $11.0 million at September 30, 2011. Of that total, $5.5 million is classified as 'Restricted' – $0.9 million to satisfy the present solvency provisions of WAC 82.60.03001 and the remaining $4.6 million to address the WCRP Board's 98% confidence factor requirements in Section D of the Underwriting Policy. Another $0.2 million is invested in a real property recovery and $1.0 million in Capital Assets (net of debt). The remaining $4.4 million is 'Non-Restricted' and available for use. *NOTE: Non-Restricted Net Position increased year-over-year by $1.25 million (39%).* The WCRP Board of Directors is responsible for deciding if, how much and when distributions of (Non-Restricted) Net Position are to be made.

The WCRP basic financial statements are comprised of two components, the financial statements and the notes to the financial statements. To more fully understand the financial position of the Risk Pool, this narrative must be viewed in context with information contained in the companion financial statements and their accompanying notes.

***Financial Statements***

The financial statements are designed to provide readers with a broad overview of the finances of the Washington Counties Risk Pool. They are prepared using the accrual accounting basis in accordance with the *U.S. generally accepted accounting principles* applicable to governmental enterprise funds.

The *Statement of Net Position* presents the financial position of the WCRP at September 30th of the most recent fiscal year(s). Information is displayed on assets and liabilities, with the difference between the two reported as Net Position. Over time, the changes in Net Position may provide a useful indicator regarding how the WCRP is meeting the financial needs and expectations of its member counties.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information detailing the revenues and expenses that resulted in the change (i.e. revenues in excess of expenses) to Net Position during the fiscal year(s). All revenues and expenses are reported on an accrual basis, which means that all changes are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will (or did) result in cash flows in future or past periods (e.g. accrued investment income, incurred claims costs).

The *Statement of Cash Flow* presents the cash provided for and used by WCRP operations categorized by operating, capital and investing activities. The effects of accrual accounting have been adjusted out, and non-cash activities such as depreciation have been removed. This statement reconciles the beginning and ending cash balances for the year(s) reflected in the balance sheet.

***Notes to the Financial Statements***

The *Notes to the Financial Statements* follow the basic financial statements and provide additional information essential to fully understanding the data provided in the financial statements of the Washington Counties Risk Pool.

***COMPARATIVE FINANCIAL INFORMATION – Washington Counties Risk Pool***

***NET POSITION***

| | 09/30/2011 | 09/30/2010 | Change $ | Chg % |
|---|---|---|---|---|
| Current Assets | $39,993,492 | $37,703,144 | $2,290,348 | 6.1 |
| Non-current (Capital) Assets | 983,848 | 1,033,510 | (49,662) | -4.8 |
| Investment Held for Resale | 150,000 | 150,000 | 0 | 0 |
| **Total Assets** | **$41,127,340** | **$38,886,654** | **$2,240,686** | **5.8** |
| | | | | |
| Current Liabilities | $30,097,289 | $28,677,285 | $1,420,004 | 4.4 |
| Restricted Net Position – UW Policy, § D | 5,464,009 | 5,847,409 | (383,400) | -6.6 |
| Restricted Net Position – Investment of Franjo Beach | 150,000 | 150,000 | 0 | 0 |
| Non-Restricted Net Position | 4,432,194 | 3,178,450 | 1,253,744 | 39.4 |
| Net Investment in Capital Assets | 983,848 | 1,033,510 | (49,662) | -4.8 |
| **Total Liabilities and Net Position** | **$41,127,340** | **$38,886,654** | **$2,240,686** | **5.8** |

## *REVENUES, EXPENSES and CHANGES IN NET POSITION*

| | FY-2011 | FY-2010 | Change $ | Chg % |
|---|---|---|---|---|
| *Operating Revenues* | | | | |
| Member JSLIP Assessments | $11,354,006 | $11,508,205 | $(154,199) | -1.3 |
| Member WCPP Assessments | 2,606,107 | 2,890,723 | (284,616) | -9.8 |
| Operating Revenues – Miscellaneous | 106,930 | 110,964 | (4,034) | -3.6 |
| ***Total Operating Revenues*** | ***$14,067,043*** | ***$14,509,892*** | ***$(442,849)*** | ***-3.1*** |
| | | | | |
| *Non Operating Revenues (and Expenses)* | | | | |
| Interest Income | $55,930 | $67,537 | $(11,607) | -17.2 |
| Recovery of Franjo Beach Property | 0 | 150,000 | (150,000) | -100.0 |
| Rental Income (net) | 0 | 4,794 | (4,794) | -100.0 |
| ***Total Non-Operating Revenues*** | ***$ 55,930*** | ***$ 222,331*** | ***$(166,401)*** | ***-74.8*** |
| **Total Revenues** | **$14,122,973** | **$14,732,223** | **$(609,250)** | **-4.1** |
| | | | | |
| *Operating Expenses* | | | | |
| Current Year's Claims Reserve | $1,570,125 | $1,502,751 | $67,374 | 4.5 |
| Current Year's Aggregate Stop Loss | 2,375,000 | 2,475,000 | (100,000) | -4.0 |
| Prior Years' Claim Reserve Adjustment | (850,922) | (1,652,831) | 801,909 | 48.5 |
| Reserve for ULAE | (45,092) | (14,850) | (30,242) | -203.6 |
| Reinsurance Premiums (JSILP) | 5,480,000 | 5,480,000 | 0 | 0 |
| Excess (Liability) Insurance Premiums | 525,054 | 579,758 | (54,704) | -9.4 |
| WCPP (Property) Premiums | 2,535,007 | 2,787,059 | (252,052) | -9.0 |
| Depreciation Expenses | 49,662 | 53,666 | (4,004) | -7.5 |
| Administrative Expenses | 1,663,458 | 1,474,664 | 188,794 | 12.8 |
| **Total Operating Expenses** | **$13,302,291** | **$12,685,217** | **$617,074** | **4.9** |
| | | | | |
| ***CHANGES IN NET POSITION*** | ***$820,682*** | ***$2,047,006*** | ***$(1,226,324)*** | ***-59.9*** |
| | | | | |
| **Beginning Net Position (October 1st)** | **$10,209,369** | **$8,162,363** | **$2,047,006** | **25.1** |
| **Ending Net Position (September 30th)** | **$11,030,052** | **$10,209,369** | **$820,682** | **8.0** |

## *CASH FLOWS*

| | 09/30/2011 | 09/30/2010 | Change $ | Chg % |
|---|---|---|---|---|
| Net Cash Provided (Used) For Op. Activities | $2,654,816 | $10,215,703 | $(7,560,887) | -74.0 |
| Net Cash Provided (Used) For Cap. Activities | | (24,181) | 24,181 | 100.0 |
| Net Cash Provided (Used) For Investing Act. | 55,930 | 67,536 | (11,606) | -17.2 |
| **Increase (Decrease) in Cash & Cash Equiv.** | **$2,710,747** | **$10,259,059** | **$(7,548,312)** | **-73.6** |
| | | | | |
| Cash & Cash Equivalents (Beg. of Year) | $33,026,490 | $22,767,431 | $10,259,059 | 45.1 |
| Cash & Cash Equivalents (End of Year) | $35,737,238 | $33,026,490 | $2,710,748 | 8.2 |

## *BUDGETARY VARIATIONS:*

Costs for administering the Risk Pool increased 12.3% (nearly $181,200) from the prior fiscal year. The following summarizes the administrative budget variations during FY-2011.

1. Staffing remained near the level established prior to FY-2005, yet a mid-year promotional adjustment was incorporated as the initial step in a plan to address the staffing deficiencies reported in the independent claims audit conducted early in the year. Further implementation of the Board-approved salary schedule (2006) and cost-of-living-adjustments granted for the past two years totaling 1.5%, coupled with significant increases in the costs for the established employee benefits programs, elevated the Payroll and Benefits costs $80,459 (+10.2%).
2. Supply purchases were reduced by $421 (-2.6%).
3. Other Services and Charges costs increased $49,744 (+9.1%). More specifically,
    a. Professional Services acquisitions were up $31,528 (+11.2%) with funds actually used for:
        i. Consultant services RFQ/P solicitations for compliance with the State's new "pooling" regulations resulted in a new agreement with AJGRMS, Inc. for

insurance producer services that included 'optional services' elements. First-year costs for those optional services totaled $33,875 (+100.0%).

ii. Similar RFQ/P solicitations resulted in a new agreement for independent claims auditing services with Strategic Claims Direction. First-year auditing fees totaled $9,500 (+100.0%).

iii. Phase 2 property appraisals for the Washington Counties Property Program ("WCPP") were suspended saving $47,000 (-100.0%);

iv. Actuarial services increased $4,300 (+10.3%) due in part to new financial reporting requirements requiring enhanced actuarial analyses, and from the new agreement with PwC, L.L.P. for independent actuarial services which resulted from the required consultant RFQ/P solicitations;

v. Information Technology (hardware and software) system maintenance costs increased $4,098 (+18.2%). This includes servers/workstations, webpage, RiskMaster™, and the WCPP Property Inventory Management System;

vi. SAO auditing and SRM oversight fees decreased $825 (-3.9%);

vii. Support costs for administrative (Member Services) operations were reduced $3,575 (-10.8%);

viii. Legal services including complex public records requests presented to the Risk Pool, coverage questions, and pre-defense reviews increased $32,695 (+30.3%); and

ix. Support and assistance for MMSEA reporting and compliance decreased $1,540 (-20.9%);

b. Travel costs were up $12,005 (7.8%); and

c. Combined costs for Communications, Operating Rentals/Leases, Business Insurances, and Utility Services, Office Maintenance and Miscellaneous categories were up $6,211 (+12.5%).

4. Training costs increased $51,426 (+41.7%) with another installment from ACE Public Entities, one of the Pool's coverage reinsurers, for training program enhancements aimed at lessening severities and/or frequencies of member counties' tortuous occurrences, especially those stemming from employment activities and law enforcement operations.

5. No Capital Outlays were acquired during FY-2011 (-100.0%).

***ADMINISTRATIVE BUDGET***

| Comparative | Actual FY-11 | Actual FY-10 | Diff $ | Diff % |
|---|---|---|---|---|
| Payroll & Benefits | $862,633 | $784,783 | $77,850 | 9.9 |
| Supplies | 15,703 | 16,000 | (297) | -1.8 |
| Professional Services | 312,099 | 280,570 | 31,529 | 11.2 |
| Communications | 14,500 | 17,732 | (3,232) | -18.2 |
| Travel, Conference & Meeting Expenses | 166,712 | 154,707 | 12,005 | 7.8 |
| Repairs & Maintenance | 8,898 | 446 | 8,452 | 1895.1 |
| Other Expenditures (including Capital Outlays) | 100,185 | 120,739 | (20,554) | -17.0 |
| Training | 174,832 | 123,404 | 51.428 | 41.7 |
| **TOTAL BUDGET EXPENDITURES** | **$1,655,562** | **$1,498,381** | **157,181** | **10.5** |
| Operating Adjustments: | | | | |
| Capitalized & Depreciated Outlays | 0 | (28,973) | 28,973 | 100.0 |
| Annual/Sick Leave Expense | 7,896 | 5,256 | 2,640 | 50.2 |
| **TOTAL ADMIN. EXPENDITURES** | **$1,663,458** | **$1,474,664** | **$188,794** | **12.8** |

| Fiscal Year 2011 | Actual | Budget | Diff $ | Diff % |
|---|---|---|---|---|
| Payroll & Benefits | $862,633 | $828,298 | $34,335 | 4.1 |
| Supplies | 15,703 | 18,900 | (3,197) | -16.9 |
| Professional Services | 312,099 | 299,800 | 12,299 | 4.1 |
| Communications | 14,500 | 19,600 | (5,100) | -26.0 |
| Travel, Conference & Meeting Expenses | 166,712 | 179,350 | (12,638) | -7.0 |
| Repairs & Maintenance | 8,898 | 1,900 | 6,998 | 368.3 |
| Other Expenditures (incl. Capital Outlays) | 100,185 | 115,850 | (15,665) | -13.5 |
| Training | 174,832 | 202,250 | (27,418) | -13.6 |
| **TOTAL BUDGET EXPENDITURES** | **$1,655,562** | **$1,665,948** | **$(10,386)** | **-6** |
| Operating Adjustments: | | | | |
| Capitalized & Depreciated Outlays | | | | |
| Annual/Sick Leave Expense | 7,896 | | | |
| **TOTAL ADMIN. EXPENDITURES** | **$1,663,458** | | | |

| Fiscal Year 2010 | Actual | Budget | Diff $ | Diff % |
|---|---|---|---|---|
| Payroll & Benefits | $784,783 | $801,593 | $(16,810) | -2.1 |
| Supplies | 16,000 | 18,600 | (2,600) | -14.0 |
| Professional Services | 280,570 | 285,150 | (4,580) | -1.6 |
| Communications | 17,732 | 19,000 | (1,268) | -6.7 |
| Travel, Conference & Meeting Expenses | 154,707 | 181,000 | (26,293) | -14.5 |
| Repairs & Maintenance | 446 | 2,600 | (2,154) | -82.8 |
| Other Expenditures (incl. Capital Outlays) | 120,739 | 139,050 | (18,311) | -13.2 |
| Training | 123,404 | 286,600 | (163,196) | -56.9 |
| **TOTAL BUDGET EXPENDITURES** | **$1,498,381** | **$1,733,593** | **$(253,212)** | **-13.6** |
| Operating Adjustments: | | | | |
| Capitalized & Depreciated Outlays | (28,973) | | | |
| Annual/Sick Leave Expense | 5,256 | | | |
| **TOTAL ADMIN. EXPENDITURES** | **$1,474,664** | | | |

## *CAPITAL ASSET AND DEBT ACTIVITIES:*

### *Capital Assets*

As earlier noted, the Risk Pool made no Capital Asset purchases in FY-2011.

### *Long-Term Debt*

The Risk Pool also had no long-term debt as of September 30, 2011.

## *REQUEST FOR INFORMATION:*

Once again, this Management's Discussion and Analysis is provided as a general overview of the Washington Counties Risk Pool for all those with an interest in the Pool's finances. Questions concerning the information provided and the Risk Pool's financial report, or requests for additional information, should be addressed to: WASHINGTON COUNTIES RISK POOL, Attn: Executive Director Vyrle Hill, 2558 R.W. Johnson Road SW, Suite 106, Tumwater, WA 98512-6103, or telephone 360/292-4495.

# WASHINGTON COUNTIES RISK POOL
## STATEMENT OF NET POSITION

**For the Fiscal Years Ended September 30, 2011 and 2010**

| **ASSETS:** | **Year Ended 9/30/2011** | **Year Ended 9/30/2010** |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | $ 35,737,238 | $ 33,026,490 |
| Members' Deductibles Receivable | 782,602 | 1,243,646 |
| Excess/Reinsurance Recoverable | 1,055,240 | 861,355 |
| Members' Liability Assessments Receivable | 2,139,792 | 1,917,055 |
| Members' Property Insurance Assessments Receivable | 243,299 | 535,517 |
| Prepaid Expenses | 2,000 | 2,850 |
| Other Accounts Receivables | 33,322 | 116,230 |
| TOTAL CURRENT ASSETS | $ 39,993,493 | $ 37,703,143 |
| NONCURRENT ASSETS: | | |
| Capital Assets (Net of Accumulated Depreciation) | $ 983,848 | $ 1,033,510 |
| Investment Held for Resale (Franjo Beach) | 150,000 | 150,000 |
| TOTAL NON CURRENT ASSETS | $ 1,133,848 | $ 1,183,510 |
| **TOTAL ASSETS** | **$ 41,127,341** | **$ 38,886,653** |
| **LIABILITIES:** | | |
| CURRENT LIABILITIES: | | |
| Claims Reserves | | |
| Reserves for Pool-retained Open Claims | $ 3,219,531 | $ 3,861,864 |
| IBNR Pool-retained Claims Reserve | 2,353,447 | 2,283,272 |
| Corridor Reserves (AL/GL xs $100M) | | |
| Reserves for Open Claims | 5,358,868 | 3,829,925 |
| IBNR Claims Reserve | 3,216,068 | 3,180,914 |
| Reserve for ULAE | 844,207 | 889,299 |
| Accounts Payable | 496,219 | 636,229 |
| Accrued Liabilities | 85,266 | 77,370 |
| Unearned Revenue - Members Assessments | 14,523,684 | 13,918,411 |
| TOTAL CURRENT LIABILITIES | $ 30,097,290 | $ 28,677,284 |
| **NET POSITION:** | | |
| Restricted Net Position - Underwriting Policy Section D | $ 5,464,009 | $ 5,847,409 |
| Restricted Net Position - Investment of Franjo Beach | $ 150,000 | $ 150,000 |
| Non-Restricted Net Position | 4,432,194 | 3,178,450 |
| Net Investment in Capital Assets | 983,848 | 1,033,510 |
| TOTAL NET POSITION | $ 11,030,051 | $ 10,209,369 |
| **TOTAL NET POSTION AND LIABILITIES** | **$ 41,127,341** | **$ 38,886,653** |

The accompanying notes are an integral part of this financial statements

# WASHINGTON COUNTIES RISK POOL
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION



| | Year Ended 9/30/2011 | Year Ended 9/30/2010 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Members' Assessments -- Liability Coverage | $ 11,354,006 | $ 11,508,205 |
| Members' Assessments -- Property Insurance | 2,606,106 | 2,890,723 |
| Member Services - Revenues | 106,930 | 110,964 |
| Total Operating Revenues | $ 14,067,042 | $ 14,509,892 |
| **OPERATING EXPENSES:** | | |
| Current Year's "Claims" Reserve | $ 1,570,125 | $ 1,502,751 |
| Current Year's "AL/GL 1st Layer Corridor Reserves" | 2,375,000 | 2,475,000 |
| Adjustment in Prior Years' Claims Reserves | (850,922) | (1,652,831) |
| Adjustment in Reserve for ULAE | (45,092) | (14,850) |
| Liability Reinsurance Premiums | 5,480,000 | 5,480,000 |
| Excess Liability Insurance Premiums | 525,054 | 579,758 |
| Property Insurance Premiums | 2,535,007 | 2,787,059 |
| Depreciation Expense | 49,661 | 53,666 |
| Operating Expenditures | 1,663,458 | 1,474,664 |
| Total Operating Expenses | $ 13,302,291 | $ 12,685,217 |
| **OPERATING INCOME** | $ 764,751 | $ 1,824,675 |
| **NON OPERATING REVENUES (EXPENSES)** | | |
| Interest Income | $ 55,930 | $ 67,537 |
| Rental Income | 0 | 5,322 |
| Rental Expense | 0 | (527) |
| Recovery of Franjo Beach Property | 0 | 150,000 |
| Miscellaneous Income | 0 | 0 |
| Total Nonoperating Revenues (Expenses) | $ 55,930 | $ 222,332 |
| **CHANGES IN NET ASSETS** | $ 820,681 | $ 2,047,007 |
| **TOTAL NET POSITION, Beginning of Year** | $ 10,209,370 | $ 8,162,363 |
| **TOTAL NET POSTION, End of Year** | **$ 11,030,051** | **$ 10,209,370** |

The accompanying notes are an integral part of this financial statements

## WASHINGTON COUNTIES RISK POOL
## COMPARATIVE STATEMENT OF CASH FLOWS
### For the Fiscal Years Ended September 30, 2011 and 2010

| | Year Ended 9/30/2011 | Year Ended 9/30/2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Cash received from Members & Insurers | $ 15,091,864 | $ 21,377,105 |
| Cash payments for goods and services | (11,566,518) | (10,371,363) |
| Cash payments to employees for services | (870,530) | (790,039) |
| Net Cash Provided (Used) by Operating Activities | $ 2,654,816 | $ 10,215,703 |
| **CASH FLOW FROM CAPITAL ACTIVITIES:** | | |
| Purchase of Equipment & Building | $ - | $ (28,974) |
| Cash from Rental of Office (net) | - | 4,793 |
| Net Cash Provided (Used) by Capital Activities | $ - | $ (24,181) |
| **CASH FLOW FROM INVESTING ACTIVITIES:** | | |
| Interest received | $ 55,930 | $ 67,536 |
| Net Cash Provided (Used) by Investing Activities | $ 55,930 | $ 67,536 |
| **Increase (Decrease) in Cash and Cash Equivalents** | $ 2,710,747 | $ 10,259,058 |
| **Cash and Cash Equivalents - Beginning of the Year** | $ 33,026,490 | $ 22,767,431 |
| **Cash and Cash Equivalents - End of the Year** | **$ 35,737,238** | **$ 33,026,490** |

The accompanying notes are an integral part of this financial statements

## COMPARATIVE STATEMENT OF CASH FLOWS

**For the Fiscal Years Ended September 30, 2011 and 2010**

| | Year Ended 9/30/2011 | Year Ended 9/30/2010 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | |
| **OPERATING INCOME** | $ 764,751 | $ 1,824,675 |
| **Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:** | | |
| Depreciation Expense | 49,661 | 53,666 |
| Decrease (Increase) in Accounts Receivable | 419,548 | 7,209,471 |
| Increase (Decrease) in Claims Reserves | (572,158) | (947,550) |
| Increase (Decrease) in AL/GL Corridors Reserves | 1,564,097 | 1,875,626 |
| Increase (Decrease) in Reserve for ULAE | (45,092) | (14,850) |
| Increase (Decrease) in Unearned Revenue | 605,272 | (342,257) |
| Increase (Decrease) in Accounts Payable | (140,010) | 555,210 |
| Increase (Decrease) in Accrued Liabilities | 7,896 | 4,562 |
| Increase (Decrease) in Prepaid Expenses | 850 | (2,850) |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | **$ 2,654,816** | **$ 10,215,703** |

The accompanying notes are an integral part of this financial statements

# WASHINGTON COUNTIES RISK POOL
# NOTES TO FINANCIAL STATEMENTS
### October 1, 2010 through September 30, 2011

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Washington Counties Risk Pool conform to generally accepted accounting principles ("GAAP"). The following is a summary of the more significant policies:

a. Reporting Entity

The Washington Counties Risk Pool ("WCRP") was organized August 18, 1988 to provide its members with joint programs pursuant to Chapter 48.62, RCW, including self-insurance, purchase of insurance, and contracting for or hiring personnel to provide administrative, claims handling and risk management services. It was established via agreement amongst several Washington's counties under the Interlocal Cooperation Act (Chapter 39.34, RCW).

A new member county makes a 60-month commitment when joining the WCRP. After that, a member may withdraw at the end of any WCRP fiscal year provided the county has given the WCRP written notice of its intent to withdraw at least twelve months in advance. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the (WCRP) Executive Committee may approve the admission, fees and premiums of any new member counties with populations of less than 125,000. The membership of the WCRP during the reporting period included 27 counties with populations ranging from 2,300 to 470,300.

Underwriting and rate-setting policies are modified after consultation with the insurance producer and/or independent actuary. Annual deposit assessments are adjusted to incorporate actuarial projections and operational needs, and then approved by the (WCRP) Board. If its assets were depleted, members would be responsible for outstanding liabilities of the WCRP as pooling members are subject under present regulations to supplemental assessment(s) in the event of deficiencies.

Twenty or twenty five million dollars (member option) in third-party "per occurrence" liability coverage was provided via the WCRP to its member counties during Policy Year 2011 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury. That included jointly self-insured coverage from the WCRP of ten million dollars, subject to the members' selected deductibles, along with "following form" excess insurance coverage of ten or fifteen million dollars. The WCRP is reinsured for losses within its layer(s) of coverage that exceed the greater of one hundred thousand dollars or the member's deductible. Members annually select a "per occurrence" deductible amount of ten, twenty five, fifty, one hundred, two hundred fifty or five hundred thousand dollars. There are no annual aggregate limits to the payments the WCRP might make for any one member county or all member counties combined.

The WCRP also offers a jointly-purchased program with extraordinary limits for insuring participating counties' real and personal properties. This includes five hundred million dollars "all other perils" coverage with two hundred million dollars per occurrence/annual aggregate catastrophe limits each for earthquake and for flood coverage. During the 2011 policy year, there were twenty six counties participating.

b. Basis of Accounting and Presentation

The accounting records of the WCRP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09, RCW. The WCRP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement 10, *Accounting And Financial Reporting For Risk Financing And Related Insurance Issues*, as amended by GASB Statement 30, *Risk Financing Omnibus*, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds.*

The Pool has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the governmental Accounting Standards Board (GASB).

The WCRP uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for within the financial statements.

The principal operating revenues of the WCRP are member assessments (sometimes referred to as premiums or contributions), while operating expenses include claims paid from current year allowances and adjustments to prior year's reserves, insurance (reinsurance, excess and property) premiums, and administrative expenses.

c. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the WCRP considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalent.

d. Capital Assets and Depreciation

*See Note 7*

e. Receivables

The WCRP Board of Directors, acting through its Executive Committee, decides if any accounts are deemed uncollectible. Uncollectible accounts are charged to expense in the period they are deemed uncollectible.

f. Investments

*See Note 3.*

g. Compensated Absences

Compensated absences are absences for which the employees will be paid such as vacation and sick leave. The WCRP records unpaid leave for compensated absences as an expense and liability when incurred.

Annual Leave may be accumulated up to 30 days and is payable upon resignation, retirement, or death. An employee with more than sixty days sick leave accrued may convert the days earned in the previous year (less any sick leave days used in that year) to annual leave days at the rate of four days of sick leave for one day of annual leave. Sick leave may accumulate up to 130 days. Sick leave does not vest until death or retirement, and the accrued liability is booked at ½ the amounts earned.

h. Unpaid Claim Liabilities

The WCRP establishes claim liabilities based upon independent actuarial estimates of the ultimate cost of claims including future claims adjustment expenses for claims/lawsuits that have been reported but are not settled and for claims that have been incurred but are not yet reported. The length of time for which such costs must be estimated varies depending on the coverage type involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability.

Claim liabilities are actuarially recomputed periodically using the Jury Verdict Value process and a variety of techniques and formulas that reflect recent settlements, claims frequencies, and other economic and social factors to produce current estimates. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

i. Reinsurance

The WCRP uses reinsurance agreements to reduce by risk transfer its exposure to large third-party liability losses. Reinsurance permits recovery of substantial portions of the losses from commercial insurers, although it does not discharge the primary liability of the WCRP (and its member counties) as the direct insurer of the risks reinsured. The WCRP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

The cumulative to-date incurred loss amount deducted from claim liabilities as of September 30, 2011 and 2010 as being reinsured were $76,706,656 and $71,192,581 respectively. Premiums ceded to reinsurers during 2011 and 2010 were $5,480,000 and $5,480,000 respectively. The cumulative to-date reinsured amount in total loss reserves deducted from claim liabilities as of September 30, 2011 was $42,626,925.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. On the balance sheet, member assessments receivables were billed on or about September 1st with up to the amount equivalent to 105% of the prior year's assessment being due by September 30th, and any remaining assessments balance(s) due by the following January 31st. The assessments calculated were based upon the members' prior year's worker hours and licensed units. Investment income is not being considered for the determination of member assessments.

k. Unpaid Claims

Claims/Lawsuits are charged to revenues as incurred. Claim reserves represent the accumulation of estimates for reported, unpaid claims plus a provision for claims incurred but not reported (IBNR). These estimates are continually reviewed and updated by applying the Jury Verdict Value process, and any resulting adjustments are reflected in current earnings.

l. Reserve for Unallocated Loss Adjustment Expense

The reserve for unallocated loss adjustment expenses (ULAE) represents the estimated cost to be incurred with respect to the settlement of both claims in process and those claims recognized as incurred but not reported (IBNR). The independent actuary estimates this liability at the end of each year. The change in this liability each year is reflected in current earnings.

m. Exemption From Federal And State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). Chapter 48.62 RCW exempts the WCRP from state insurance premium taxes and from business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

This shall serve as a follow up to an aging fraud involving the Washington Counties Risk Pool which was committed by a former WCRP employee. This matter was investigated by the SAO and initially reported upon as Report No. 1001789 (issued July 20, 2009). It was disclosed that the Mason County Prosecuting Attorney had pursued the former employee with criminal charges of First Degree Theft, and the former employee pled guilty and was awaiting sentencing.

Following the issuance of the SAO report, Superior Court Judge Toni A. Sheldon sentenced the former employee August 3, 2009 to 60 months' confinement in the custody of the state Department of Corrections and taken into custody immediately. The former employee, to the best of our knowledge, remains in custody and serving the sentence.

Judge Sheldon also included restitution in favor of the Pool in the sentencing order in the amount of $237,053.26 with payments of not less than $50.00 per month commencing within 60 days following release from confinement. The order also reserved to the Court jurisdiction to consider additional restitution amounts for potential civil litigation to set aside a fraudulent conveyance and/or for civil litigation for failure of the property owner to disclose engineering issues to a buyer, and/or for significant depreciation or diminution in value of the property based upon prevailing market conditions and/or a reasonable rental value, if sought. Any funds from the sale of the property by WCRP shall offset the restitution amount.

The Pool immediately commenced civil legal actions to obtain reconveyance of the real property. A Quit Claim Deed and related papers, signed by the family members to whom the property was fraudulently conveyed, were obtained by the Pool's legal counsel and filed in Mason County, Washington. The court later issued a Quiet Title order in favor of the Risk Pool.

Disposal of the reacquired real property occurred via a public auction process in 2011. The deadline for submission of bids was September 30th, and the formal bid opening was conducted by the Pool's Secretary/Treasurer October 4th. The Executive Committee reviewed the auction results October 13th and agreed to reconsider the minimum value ($150,000) established in early 2010 and to accept the highest bid of $85,000 received during the recent auction. Closing documents were signed October 27th with monies/keys exchanged shortly thereafter.

To obtain the cooperation needed on the Quit Claim deed and on the lawsuit, the Pool's counsel agreed that no damages in the quiet title action would be sought as to anyone other than the former employee. And while the restitution order against the former employee presently stands as it was issued by the Court at the sentencing hearing, the Pool's counsel will be asked soon to report to the court the net proceeds obtained from the property's disposal. The Pool's Executive Committee has also directed that the court be asked to reduce the restitution order to only reflect the added costs the Pool incurred a) addressing the fraud investigation and criminal proceedings, b) to recover ownership and O&M costs incurred since recovery, c) arranging for and conducting the public auction and for the final disposal/transfer of the property's ownership, and d) to secure the amended restitution order.

## NOTE 3 - DEPOSITS AND INVESTMENTS

a. Deposit

The WCRP deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

b. Investments

The WCRP had invested with the Local Government Investment Pool and administered by the State Treasurer funds on September 30, 2011 and 2010, with a fair value of $35,330,046 and $29,274,116 respectively.

## NOTE 4 - JOINT SELF-INSURED RETENTION

The WCRP retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its reinsurance and excess insurance contracts.

For fiscal years 2011 and 2010, the Pool's per-occurrence retention limit for liability claims was $100,000 or the applicable member's deductible, whichever was greater. For Public Officials Liability, Employment Practices Liability and Employee Benefits Liability claims exceeding the retention limit but less than $1,000,000, the Pool's annual aggregate reinsurance was limited to $20,000,000, and for those same claims between $1,000,000 and $2,000,000, the Pool's annual aggregate reinsurance was limited to $10,000,000.

Through pre-funded member assessments (deposit assessments) collected at the beginning of each policy year, the WCRP committed assets for the years ended September 30, 2011 and 2010 of $1,570,125 and $1,502,751 respectively, and is committing $1,605,472 for PY-2012, specifically for the purpose of funding its self-insured retentions for those years.

## NOTE 5 – REINSURANCE/EXCESS INSURANCE CONTRACTS

The WCRP, on behalf of and in conjunction with its members, maintains both reinsurance and "following form" excess insurance contracts with several superior-rated insurance carriers which provide various limits of coverage over the WCRP third-party liability self-insured retention limits. The limits provided by these reinsurance/excess insurance contracts for both PY-2011 and PY-2010 are as follows:

I. An "occurrence-based" Comprehensive Joint Self-Insurance Liability Policy with no aggregates that includes auto, employment, general, professional, and public officials' coverage.

| WCRP/Member SIR (*) | Reinsurance (**) | Excess Insurance (***) | Total (***) |
|---|---|---|---|
| $100,000 | $9,900,000 | $10,000,000 | $20,000,000 |

* Counties annually select individual deductible amounts of $10,000, $25,000, $50,000, $100,000, $250,000 or $500,000.

** The WCRP provides joint, self-insurance for the balance between the member deductibles and $10,000,000 with reinsurance purchased to protect the WCRP from losses that exceed the SIR.

*** An additional $5,000,000 "following form" excess insurance policy is available as a county-by-county option and purchased by the majority of the member counties raising their "occurrence" limits to $25,000,000.

II. The Washington Counties Property Program (WCPP) was established October 1, 2005. The coverage was initially purchased by seventeen counties. Five counties were added during the first policy year that ended September 30, 2006; three more counties joined in the 2006-07 policy year; another county joined at the beginning of Py2008; a 27th participated March through September 2008; and one more county joined but one also withdrew in Py2010 leaving the count of participating counties at 26. WCPP general coverage specifications and limits are as follows:

**LIMITS OF INSURANCE:** **$500,000,000**; All Indicated Limits are per Occurrence; Subject to Sub-Limits [below].

**PERILS:** All Risks of Direct Physical Loss or Damage Including Equipment Breakdown, Earthquake and Flood.

**PROPERTY COVERED:** Real & Personal Property, Business Interruption, Extra Expense, Rental Value, Demolition and Increased Cost of Construction, Valuable Papers, Accounts Receivable, Transit, EDP (Equipment,/Media /Extra Expense), Newly Acquired Property, Course of Construction, Contractors Equipment, Errors and Omissions, Offsite Storage and Personal Property of the Insured's officers and employees while on the premises of the Insured.

| **SUBLIMITS:** | *Are within, and do not increase, the limits stated in the Limits of Insurance*. |
|---|---|
| $200,000,000 | Earthquake and Volcanic Eruption – Per Occurrence and Annual Aggregate |
| $200,000,000 | Flood – Per Occurrence and Annual Aggregate, except: |
| $ 25,000,000 | Flood for locations wholly or partially within a SFHA – Per Occurrence and Annual Aggregate |
| $ 20,000,000 | Terrorism, certified and non-certified |
| $100,000,000 | Equipment Breakdown |

**VALUATION:**

A. Real and Personal Property and Mobile Equipment – Replacement Cost
B. Vehicles on Premises – Actual Cash Value
C. Business Interruption and Extra Expense – Actual Loss Sustained

**DEDUCTIBLES**

A. All loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of $5,000 (to $50,000 as individual county selection) **except;**

B. Earthquake: **$100,000,** except Puget Sound Earthquake (ISO Zone 2) shall be **2%** of the total values at the time of loss at each location involved in the loss subject to a minimum of **$ 100,000,** for any one occurrence shall be deducted from any adjusted Earthquake loss; or

C. Flood: The following sum(s) shall be deducted from any adjusted loss due to Flood;

(1) With respect to locations wholly or partially within Special Flood Hazard Areas (SFHA), areas of 100-year flooding, as defined by the Federal Emergency Management Agency (if these locations are not excluded elsewhere in this policy with respect to the peril of flood), the deductible shall be **5%** of the total values at the time of loss at each location involved in the loss, subject to a minimum of **$1,000,000** for any one occurrence;

(2) With respect to Named Storms (a storm that has been declared by the National Weather Service to be a Hurricane, Typhoon, Tropical Cyclone or Tropical Storm), the deductible shall be **5%** of the total values at the time of loss at each location involved in the loss, subject to a minimum of **$100,000** for any one occurrence;

(3) With respect to any other flood loss, the deductible shall be **$100,000** any one occurrence.

D. Windstorm and Hail: All loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of $5,000 (to $50,000 as individual county selection);

NOTE: If two or more deductible amounts in this policy apply to a single occurrence, the total to be deducted shall not exceed the largest deductible applicable.

## NOTE 6 - MEMBER'S SUPPLEMENTAL ASSESSMENTS AND CREDITS

RCW 48.62.141 and the WCRP Interlocal Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities. Deficits of the WCRP are financed through supplemental (retroactive) assessments against its affected member counties. During policy year 2011, no additional retroactive assessments were levied or collected.

## NOTE 7 – CAPITAL ASSETS

Capital assets are defined by WCRP policy as having an initial, individual cost of at least $2,500 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost.

Capital assets activities for the fiscal year ended September 30, 2011 were as follows:

| | Beginning Balance 9/30/10 | Increase (Decrease) | Ending Balance 9/30/11 |
|---|---|---|---|
| Capital Assets Being Depreciated: | | | |
| Building | $ 1,125,659 | | 1,125,659 |
| Office Furnishings and Equipment | 330,477 | (153,788) | 176,689 |
| Total Capital Assets being Depreciated | $ 1,456,136 | (153,788) | 1,302,348 |
| Less Accumulated Depreciation for: | | | |
| Building | $ 139,492 | 37,522 | 177,014 |
| Office Furnishings and Equipment | 283,135 | (141,648) | 141,487 |
| Total Accumulated Depreciation | $ 422,627 | (104,126) | 318,501 |
| TOTAL CAPITAL ASSETS NET | $ 1,033,509 | (49,661) | 983,848 |

When equipment is retired or otherwise disposed of, its cost and accumulated depreciation are removed from the WCRP asset accounts, and the net gain or loss on disposition is credited to or charged against income.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Asset | Years |
|---|---|
| Buildings | 30 |
| Building Improvements | 30 |
| Vehicles | 5 |
| Equipment | 5 |

## NOTE 8 - PENSION PLANS

### a. Public Employees' Retirement System (PERS) Plans 1, 2, and 3

The Washington Counties Risk Pool's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

**Plan Description**

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement program; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefits may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom.*

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for a normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return –to- work rules.

PERS Plan 3 defined retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service of credit. And a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty- related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 74,857 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 28,074 |
| Active Plan Members Vested | 105,339 |
| Active Plan Members Noninvested | 53,896 |
| **Total** | **262,166** |

**<u>Funding Policy</u>**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of the current-year covered payroll as of December 31, 2010, were as follows:

| | **PERS Plan 1** | **PERS Plan 2** | **PERS Plan 3** |
|---|---|---|---|
| Employer* | 5.31%** | 5.31%** | 5.31%*** |
| Employee | 6.00%**** | 3.90%**** | ***** |

* The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the WCRP and its employees made their required contributions. The WCRP required contributions for the years ending September 30th were as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| 2011 | $10,211 | $20,671 | $3,099 |
| 2010 | $ 9,176 | $18,343 | $2,740 |
| 2009 | $ 8,662 | $30,613 | $3,674 |

**b. <u>Qualified Pension Plan</u>**

The WCRP also participates in a qualified pension plan created in accordance with Internal Revenue Code Section 401(a). This plan is with the International City/County Management Association (ICMA). Employer contributions to the Qualified Pension Plan for the years ended September 30, 2011 and 2010 were $36,537 and $35,330, respectively.

## NOTE 9 - DEFERRED COMPENSATION PLANS

The WCRP offers its employees a choice of two deferred compensation plans created in accordance with Section 457 of the Internal Revenue Code. The plans are with the International City/County Management Association (ICMA) and Nationwide Retirement Solutions (NRS). The plans, available to all eligible employees, permit them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.
In 1998 NRS and ICMA Deferred Compensation Program plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32 and since the WCRP is no longer the owner of these assets, the plan assets and liabilities are no longer reported in the WCRP financial statements.

**NOTE 10 - RECONCILATION OF CLAIMS LIABILITIES**

As discussed in Note 2, the WCRP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents comparative changes in those aggregate liabilities for the WCRP during the past two years:

| | 2011 | 2010 |
|---|---|---|
| Unpaid Claims and Claims Adjustment Expenses | | |
| Beginning of Year | $ 6,145,137 | $ 7,092,686 |
| Incurred Claims and Claims Adjustment Expenses: | | |
| Provisions for Insured Events of the Current Year | 1,570,125 | 1,502,751 |
| Increase (Decrease) in Provision for Insured Events | | |
| Prior Years | (850,922) | (1,652,831) |
| Total Incurred Claims and Claims Adjustment Expenses | $ 6,864,340 | $6,942,606 |
| Payments: | | |
| Claims and Claims Adjustment Expenses Attributable to | | |
| Insured Events of the Current Year | $ 42,951 | $ 41,324 |
| Claims and Claims Adjustment Expenses Attributable to | | |
| Insured Events of Prior Years | 1,248,411 | 756,145 |
| Total Payments | $ 1,291,362 | $ 797,469 |
| Total Unpaid Claims and Claims Adjustment Expenses | | |
| End of Year | $ 5,572,978 | $ 6,145,137 |

**Washington Counties Risk Pool**
**Claims Development**
**September 2002-2011**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Required Contribution and investment revenue: | | | | | | | | | | |
| Earned | 7,055,506 | 10,416,405 | 11,721,713 | 12,042,031 | 13,182,912 | 12,221,809 | 12,203,136 | 11,993,561 | 14,732,223 | 14,122,973 |
| Ceded | 3,330,311 | 4,286,341 | 6,791,100 | 7,019,288 | 6,398,439 | 3,772,810 | 3,806,063 | 3,697,000 | 5,480,000 | 5,480,000 |
| Net earned | 3,725,195 | 6,130,064 | 4,930,613 | 5,022,743 | 6,784,473 | 8,448,999 | 8,397,073 | 8,296,561 | 9,252,223 | 8,642,973 |
| 2. Unallocated expenses | 1,200,638 | 1,348,625 | 1,375,775 | 1,590,008 | 2,955,343 | 4,148,923 | 4,098,577 | 4,528,441 | 4,880,297 | 4,728,089 |
| 3. Estimated claims and expenses end of policy year: | | | | | | | | | | |
| Incurred | | | | | | | | | 14,000,000 | 13,000,000 |
| Ceded | | | | | | | | | 9,750,000 | 8,950,000 |
| Net incurred | 1,860,000 | 1,615,000 | 1,900,000 | 1,510,000 | 1,850,000 | 3,895,000 | 3,875,000 | 4,075,000 | 4,250,000 | 4,050,000 |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year: | 36,101 | 5,092 | 68,432 | 0 | 100,676 | 75,153 | 87,032 | 0 | 41,325 | 42,951 |
| One year later | 160,494 | 240,284 | 273,951 | 161,478 | 443,146 | 207,883 | 227,021 | 197,532 | 519,161 | |
| Two years later | 282,113 | 595,806 | 425,821 | 294,511 | 1,001,021 | 751,102 | 541,119 | 605,051 | | |
| Three years later | 617,953 | 836,430 | 655,369 | 773,209 | 1,251,293 | 1,278,211 | 1,244,824 | | | |
| Four years later | 927,215 | 1,102,556 | 928,018 | 974,077 | 1,414,271 | 1,654,586 | | | | |
| Five years later | 1,074,727 | 1,201,556 | 956,566 | 1,066,499 | 1,462,579 | | | | | |
| Six years later | 1,095,846 | 1,279,277 | 1,005,907 | 1,068,789 | | | | | | |
| Seven years later | 1,107,346 | 1,290,585 | 1,009,105 | | | | | | | |
| Eight years later | 1,108,080 | 1,291,975 | | | | | | | | |
| Nine years later | 1,146,772 | | | | | | | | | |
| 5. Reestimated ceded claims and expenses | 4,656,046 | 10,946,066 | 3,818,345 | 5,587,673 | 12,224,511 | 9,910,450 | 6,528,605 | 9,140,000 | 8,700,000 | 8,950,000 |
| 6. Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year: | 1,860,000 | 1,615,000 | 1,900,000 | 1,510,000 | 1,850,000 | 3,895,000 | 3,875,000 | 4,075,000 | 4,250,000 | 4,050,000 |
| One year later | 1,685,000 | 1,890,000 | 1,765,000 | 1,610,000 | 2,345,000 | 3,770,000 | 3,700,000 | 3,875,000 | 4,300,000 | |
| Two years later | 1,380,000 | 1,950,000 | 1,510,000 | 1,890,000 | 2,575,000 | 3,350,000 | 3,200,000 | 3,660,000 | | |
| Three years later | 1,445,000 | 1,505,000 | 1,335,000 | 1,540,000 | 2,060,000 | 3,519,745 | 2,971,395 | | | |
| Four years later | 1,432,000 | 1,343,000 | 1,168,000 | 1,320,000 | 1,579,433 | 3,089,550 | | | | |
| Five years later | 1,392,000 | 1,348,000 | 1,084,000 | 1,103,064 | 1,575,489 | | | | | |
| Six years later | 1,274,734 | 1,347,800 | 1,055,394 | 1,069,664 | | | | | | |
| Seven years later | 1,229,734 | 1,311,212 | 1,038,861 | | | | | | | |
| Eight years later | 1,205,657 | 1,291,975 | | | | | | | | |
| Nine years later | 1,146,772 | | | | | | | | | |
| 7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year | (713,228) | (323,025) | (861,139) | (440,336) | (274,511) | (805,450) | (903,605) | (415,000) | 50,000 | |

## SCHEDULE T-1
## PUBLIC ENTITY RISK POOL LIST OF PARTICIPATING MEMBERS
## WASHINGTON COUNTIES RISK POOL
## AS OF SEPTEMBER 30, 2011

The following is a list of WCRP membership for the fiscal year 2010-2011

**Adams County**

**Benton County**

**Chelan County**

**Clallam County**

**Clark County**

**Columbia County**

**Cowlitz County**

**Douglas County**

**Franklin County**

**Garfield County**

**Grays Harbor County**

**Island County**

**Jefferson County**

**Kittitas County**

**Lewis County**

**Mason County**

**Okanogan County**

**Pacific County**

**Pend Oreille County**

**San Juan County**

**Skagit County**

**Skamania County**

**Spokane County**

**Thurston County**

**WallaWalla County**

**Whatcom County**

**Yakima County (*)**

(*) Not participating in the joint-purchase property program option.

# WASHINGTON COUNTIES RISK POOL
OFM Schedule of Expenses
Fiscal Year Ended September 30, 2011



| | |
|---|---|
| Insurance Premiums/Reserve Expense | $12,485,185 |
| ULAE Expense | (45,092.00) |
| Adjustment to Prior Years' Reserves | (850,921.85) |
| | |
| Contracted Services: | |
| Actuarial | 45,900.00 |
| State Audit Expense | 8,674.25 |
| State Risk Manager Expenses | 11,734.40 |
| Legal Fees | 140,513.78 |
| IT Consultants | 14,160.00 |
| Other Consulting Fees | 27,842.00 |
| Broker Fees | 33,875.00 |
| Member Services Consultant | 29,400.00 |
| | |
| General Administrative Expenses | |
| Employee Salaries and Benefits | 870,529.69 |
| Communication | 14,499.76 |
| Supplies | 15,577.84 |
| Dues and Memberships | 11,320.96 |
| Travel - Employee | 81,507.96 |
| Committee and Board Meetings | 97,108.84 |
| Depreciation | 49,661.55 |
| Building and Auto Insurance | 16,967.00 |
| Operating Leases | 44,649.42 |
| Utilities | 18,432.92 |
| Member Services - Training | 84,636.53 |
| Grants/Scholarships | 78,290.35 |
| Miscellaneous Expenses | 17,837.34 |
| | |
| Total Operating Expenses | $13,302,291 |

# ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

| | |
|---|---|
| **State Auditor** | **Brian Sonntag, CGFM** |
| **Chief of Staff** | **Ted Rutt** |
| **Deputy Chief of Staff** | **Doug Cochran** |
| **Chief Policy Advisor** | **Jerry Pugnetti** |
| **Director of Audit** | **Chuck Pfeil, CPA** |
| **Director of Performance Audit** | **Larisa Benson** |
| **Director of Special Investigations** | **Jim Brittain, CPA** |
| **Director for Legal Affairs** | **Jan Jutte, CPA, CGFM** |
| **Director of Quality Assurance** | **Ivan Dansereau** |
| **Local Government Liaison** | **Mike Murphy** |
| **Communications Director** | **Mindy Chambers** |
| **Public Records Officer** | **Mary Leider** |
| **Main number** | **(360) 902-0370** |
| **Toll-free Citizen Hotline** | **(866) 902-3900** |
| **Website** | **www.sao.wa.gov** |
| **Subscription Service** | **https://www.sao.wa.gov/EN/News/Subscriptions/** |