Washington State Auditor's Office

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Financial Statements Audit Report

Washington Counties Risk Pool

Thurston County

For the period October 1, 2013 through September 30, 2014

Published May 18, 2015

Report No. 1014265

Washington State Auditor

May 18, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2014

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited, 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, the financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated April 30, 2015. Our report includes information about the Pool's pending litigations. This information is more fully described in Note 13 to the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

April 30, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2014

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Pending Litigations

As discussed in Note 13 to the financial statements, the Pool is a defendant in a lawsuit relating to insurance coverage and an assignment of rights dispute. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 and claims development information on pages 31 through 32 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. 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 our 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The List of Participating Members (Schedule T-1) and Department of Enterprise Services (DES) Schedule of Expenses (Schedule T-2) 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

April 30, 2015

FINANCIAL SECTION

Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2014

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Ten-Year Claims Development Information – 2014

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members (Schedule T-1) – 2014 and 2013
DES Schedule of Expenses (Schedule T-2) – 2014 and 2013

WCRP… *Management's Discussion and Analysis*

The management of the Washington Counties Risk Pool ("WCRP" or "Pool") presents this narrative overview and analysis ("MD&A") of WCRP's financial activities for its 26th Fiscal Year, which ended September 30, 2014. To more fully understand its financial position, this MD&A should be considered in conjunction with the information in the Pool's companion financial statements and accompanying notes.

The Pool was "Created *by* Counties *for* Counties" in August 1988 as an association of member counties independent of all other associations of which the counties are members. WCRP's foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington ("RCW"), "to provide member counties programs of joint self-insurance, joint purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services."

WCRP is neither an "insurer" (RCW 48.010.050) nor an insurance company, and it is not subject to the special laws and rules that govern insurers and insurance companies. Washington's pools operate under the State's "pooling" laws and regulations, specifically RCW 48.62 and Washington Administrative Code ("WAC") 200-100. Pools are risk-sharing entities that must first be approved by and are thereafter overseen by and report to the State Risk Manager. They are not regulated by the Office of the Insurance Commissioner. And as public entities, pools are subject to annual audits by the State Auditor's Office.

Most of WCRP's operating revenues consist of contributions from (assessments paid by) its member counties. The Pool's operating expenses consist primarily of payments made to resolve claims, including allocated loss adjustment expenses, and for the premiums for the coverages acquired from superior-rated commercial reinsurers and excess liability, property and cyber risk/security insurance carriers.

The Pool has no other component units for which it is financially accountable. It operates as an enterprise (proprietary) fund and uses the accrual accounting basis in accordance with the *U.S. generally accepted accounting principles* applicable to governmental enterprise funds. This fund type is used for 'business type activities' that are intended to recover all or a significant portion of their costs through user fees and charges. Revenues are recognized when earned, and expenses are recognized when incurred.

Overview of the Financial Statements

The basic financial statements are comprised of two components: the financial statements and the notes to those financial statements. The *Statement of Net Position* presents information on all of an entity's assets and liabilities at fiscal year-end, with the difference between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the entity is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents details of an entity's revenues and expenses during the fiscal year that resulted in the reported *Change in Net Position* - revenues exceeding expenses result in *Income*; revenues less than expenses result in *Loss*. 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. incurred claims costs, earned but unused vacation leave).

The *Statement of Cash Flow* presents the cash provided for and used by an entity's operations and categorized by operating, capital and investing activities. The effects of accrual accounting and non-cash activities such as depreciation have been removed by adjustment. This statement reconciles the beginning and ending cash balances reflected in the *Statement of Net Position*.

The *Notes to the Financial Statements* provide additional information essential to fully understanding the data provided in an entity's financial statements.

Financial Statements

This MD&A is presented with three comparative financial statements: the *Comparative Statement of Net Position*; the *Comparative Statement of Revenues, Expenses and Changes in Net Position*, and the *Comparative Statement of Cash Flow*, along with a budgetary variation summary.

COMPARATIVE FINANCIAL INFORMATION

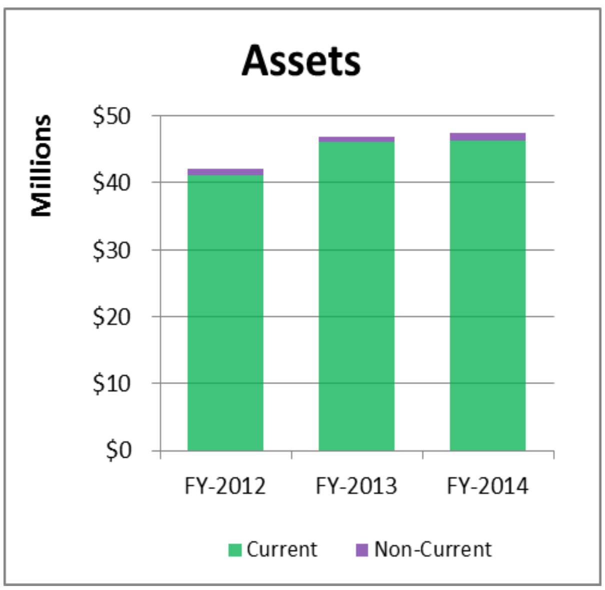
Washington Counties Risk Pool

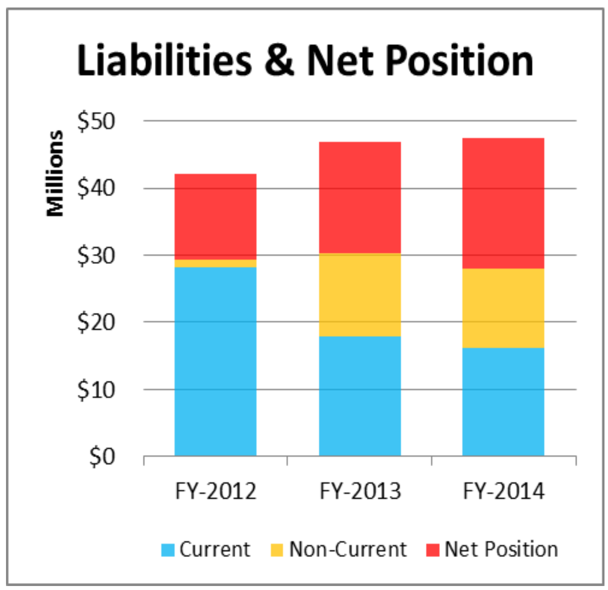
NET POSITION

During Fiscal 2014, when its assets grew 1% ($0.48 million) to $47.41 million, WCRP liabilities were reduced by 7% (+$2.17 million) to $28.04 million, and producing a ratio (assets to liabilities) of 1.69:1. For reference, the Fiscal 2004 ratio was 0.94:1. And but for the members' reassessments receivables ("retroactive assessments") included in Fiscal 2004's assets, that ratio would have been 0.74:1.

WCRP's Net Position, which is also referred to as "net assets" or "owners' equity", improved 16% (+$2.65 million) to $19.37 million as of September 30, 2014. And since Fiscal 2004 ended "negative" $0.69 million, its Net Position improved more than $20.06 million over the course of the past ten years. $1.07 million of the Net Position is held in Capital Assets (net of debt); leaving $18.30 million both to satisfy the State Risk Manager's solvency provisions (WAC 200.100.03001(3)) and to apply towards WCRP's own sufficiency requirements in section D.2 of the Board of Directors' Underwriting Policy.

	09/30/2014	09/30/2013	09/30/2012
Current Assets	$46,343,850	$46,017,808	$41,159,087
Non-Current Assets	1,069,560	919,442	950,134
Total Assets	**$47,413,410**	**$46,937,250**	**$42,109,221**
Current Liabilities	$16,165,933	$17,888,932	$28,165,704
Non-Current Liabilities	11,878,306	12,325,473	1,080,500
Total Liabilities	**$28,044,239**	**$30,214,405**	**$29,246,204**
Restricted Net Position		$12,500,000	$4,834,776
Invested (Net) in Capital Assets	1,069,560	919,442	950,134
Non-Restricted Net Position	18,299,611	3,303,403	7,078,107
Total Net Position	**$19,369,171**	**$16,722,845**	**$12,863,017**





REVENUES, EXPENSES and CHANGES IN NET POSITION

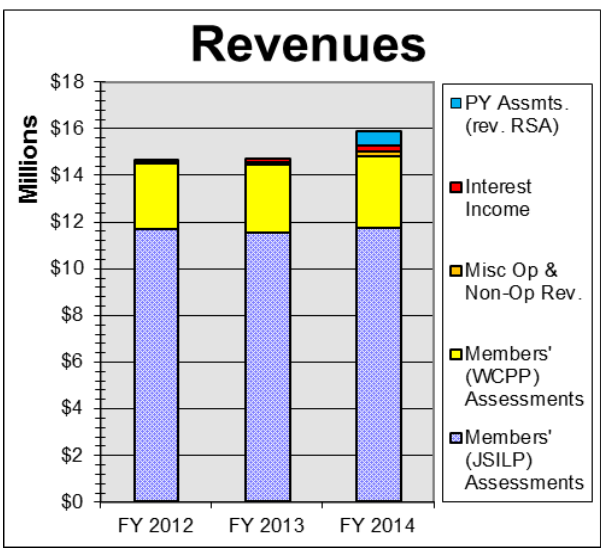
Operating Income of $2.38 million was realized in Fiscal 2014, a 37% decrease from 2013. Still, the 2014 amount is the third largest in recent years and 55% more than the annual average (2004 – 2013). Revenues grew $1.05 million (+7%), yet Expenses increased $2.42 million (+22%) primarily due to $2.54 million in independent actuary adjustments to the Pool's claims-related reserves and $0.58 million in premium increases for the reinsurance, excess insurance and property insurance policies acquired.

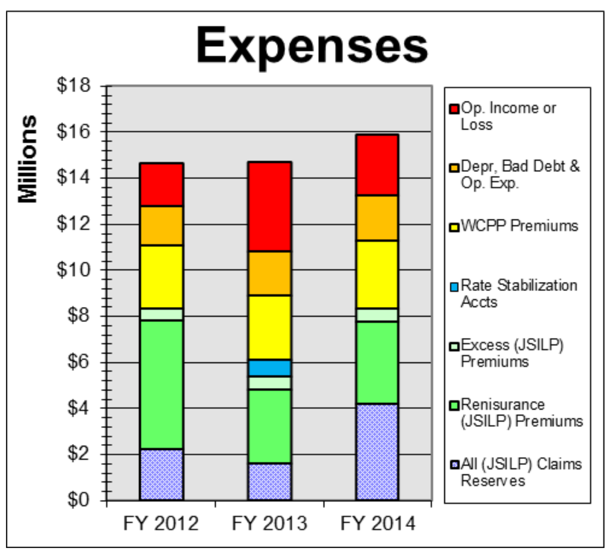
Claims Reserves are determined annually for the Pool's Joint Self-Insurance Liability Program (JSILP) by the independent actuary. 584 third-party liability claims (and lawsuits) were reported by member counties to the Pool during Fiscal 2014, a 5.5% reduction in year-over-year filings and a continuation of the decline in annual filings the Pool has experienced the past several years. The new filings raised the to-date total (Oct 1988 – Sep 2014) to 19,820, with only 359 cases remaining classified as *'open'* at year-end 2014.

The actuaries project another 283 cases from all years as incurred but not yet reported ("IBNR"), raising the Pool's estimated ultimate case count to 20,103 as of September 30, 2014.

Net Reserves are estimated as of September 30, 2014 at $14.68 million, a very modest year-over-year increase of $0.06 million (+0.4%). Increased corridor layer estimates were nearly offset by the decreased estimate for the Pool's self-insured retention (SIR). Gross reserving estimates declined 3.3% ($1.10 million) in Fiscal 2014 to $32.67 million, with $17.99 million ceded to applicable commercial insurers. The 2014 Net Reserves include $2.69 million (-21.1% from Fiscal 2013) for the SIR losses, $10.84 million (+8.0%) for the deductibles within the reinsurers' "corridor" programs, $0.13 million (-13.3%) for losses in the quota-shared (10%) upper reinsured layer, and $1.02 million (+0.1%) for estimated unallocated loss adjustment expenses (ULAE). By comparison, Fiscal 2004's Net Reserves totaled $11.99 million, which only included the Pool's SIR ($11.35 million) and ULAE ($0.64 million) estimates. *NOTE: The corridor programs from and involving WCRP's initial layer(s) reinsurers began eight years ago. They included an occurrence coverage maximum of $0.5 million during the first three years, $1.0 million during the next three years, and both $1.0 million and $2.0 million the past two years. Occurrence minimums have remained (since these programs began) the greater of the applicable member's deductible or $100,000.*

	FY-2014	FY-2013	FY-2012
Operating Revenues			
Member JSILP Assessments	$11,727,035	$11,487,536	$11,648,053
Member WCPP Assessments	3,072,645	2,927,485	2,799,807
Prior Year's JSILP Assessments (reverse RSA)	661,000		
Operating Revenues – Miscellaneous	150,000	150,000	107,627
Total Operating Revenues	***$15,610,680***	***$14,565,021***	***$14,555,487***
Non-Operating Revenues (and Expenses)			
Interest Income	$219,858	$150,638	$47,004
Other Non-Operating Revenues	48,320	(39,007)	12,950
Total Non-Operating Revenues	***$268,177***	***$111,631***	***$59,954***
Total Revenues	**$15,878,857**	**$14,676,652**	**$14,615,441**
Operating Expenses			
Adjustments to (All JSILP) Claims Reserves	$4,149,091	$1,580,840	$2,067,166
Adjustment to ULAE Reserve	573	28,568	142,510
Premiums for JSILP Insuring Policies	4,169,152	3,745,615	6,113,108
Premiums for Property Insurance Policies	2,959,396	2,798,095	2,726,208
Depreciation, Bad Debt & Administrative Expenses	1,954,321	1,931,616	1,733,484
Rate Stabilization Accounts (JSILP / WCPP)		732,090	
Total Operating Expenses	**$13,232,533**	**$10,816,824**	**$12,782,476**
CHANGES IN NET POSITION	**$2,646,325**	**$3,859,828**	**$1,832,965**
Beginning Net Position (October 1st)	**$16,722,846**	**$12,863,017**	**$11,030,052**
Ending Net Position (September 30th)	**$19,369,171**	**$16,722,845**	**$12,863,017**





BUDGET VARIATIONS

Fiscal 2014	Actual	Budget	Variance
Operating Revenues:			
Member C/A – Liability Coverage	$11,727,035	$11,727,035	$0
Prior Year's Member C/A – Liability Coverage	661,000		661,000
Member C/A – Property Insurance	3,072,645	3,070,182	2,463
Member Services Revenues	150,000	150,000	0
Total Operating Revenues	**$15,610,680**	**$14,947,217**	**$663,463**
Operating Expenses:			
Current Year "SIR" Claims Reserves	$1,259,129	$1,259,129	$0
Current Year's "1st Layer Corridor" Claims Reserves	2,975,000	2,975,000	0
Current Year's "2nd Layer Corridor" Claims Reserve	650,000	650,000	0
Adjustment for Prior Year's "SIR" Reserves	(1,075,806)		(1,075,806)
Adjustment for Prior Year's "Corridor" Reserves	360,768		360,768
Adjustment for "10% Quota-Shared" Claims Reserve	(20,000)		(20,000)
Reserve for Unallocated Loss Adjustment Expenses	573		573
Rate Stabilization Account (JSILP)		747,802	(747,802)
Rate Stabilization Account (WCPP)		1,500	(1,500)
Premiums for Reinsurances Purchased	3,593,317	3,593,317	0
Premiums for Excess Insurances Purchased	575,835	575,835	0
Premiums for Property Insurance Purchased	2,959,396	2,959,396	0
Depreciation (of Capital Assets) Expense	70,000	62,300	7,700
Administrative (OH) Expenses	1,884321	2,454,285	(569,964)
Total Operating Expenses	**$13,232,533**	**$15,278,564**	**($2,046,031)**
Operating Income / (Loss)	**$2,378,147**	**($331,347)**	**$2,709,494**
Non-Operating Revenues / (Expenses):			
Interest Income	$219,858	$206,400	$13,458
Rental Income (Net)	26,409	25,320	1,089
Miscellaneous Income	2,133		2,133
Gain on Sale of Asset	19,778	7,580	12,198
Total Non-Operating Revenues / (Expenses)	**$268,178**	**$239,300**	**$28,878**
Changes in Net Position	**$2,646,325**	**($92,047)**	**$2,738,372**
Net Position, Beginning of Fiscal Period	$16,722,845	$16,722,845	$0
NET POSITION, End of Fiscal Period	**$19,369,170**	**$16,630,798**	**$2,738,372**

Capital Assets and Long-Term Debt

Capital Assets acquired during FY-2014 included the acquisitions of Suite F (aka Suite 100) in the Pool's headquarters facility for $148,481, three fleet autos totaling $77,894 (gains from sales of the replaced units totaled $19,778), and an electronic telecommunications system for $8,435. *(NOTE: Readers should view Note 7 in the 'Notes to the Financial Statements' for an expanded Capital Assets discussion.)*

The Washington Counties Risk Pool had not pursued any long-term debt.

Request for Information

Recall that this MD&A is provided for those interested in a general overview of the financial operations of the Washington Counties Risk Pool. Questions concerning the information provided and WCRP'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 Rd SW, Suite 106, Tumwater, WA, 98512-6103; or telephone 360/292-4495.

WASHINGTON COUNTIES RISK POOL
STATEMENT OF NET POSITION

As of September 30, 2014 and 2013

ASSETS	**As of 9/30/2014**	**As of 9/30/2013**
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 8,733,724	$ 17,745,096
Investments	33,265,546	26,135,502
Receivables:		
Members' JSILP Deductibles Receivable	1,010,395	467,448
Excess Insurance/Reinsurance Recoverable	1,686,629	57,273
Members' JSILP Assessments Receivable	1,263,222	892,124
Members' WCPP Assessments Receivable	369,702	702,421
Other Accounts Receivables	11,672	13,569
Prepaid Expenses	2,960	4,375
TOTAL CURRENT ASSETS	***$ 46,343,850***	***$ 46,017,808***
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	$ 1,069,560	$ 919,442
TOTAL NON CURRENT ASSETS	***$ 1,069,560***	***$ 919,442***
TOTAL ASSETS	**$ 47,413,410**	**$ 46,937,250**
TOTAL DEFERRRED OUTFLOWS OF RESOURCES	-	-
LIABILITIES		
CURRENT LIABILITES:		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	$ 807,091	$ 1,029,553
IBNR Reserve - SIR	-	-
"1st/2nd Layers' Corridor" Reserves	-	-
Open Claims - Corridor Reserves	2,106,958	2,017,431
IBNR Reserve - Corridor	-	-
Accounts Payable	103,385	44,729
Unearned Revenue - Members Assessments	13,148,498	14,797,219
TOTAL CURRENT LIABILITIES	***$ 16,165,932***	***$ 17,888,932***
NON CURRENT LIABILITIES		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	$ 1,611,469	$ 1,973,957
IBNR Reserve - SIR	274,425	410,985
Open Claims - Corridor Reserves	4,501,089	2,545,642
IBNR Reserve - Corridor	4,232,871	5,472,852
"8x2 10% Quota Share" Reserve	130,000	150,000
Reserve for ULAE	1,015,858	1,015,285
Compensated Absences	112,595	93,662
JSILP Rate Stabilization Account	-	661,000
WCPP Rate Stabilization Account	-	2,090
TOTAL NON CURRENT LIABILITIES	***$ 11,878,307***	***$ 12,325,473***
TOTAL LIABILITIES	**$ 28,044,239**	**$ 30,214,405**
TOTAL DEFERRED INFLOWS OF RESOURCES	**$ -**	**$ -**
NET POSITION:		
Net Investment in Capital Assets	$ 1,069,560	$ 919,442
Restricted Net Position - WAC 200.100.03001	0	920,000
Restricted Net Position - Satisfaction of WCRP Policy (UWP Sec D-2)	0	11,580,000
Unrestricted Net Position	18,299,611	3,303,403
TOTAL NET POSITION	**$ 19,369,171**	**$ 16,722,845**
TOTAL NET POSTION AND LIABILITIES	**$ 47,413,410**	**$ 46,937,250**

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

For the Fiscal Years Ended September 30, 2014 and 2013

	Year Ended 9/30/2014	Year Ended 9/30/2013
OPERATING REVENUES:		
Members' Assessments -- JSILP Coverage	$ 11,727,035	$ 11,487,536
Members' Assessments -- WCPP Insurance	3,072,645	2,927,485
Member Services - Revenues	150,000	150,000
Total Operating Revenues	***$ 14,949,680***	***$ 14,565,021***
OPERATING EXPENSES:		
Current Year's "SIR" Reserves	$ 1,259,129	$ 1,531,606
Current Year's "1st/2nd Layers' Corridor" Reserves	3,625,000	3,600,000
Adjustment in Prior Years' "SIR" Reserves	(1,075,806)	(1,905,071)
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	360,768	(1,795,695)
Adjustment in Reserve for ULAE	573	28,568
WCPP Rate Stabilization Account	-	2,090
JSLIP Rate Stabilitzation Account	-	730,000
Current Year's "8x2 10% Quota Share" Reserve	-	150,000
Adjustment of Prior Year's "8x2 10% Quota Share" Reserve	(20,000)	-
JSILP Reinsurance Premiums	3,593,317	3,199,125
Excess Liability Insurance Policies Premiums	575,835	546,490
WCPP Insurance Premiums	2,959,396	2,798,095
Depreciation Expense	70,000	51,673
Operating Expenditures	1,884,321	1,879,943
Total Operating Expenses	***$ 13,232,533***	***$ 10,816,824***
OPERATING INCOME (LOSS)	**$ 1,717,147**	**$ 3,748,197**
NON OPERATING REVENUES (EXPENSES)		
Interest Income	$ 219,858	$ 150,638
Rental Income	34,996	30,731
Rental Expense	(8,587)	(5,215)
Bad Debt Expense - Franjo Beach Property Recovery	-	(66,010)
Miscellaneous Income	2,133	1,487
Gain (Losses) on Capital Assets Disposition	19,778	-
Total Nonoperating Revenues (Expenses)	*$ 268,178*	*$ 111,631*
CHANGES IN NET POSITION	***$ 1,985,325***	***$ 3,859,828***
TOTAL NET POSITION, Beginning of Year	***$ 16,722,845***	***$ 12,863,017***
PRIOR PERIOD ADJUSTMENT	$ 661,000	-
TOTAL NET POSTION, End of Year	**$ 19,369,170**	**$ 16,722,845**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
STATEMENT OF CASH FLOWS

For the Fiscal Years Ended September 30, 2014 and 2013

	Year Ended 9/30/2014	Year Ended 9/30/2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Members & Insurers	$ 11,092,175	$ 17,085,548
Cash payments for goods and services	(12,089,617)	(8,639,520)
Cash payments to employees for services	(931,946)	(896,452)
Net Cash Provided (Used) by Operating Activities	$ (1,929,388)	$ 7,549,576
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Equipment & Building	$ (234,811)	$ (20,981)
Cash from Rental of Office (net)	26,409	25,516
Non Operating Miscellaneous Income	2,133	1,485
Bad Debt Expense -- Franjo Beach Property Recovery	0	(66,010)
Gain on Sale of Assets	34,472	-
Net Cash Provided (Used) from Capital and Related Financing Activities	$ (171,797)	$ (59,989)
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest Income	$ 219,858	$ 150,638
Net Cash Provided (Used) by Investing Activities	$ 219,858	$ 150,638
Increase (Decrease) in Cash and Cash Equivalents	$ (1,881,327)	$ 7,640,225
Cash and Cash Equivalents - Beginning of the Year	$ 43,880,599	$ 36,240,373
Cash and Cash Equivalents (including restricted) - End of the Year	**$ 41,999,271**	**$ 43,880,599**

The accompanying notes are an integral part of this financial statements

	Year Ended 9/30/2013	Year Ended 9/30/2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 1,717,147	$ 3,748,197
Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:		
Depreciation Expense	70,000	51,672
Decrease (Increase) in Accounts Receivable	(2,208,784)	2,782,378
Increase (Decrease) in "SIR" Reserves	(721,509)	(886,350)
Increase (Decrease) in "8x2 10% Quota Share" Reserve	(20,000)	150,000
Increase (Decrease) in "1st/2nd Layers' Corridor" Reserves	804,992	627,910
Increase (Decrease) in Reserve for ULAE	573	28,568
Increase (Decrease) in JSILP Stabilization Account	0	661,000
Increase (Decrease) In WCPP Stabilization Account	(2,090)	2,090
Increase (Decrease) in Unearned Revenue	(1,648,721)	458,148
Increase (Decrease) in Accounts Payable	58,656	(73,043)
Increase (Decrease) in Accrued Liabilities	18,932	(121)
Increase (Decrease) in Prepaid Expenses	1,415	(876)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (1,929,388)**	**$ 7,549,577**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The accompanying notes are an integral part of this financial statements

These notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

The WCRP was "Created *by* Counties *for* Counties" in August 1988 as an association of member counties independent of all other associations of which the counties are members. The Pool's foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington ("RCW"), "to provide member counties programs of joint self-insurance, joint purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services."

WCRP is neither an "insurer" (RCW 48.010.050) nor an insurance company, and it is not subject to the special laws and rules that govern insurers and insurance companies. Washington's pools operate under the State's "pooling" laws and regulations, specifically RCW 48.62 and Washington Administrative Code ("WAC") 200-100. Pools are risk-sharing entities that must first be approved by and are thereafter overseen by and report to the State Risk Manager. They are not regulated by the Office of the Insurance Commissioner. And as public entities, pools are subject to annual audits by the State Auditor's Office.

The Pool is governed by a board of directors that consists of one director (and at least one alternate director) representing each member county and appointed by the county's legislative authority. The Board of Directors, which includes both elected and appointed officials, meets three times each year with the Pool's Annual Meeting being held in the summer. The Board is responsible for a) determining the risk-sharing extent of the 3rd-party self-insured liability coverage provided by approving the insuring document (coverage form), b) selecting the reinsurance(s) to acquire and the excess insurance(s) being jointly-purchased or offered for "member option" purchase, c) approving the Pool's annual operating budget(s) and work program(s), and d) approving the members' deposit assessments and, when necessary, reassessments.

Ongoing oversight of the Pool is furnished by an 11-person executive committee elected by and from the Pool's Board to staggered, 3-year terms. The committee meets throughout each year to: a) approve all disbursements and review the Pool's financial health; b) approve case settlements exceeding the applicable member's deductible by at least $50,000; c) review all claims with incurred loss estimates exceeding $100,000; and d) evaluate the Pool's operations and program deliverables, as well as the Executive Director's performance. Members are also expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board's formal consideration.

Six of the Pool's 11-person staff handle and/or manage the several hundred liability cases annually filed upon and submitted by the member counties for risk-shared coverage consideration. This includes determining coverage, establishing reserves for covered events by estimating future payments for the losses and their related claims adjustment expenses. The claims personnel have 115 years of combined claims handling experience. The remaining staff support the Pool's administrative needs or provide services that include assessing members'/potential members' risks, coordinating trainings; compliance auditing, coverage development and marketing.

There are also professionals from some of the most respected organizations worldwide retained by the Board to address specific needs of the Pool – PricewaterhouseCoopers, LLP furnishes independent actuarial services; Strategic Claims Direction, LLC conducts independent claims auditing; Arthur J. Gallagher Risk Management Services, Inc. provides insurance producer (broker) and advanced loss control services; and J. William Ashbaugh of Hackett Beecher & Hart serves as coverage counsel. NOTE: Claims audits are occasionally performed by insurers.

A new member county makes a 60-month commitment when joining the Pool. After that, a member may withdraw at the end of any WCRP fiscal year provided the county has given the Pool written notice of its intent to withdraw at least twelve months in advance of the fiscal year's end. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the Board's Executive Committee may approve the admission, fees and initial deposit assessments/contributions for any new member counties with populations of less than 125,000. The membership of the WCRP during this reporting period included 27 counties with population estimates ranging from 2,250 to 480,000. However, due to the cancellation of a county's membership by the Board of Directors effective April 29, 2014, the year concluded with 26 member counties.

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

Joint Self-Insurance Liability Program ("JSILP"): The Pool has provided risk-shared (jointly purchased and/or jointly self-insured) occurrence-based coverage for 3rd-party liability claims against members since October 1, 1988. $20 million (member option for additional $5 million) in coverage was provided via the WCRP to its member counties during Policy Year 2014 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury covered by a JSILP. That included jointly self-insured coverage from the WCRP of $10 million, subject to the applicable member's selected deductible, with the remainder as "following form" excess insurance coverage. The WCRP acquired reinsurance for losses within its layer(s) of coverage exceeding the greater of one hundred thousand dollars or the member's deductible as protection for the Pool from unexpected losses and the membership from contingent liabilities that might result otherwise. Members selected their *occurrence* deductible amounts from the options (in thousands dollars) 10, 25, 50, 100, 250 or 500 available, which was/will be applied towards their initial JSILP expenses. There are no annual aggregate limits for the payments the WCRP might make for any one member county or for all member counties combined.

Washington Counties Property Program ("WCPP"): The WCRP also offered property coverage with extraordinary limits from a consortium of higher-rated commercial carriers as a jointly-purchased membership option for insuring the participating counties' scheduled real and personal properties. This included $500 million for typical "*all other perils*" coverage with $200 million *per occurrence*/annual aggregate catastrophe limits each for earthquake and for flood coverages, and many sub-limited coverages including Equipment Breakdown / Boiler & Machinery ($100 million) and Special Flood Hazard Areas ($25 million). Green Construction Upgrades, Reproduction Coverage for Historic Structures, and Terrorism ($20 million) coverages were also included. AOP occurrence deductibles, which the participant is responsible for, were selected by the participating counties from the options that ranged between $5,000 and $50,000. Higher deductibles applied to catastrophe losses. During the 2014 policy year, 26 counties participated.

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*, and GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds.*

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 its operating expenses include claims paid from current year allowances as well as adjustments to prior year's reserves, premiums for reinsurances and excess and property insurances, and the Pool's 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 accrued 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. Note: The executive director may accumulate up to 60 days, but will only be compensated at termination of employment for up to 30 days. 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 one-half of the amount earned.

h. Unpaid Claim Liabilities

The WCRP establishes claims liabilities based upon independent actuarial estimates of the ultimate losses (costs 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 in damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly general liability coverage.

Claims liabilities are actuarially recomputed and incorporate the Jury Verdict Value processes. The actuaries use 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 claims liabilities are charged or credited to expense in the periods in which they are made.

i. Reinsurance

The WCRP acquires reinsurance (agreements) to directly reduce by risk transfer its exposure to large third-party liability losses and indirectly its (present and past) member counties' exposures to contingent liabilities. Reinsurance permits recovery of substantial portions of the losses from commercial reinsurers, although it does not discharge the primary liability of the WCRP (and its member counties by contingent liabilities) 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 claims liabilities as of September 30, 2014 and 2013 as being reinsured were $81,874,290 and $78,487,123 respectively. Premiums ceded to reinsurers during 2014 and 2013 were $3,593,317 and $3,199,125 respectively. The independent actuary's estimate for the ceded reinsured amount of gross loss reserves as of September 30, 2014 was $17,991,359.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which the coverage is to be 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 for liability coverage were based in substantial part upon the members' prior year's worker hours and licensed units, and upon the values of the real and personal properties scheduled by the participating counties for property coverage. Investment income is not presently being considered for the determination of member assessments.

k. Unpaid Claims

Liability claims/lawsuits are charged to expenses as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid liability claims plus a provision for liability claims incurred but not reported (IBNR). These estimates are continually reviewed and updated by WCRP's consulting actuary and incorporate the Jury Verdict Value processes. 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 liability claims in process and those liability claims recognized as incurred but not reported (IBNR). WCRP's independent actuary estimates these liabilities at the end of each fiscal year. The changes in these liabilities each year are 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). RCW 48.62.151 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

a) This is a follow up to the fraud committed by a former WCRP employee. This matter was investigated by the SAO and reported upon in Report No. 1001789 (issued July 20, 2009). The Mason County Prosecuting Attorney pursued the former employee with criminal charges of First Degree Theft, and the former employee pleaded guilty.

Superior Court Judge Toni A. Sheldon sentenced the former employee to confinement in the custody of the state Department of Corrections, and was then released from custody after serving the DOC-managed sentence. Judge Sheldon also included restitution in favor of the Pool 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, if sought. Any funds from the sale of the property by the WCRP were to offset the restitution amount.

The Pool obtained the real property by Quiet Title order, and then disposed of the reacquired real property via public auction. The Pool's Executive Committee accepted the highest bid of $85,000. Closing documents were signed October 27, 2011.

While the restitution order against the former employee to our knowledge still stands as it was issued, the Executive Committee asked the Mason County Prosecuting Attorney for support in requesting that the Court reduce the restitution order to only reflect the added costs the Pool incurred. Those added costs totaled $21,737.25, and with the $550.00 received during fiscal 2014, $1,990.00 in restitution payments from the former employee having been forwarded by the Court through September 30, 2014. The Pool is still waiting to learn the Court's updated restitution response.

b) Fraud was also committed during early 2014 by a WCRP (provisional) employee that involved improper (personal) usage of a WCRP credit card. Full recovery was obtained before and in conjunction with the employee's dismissal by direct recovery payment(s) or as a withholding from the final earnings. This matter was reported to the SAO July 18, 2014, and then reviewed later that month. Another review is expected to occur when the SAO is onsite for the Pool's next regular audit.

NOTE 3 - DEPOSITS AND INVESTMENTS

a. Deposits

In accordance with RCW 39.58, WCRP deposits its funds into a public depository with collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Funds are transferred between the WCRP's public depository (depositories) and either the State Treasurer's Local Government Investment Pool (LGIP) or the Spokane County Treasurer's Spokane County Investment Pool (SCIP). There are no credit ratings for positions in external investment pools.

WCRP funds on deposit as of September 30, 2014 and September 30, 2013 were as follows:

	9/30/2014	9/30/2013
Wells Fargo (checking)	$ 8,733,724	$ 2,984,910
Washington State Investment Pool (LGIP)	662,376	14,760,186
Spokane County Investment Pool (SCIP)	32,603,170	15,104,136
Clark County Investment Pool (CCIP)		11,031,366
Total deposits and investments	$41,999,270	$ 43,880,598

b. Investments

Since no WCRP funds are invested outside an approved (RCW 39.58) public depository, there is no need for a custodial credit risk policy.

Credit ratings are not available for positions in external investment pools.

All investments are reported at fair value.

NOTE 4 - JOINT SELF-INSURED RETENTION

The WCRP retains complete responsibility for the payment of covered liability claims, both within its specified self-insured retention limits and that provided under its reinsurance contracts. The coverage provided under applicable excess insurance contracts is separately administered with assistance only from the WCRP. During the past three fiscal years, the Pool has not approved a settlement that exceeded the insurance coverage noted herein that is more specifically outlined in Note 5.

For policy years 2014 and 2013, WCRP's *per-occurrence* retention limits for liability claims were $100,000 or the applicable member's deductible, whichever was greater. In addition, the first and second reinsurance layers' Reinsurer's liability for **ultimate net loss** arising from General Liability including claims arising out of sexual abuse, Products Liability, Law Enforcement Liability, Public Officials Liability, Employment Practices Liability Employee Benefits Liability business lines exceeding the retention limit but less than $1,000,000, the Pool's annual aggregate reinsurance is limited to $40,000,000, and for those same claims between $1,000,000 and $2,000,000, the Pool's annual aggregate reinsurance was limited to $20,000,000. Furthermore, with regard to ultimate net loss subject to the third (upper) reinsurance layer, the Pool agreed to accept a 10% quota-share of the for Policy Year 2013.

Through pre-funded member assessments (deposit assessments) collected immediately prior to or at the beginning of each policy year, the WCRP committed assets for the years ended September 30, 2014 and 2013 of $1,259,129 and $1,531,606 respectively, and is committing $1,099,403 for PY-2015, specifically for the purpose of funding its self-insured retentions for those years. Additional member assessments were collected as WCRP assets and are/were committed in support of the

Pool's "corridor deductible" exposures totaling $3,350,000 (PY-2015), $3,625,000 (PY-2014) and $3,600,000 (2013) as well as $150,000 (PY-2013) for the Pool's "10% quota-shared" exposure.

NOTE 5 – REINSURANCE/EXCESS INSURANCE CONTRACTS

Through Arthur J. Gallagher Risk Management Services, Inc., the Producer (Broker) of Record retained by the Pool's Board of Directors, the WCRP partners with multiple superior-rated commercial insurers[1] by acquiring reinsurance agreements and "following form" excess and property insurances. The limits[2] provided by these insuring agreements, contracts and policies for PY-2014 follow:

I. **Joint Self-Insurance Liability Program ("JSILP")**: Since October 1, 1988, the Pool has provided its member counties with risk-shared (jointly purchased and/or self-insured), occurrence-based coverage for 3rd-party liability claims against members due to bodily injury, personal injury, property damage, errors and omissions, and advertising injury under a JSILP Coverage Form.

The total "occurrence" coverage has grown over time to the $20 million limit that has existed since October 1, 2003. Note: An additional "occurrence" limit of $5 million was available for member counties to acquire as an individual (county-by-county) option during many of the JSILP years including PYs 2014 and 2013. Each member annually selected a deductible amount from the options available, i.e. $10,000, $25,000, $50,000, $100,000, $250,000, $500,000, which was/will be applied to each of the member's occurrences from that year. There were/are no aggregate limits for the payments the Pool made/will make for any one member county.

The initial $10 million of JSILP coverage was/is jointly self-insured. Reinsurance, subject to a self-insured retention ("SIR") equal to the greater of the applicable member deductible or $100,000, was acquired from multiple higher-rated carriers as protection for the Pool from unexpected losses and for the membership from contingent liabilities that might result otherwise. Reinsurance premiums ceded during the year totaled $3,593,317, while the independent actuary's estimate of the amounts recoverable from (excess and) reinsurers which reduced the liabilities of gross loss reserves on the balance sheet (as of September 30, 2014) totaled $17,991,359.

The remaining coverage, up to $15 million, was acquired from a higher-rated commercial carrier as jointly-purchased "following form" excess insurance.

II. **Washington Counties Property Program ("WCPP")**: Beginning with the PY-2006, the WCRP added jointly-purchased (1st-party) property coverage as an individual (county-by-county) option. This coverage was acquired from a consortium of higher-rated commercial carriers. During PY-2014, 26 WCRP counties (including Clark County even after its membership was cancelled) participated in the WCPP with covered properties (in composite) exceeding $2.7 billion.

The WCPP limits include $500 million for typical (All Other Perils or AOP) losses, $200 million for catastrophe (earthquake or flood), and many sub-limited coverages including Equipment Breakdown / Boiler & Machinery ($100 million) and Special Flood Hazard Areas ($25 million). Green Construction Upgrades, Reproduction Coverage for Historic Structures, and Terrorism ($20 million) coverages are also included.

AOP occurrence deductibles between $5,000 and $50,000 were/are selected by the participating counties which they are solely responsible for paying. Higher deductibles amounts apply to catastrophe losses.

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 those counties that were WCRP members for the deficient period(s). During policy year 2014, there was no deficiency, and no additional retroactive assessments were levied or collected.

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[1] Page 3 of the Producer's *1314 Summary of Insurance* dated February 28, 2014 (attached) contains a listing of all participating insurers (insurance carriers) with their ratings and admission status. Pages 4-5 contain the rating (solvency) criteria applied.

[2] Pages 7-18 of the *1314 Summary of Insurance* contain the participating insurers' coverages and limits.

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, 2014 were as follows:

	Beginning Balance 10/01/13	Increase	(Decrease)	Ending Balance 9/30/14
Capital Assets Being Depreciated:				
Building	$ 1,125,659	148,481		1,274,140
Office Furnishings and Equipment	159,697	86,330	(76,927)	169,100
Total Capital Assets being Depreciated	$ 1,285,356	234,811	(76,927)	1,443,240
Less Accumulated Depreciation for:				
Building	$ 252,058	47,712		299,770
Office Furnishings and Equipment	113,857	22.288	(62,233)	73,912
Total Accumulated Depreciation	$ 365,915	70,000	(62,233)	373,682
TOTAL CAPITAL ASSETS NET	$ 919,441	164,811	(14,694)	1,069,558

Capital assets activities for the fiscal year ended September 30, 2013 were as follows:

	Beginning Balance 10/01/12	Increase	(Decrease)	Ending Balance 9/30/13
Capital Assets Being Depreciated:				
Building	$ 1,125,659			1,125,659
Office Furnishings and Equipment	170,513		(10,816)	159,697
Total Capital Assets being Depreciated	$ 1,296,172		(10,816)	1,285,356
Less Accumulated Depreciation for:				
Building	$ 214,536	37,522		252,058
Office Furnishings and Equipment	131,503	14,151	(31,797)	113,857
Total Accumulated Depreciation	$ 346,039	51,673	(31,797)	365,915
TOTAL CAPITAL ASSETS NET	$ 950,133	(51,673)	20,981	919,441

When equipment is retired or otherwise disposed of, the original cost is removed from WCRP's capital assets 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
Building	30
Building Improvements	30
Vehicles	5
Equipment	5

NOTE 8: SOLVENCY & RESTRICTED COMPONENT OF NET POSITION

Washington Administrative Code (WAC) 200-100 requires the Washington Counties Risk Pool to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, i.e. cash and cash equivalents less non-claims liabilities, must at least equal the independent actuary's *expected* estimate of unpaid claims. Furthermore, a pool's total primary and secondary assets must at least equal the independent actuary's *70% confidence level* estimate of unpaid claims. Secondary assets include insurance receivables, real estate or other assets less any non-claim liabilities, the values for which can be independently verified by the state risk manager.

Actuary Solvency Test Results
As of September 30, 2014 and September 30, 2013

	2014	2013
Primary Asset Test 1		
Primary Assets	$28,634,792	$28,944,988
Unpaid Claims - Expected Level	$14,680,000	$14,615,706
Test 1 Result	***PASS***	***PASS***
Primary and Secondary Test		
Secondary Assets	$ 5,414,140	$3,056,652
Primary plus Secondary Test	*$34,048,932*	$32,001,642
Unpaid Claims – 70% Confidence Level	*$15,752,000*	*$15,536,000*
Test 2 Result	***PASS***	***PASS***

NOTE 9: RESTRICTED AND UNRESTRICTED NET POSITION

In 2013, WCRP's statement of net position included $12,500,000 of internally restricted net position, $920,000 of which was to reflect the margin between the actuary's loss estimates at the *expected* and the *70 percent confidence levels* as required above. The remaining $11,580,000 was restricted to satisfy WCRP's minimum limitation upon the surplus as specified in Section D.2 of the Board's Underwriting Policy, i.e. *"… enough funds to protect the Pool's members from a 1-in-50 year event assuming a 'per occurrence' retention of $0.5M.*

In 2014, WCRP's statement of net position was adjusted and no longer reflects any "internal" restrictions. This change was to conform to GASB, which only allows for the reporting of "external" restrictions on net position. Yet the $19,369,171 (ending) Net Position certainly lies within the actuary's estimated range ($11-22 million) for the Pool's target fund balance and would therefore satisfy its internal restriction (Section 2 of its Underwriting Policy).

NOTE 10: PRIOR PERIOD ADJUSTMENT

In PY2013, WCRP's Statement of Net Position reflected non-current liabilities for rate stabilizations totaling $663,090. During PY2014, $2,090 was returned to the member counties in the form of an assessment reduction. Making this correction to PY2014 member revenues would have materially overstated the year's members' assessments. This adjustment was therefore reported as a prior period adjustment.

NOTE 11 - 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 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 Statements 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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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 benefit plan with a defined contribution component.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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. Employees who fail to choose with 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit 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. Plan 1 members may elect to receive an optional 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 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. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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.

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, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for 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 years old, and were hired before May 1, 2013, 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
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 credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS 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 at 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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 current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** 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 the required contributions. The WCRP required contributions for the years ending September 30th were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 13,086	$43,270	$4,346
2013	$ 4,072	$32,181	$6,577
2012	$ 2,101	$31,585	$5,460

b. Qualified Pension Plan

The WCRP also participates in a defined contribution 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, 2014 and 2013 were $41,843 and $41,523, respectively. There are no employee contributions to this plan.

NOTE 12 - DEFERRED COMPENSATION PLANS

The WCRP offers its employees a choice of three 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), the Washington State Department of Retirement, and Nationwide Retirement Solutions (NRS). The plans, available to all eligible employees, permit them to defer a portion of their wages until future years. The deferred compensation is not available to contributing employees until their termination, retirement, death, or unforeseeable emergency.

In 1998, the NRS and ICMA Deferred Compensation Program plans' 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, these plans' assets and liabilities are no longer reported in the WCRP financial statements.

NOTE 13 – SUBSEQUENT EVENTS

Coverage and Assignment of Rights Disputes – Davis/Northrop v. Clark County/Slagle: Clark County is a former Member County of the Washington Counties Risk Pool ("WCRP" or "Pool"), having joined effective July 10, 2002 then having its membership cancelled by the Pool's Board of Directors effective April 29, 2014. On August 25, 2012, plaintiffs Larry Davis and Alan Northrop filed a lawsuit against Clark County and its former sheriff's detective Donald Slagle ("Underlying Lawsuit"). On November 12, 2012, after comparing the allegations in the complaint to the terms and conditions of the coverage afforded in the Joint Self-Insurance Liability Policy ("JSILP") portrayed as applicable, the Pool denied Clark County and its former employee coverage. Following the appeal procedure required by the Pool's By-Laws, Clark County and Slagle appealed the initial (Claims Manager's) coverage denial to the Pool's Executive Director. On January 3, 2013, the Executive Director issued his decision affirming the initial coverage denial. Again following the Bylaw's appeal procedure on February 1, 2013, Clark County and Slagle appealed the coverage denial to the Executive Committee of the Pool's Board of Directors. On March 8, 2013, following a hearing held on Clark County and Slagle's appeal, the Executive Committee voted to affirm the coverage denial. The Executive Committee's written decision was issued on March 18, 2013.

Plaintiffs Davis and Northrop amended the lawsuit against Clark County and former sheriff's detective Donald Slagle, which was filed June 7, 2013 ("Amended Complaint"). On July 8 or 15, 2013, Clark County and Slagle tendered the Amended Complaint to the Pool. On July 29, 2013, after comparing the allegations in the Amended Complaint to the terms and conditions of the coverage afforded in the JSILP communicated as applicable, the Pool denied coverage for Clark County and its former employee Donald Slagle. On August 23, 2013, and pursuant to the appeal procedure in the Pool's By-laws, Clark County and Slagle again appealed the initial (Claims Manager's) coverage denial as to the allegations in the Amended Complaint to the Pool's Executive Director. On September 13, 2013, the Executive Director issued his decision affirming the initial coverage denial. On October 12, 2013, Clark County and Slagle appealed the Executive Director's decision pursuant to the Bylaw's appeal procedure to the Executive Committee of the WCRP Board of Directors. On November 1, 2013, following another hearing before the Executive Committee on Clark County and Slagle's new appeal, the Executive Committee voted to affirm the coverage denial and issued its written decision in support of this action.

On September 27, 2013, Clark County and Slagle agreed to a settlement with plaintiffs Davis and Northrop which was memorialized pursuant to Washington Court Rule 2A. Under the terms of the settlement, the defendants agreed to pay each of the plaintiffs $5.25 million and to enter into a stipulated judgment and assignment of rights against defendants' "insurers", including without limitation, the WCRP, in the amount of $17.25 million to each plaintiff. The plaintiffs agreed not to execute against Clark County and Slagle above the $5.25 million payments. On October 23, 2013, Clark County and Donald Slagle, and Davis and Northrop, entered into a formal Agreement memorializing the terms of the CR 2A agreement. On October 30, 2013, the United States District Court in the Underlying Lawsuit entered a judgment against Clark County and Slagle in favor of Davis and Northrop in the amount of $34.5 million. On December 19, 2013, the United States District Court declined to exercise jurisdiction over Davis and Northrop's request in the Underlying Lawsuit that the court determine that the $34.5 million Judgment was reasonable.

Clark County and Slagle have taken the position that the Pool's 2009-2010 JSILP year provides coverage for the Underlying Lawsuit. The Pool has denied any duty to defend or indemnify Clark County and Slagle for the Underlying Lawsuit. The Pool also determined that the assignment of insuring rights by Clark County and former employee Donald Slagle to be both in violation of the terms of the applicable JSILP and a breach of the provisions of the WCRP membership's Interlocal Cooperation Agreement.

WCRP v. Northrop, Davis, Clark County, and Donald Slagle – Cowlitz County Action: On November 4, 2013, the WCRP filed a Complaint for Declaratory Relief and Breach of Contract in Cowlitz County Superior Court against Clark County, Donald Slagle, Larry Davis and Alan Northrop. The Pool claimed breach of contract and sought a declaratory judgment that the WCRP had no duty to defend or indemnify Clark County or Donald Slagle in the USDC litigation. Lexington Insurance Company (a WCRP Reinsurer and Excess Carrier) requested that WCRP add them as a Plaintiff, which WCRP did by filing an Amended Complaint on November 22, 2013. Defendants filed their Answers, and asserted counterclaims against WCRP and Lexington for breach of the duty to defend, indemnify and settle, bad faith, Consumer Protection Act violations, and related claims.

As expected, on March 13, 2014, Donald Slagle filed a motion for change of venue, requesting transfer of the case to Pierce or King County. WCRP opposed this motion, and ultimately, on April 7, 2014, the Court ruled in WCRP's favor, denying Slagle's motion for change of venue. On April 8, 2014, Defendants moved for summary judgment on their duty to defend counterclaim. WCRP requested a continuance, which the Court granted, and also requested several depositions of the Clark County witnesses, Mark Wilsdon, Ed Pavone, Steve Stuart, Bernard Veljacic and a CR 30(b)(6) expert, which request the Court also granted.

On April 11, 2014, Defendants moved for pre-assignment of judge, which motion the Court granted. Judge Michael Evans was originally assigned to the case, but Defendants subsequently filed a motion and affidavit of prejudice against him. Judge Marilyn Haan was then assigned to the case.

On May 16, 2014, Defendants filed a motion to file an amended answer, adding additional counterclaims, and also requesting to add AIG (a parent company of Lexington) as a party, which motion the Court granted.

Despite the fact that the Court had entered an order allowing the depositions of the Clark County witnesses to go forward, WCRP ultimately had to file a motion to compel these depositions. The depositions went forward during July, August, September and October 2014.

In June 2014, Defendants moved to amend their answer again, this time adding as defendants ACE (a WCRP reinsurer), WCRP Executive Director Vyrle Hill, and Will Ashbaugh, coverage counsel for the Pool. The Court ultimately granted this motion.

On September 15, 2014, WCRP filed a motion for declaratory judgment, requesting that the Court rule that the assignment by Clark County to Defendants Davis and Northrop was invalid. Defendants opposed, and also requested to strike certain exhibits, claiming there was ex parte contact between counsel for WCRP and Clark County. The Court granted WCRP's motion for declaratory judgment on November 13, 2014, finding that consistent with Washington State statutes, WCRP was not an insurer, was not governed by the traditional insurance law rules and cases, and that the assignment was invalid. The Court also ruled that WCRP was entitled to attorney fees and costs.

The Court then heard oral argument on Defendants' motion for partial summary judgment on the duty to defend on November 21, 2014. On November 26, 2014, the Court ruled that all of the conduct related to Davis/Northrop's claims occurred in 1993, that Clark County did not join WCRP until 2002, and accordingly, WCRP had not breached its duty to defend. Further, the Court ruled there was no duty to Slagle as well finding his rights were derived by and through his employment relationship with Clark County.

Defendants moved for certification of the Court's rulings for appellate review, which motion the Court granted on December 12, 2014.

Northrop/Davis v. WCRP – King County Action: On November 15, 2013, approximately ten days after WCRP filed its action in Cowlitz County Superior Court, Davis and Northrop filed a lawsuit on the same issues in King County Superior Court. On November 26, 2013, Davis and Northrop delivered a Tort Claim Notice to WCRP offices, which among other documents, included the complaint filed in King County Superior Court against WCRP by Larry Davis and Alan Northrop as the alleged assignees of Clark County.

The case was originally assigned to Judge Julia Garratt. Davis and Northrop filed an affidavit of prejudice against her, and the case was re-assigned to Judge Bill Bowman. In February 2014, WCRP filed a motion to dismiss or transfer venue, which Davis/Northrop opposed. However, after the Cowlitz County court denied the motion for change of venue, Davis and Northrop agreed to transfer the King County case to Cowlitz County, to be consolidated with the Cowlitz County action. The Court entered an order transferring the case to Cowlitz County on April 11, 2014, which ended the King County action.

NOTE 14 - UNPAID CLAIMS LIABILITIES

As discussed somewhat in Notes 1.h and 1.k, the WCRP establishes a liability for both reported and unreported insured events that include estimates of both future payments of losses and related claims adjustment expenses. The following represents comparative changes in those aggregate liabilities for the WCRP's SIR Reserves during the past two years:

	2014	2013
SIR - Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 3,414,495	$ 4,300,846
SIR - Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,259,129	1,531,606
Increase (Decrease) in Provision for Insured Events		
Prior Years	(1,074,553)	(1,905,071)
Total Incurred Claims and Claims Adjustment Expenses	$ 3,599,071	$ 3,927,381
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ -	$ 19,510
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	906,086	493,376
Total Payments	$ 906,086	$ 512,886
SIR -Total Unpaid Claims and Claims Adjustment Expenses		
End of Year	$ 2,692,985	$ 3,414,495

The actuary estimated the current Unpaid Claims and Claims Adjustment liability at the end of 2014 and 2013 to be $807,091 and $1,029,553 respectively.

The following, on the other hand, represents comparative changes in those aggregate liabilities for all unpaid claims liabilities. (SIR and reinsurances' Corridor Deductibles and Quota–Shared Amounts) during the past two years:

Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 13,600,420	$ 13,708,861
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	4,884,129	5,281,606
Increase (Decrease) in Provision for Insured Events		
Prior Years	(733,785)	(3,700,766)
Total Incurred Claims and Claims Adjustment Expenses	$ 17,750,764	$ 15,289,701
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ -	$ 19,510
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	4,086,862	1,669,771
Total Payments	$ 4,086,862	$ 1,689,281
SIR -Total Unpaid Claims and Claims Adjustment Expenses	$13,663,903	$ 13,600,420

The actuary estimated the current SIR – Total Unpaid Claims and Claims Adjustment Liability at the end of 2014 and 2013 to be $2,914,049 and $3,046,984 respectively.

REQUIRED SUPPLEMENTARY INFORMATION

This required supplementary information is an integral part of the accompanying financial statements.

I. Ten-Year Claims Development Information

The table below illustrates how the WCRP earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the WCRP as of the end of each of the last ten years. The rows of the table are defined as follows:

c. This line shows the total of each fiscal year gross earned contribution revenue and **investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.**

d. This line shows each fiscal year's other operating costs of the WCRP including overhead and claims expense not allocable to individual claims.

e. This line shows the WCRP gross incurred claims and allocated claims adjustment **expenses, claims assumed by reinsurers, and net incurred claims and allocated** adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

f. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

g. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

h. This section of ten rows show how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

i. This line compares the latest reestimated net incurred claims amotmt to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the **correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy** years. The columns of the table show data for successive policy years.

2. Reconciliation of Claims Liabilities by Type of Contract

The schedule presented in Note 14 presents the changes in claims liabilities for the past two years for the WCRP's one type of contract, liability insurance.

Washington Counties Risk Pool
JSILP Claims Development
September 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012
1. Required Contribution and investment revenue:								
Earned	12,042,031	13,182,912	12,221,809	12,203,136	11,993,561	14,732,223	14,122,973	14,602,491
Ceded	7,019,288	6,398,439	3,772,810	3,806,063	3,697,000	5,480,000	5,480,000	5,602,250
Net earned	5,022,743	6,784,473	8,448,999	8,397,073	8,296,561	9,252,223	8,642,973	9,000,241
2. Unallocated expenses	1,590,008	2,955,343	4,148,923	4,098,577	4,528,441	4,880,297	4,728,089	5,113,060
3. Estimated claims and expenses end of policy year:								
Incurred						14,000,000	13,000,000	10,200,000
Ceded						9,750,000	8,950,000	6,375,000
Net incurred	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000
4. Net paid (cumulative) as of:								
End of policy year:	-	100,676	75,153	87,032	-	41,325	42,951	193,680
One year later	161,478	443,146	207,883	227,021	197,532	519,161	648,326	380,131
Two years later	294,511	1,001,021	751,102	541,119	605,051	477,611	959,084	1,133,512
Three years later	773,209	1,251,293	1,278,211	1,244,824	1,071,363	1,049,714	1,664,193	
Four years later	974,077	1,414,271	1,654,586	2,066,751	1,437,932	2,180,521		
Five years later	1,066,499	1,462,579	2,071,627	2,267,997	1,951,969			
Six years later	1,068,789	1,488,882	2,113,346	2,336,472				
Seven years later	1,068,789	1,488,881	2,123,298					
Eight years later	1,068,789	1,488,881						
Nine years later	1,068,789							
5. Reestimated ceded claims and expenses	5,587,673	12,224,511	9,910,450	6,528,605	9,140,000	8,700,000	8,950,000	6,375,000
6. Reestimated net incurred claims and expenses:								
End of policy year:	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000
One year later	1,610,000	2,345,000	3,770,000	3,700,000	3,875,000	4,300,000	3,575,000	3,500,000
Two years later	1,890,000	2,575,000	3,350,000	3,200,000	3,660,000	3,745,000	3,235,000	3,175,000
Three years later	1,540,000	2,060,000	3,519,745	2,971,395	3,472,159	2,475,172	3,015,000	
Four years later	1,320,000	1,579,433	3,089,550	2,664,731	2,694,107	3,014,417		
Five years later	1,103,064	1,575,489	2,946,327	2,547,037	2,434,747			
Six years later	1,069,664	1,488,882	2,481,812	2,617,037				
Seven years later	1,068,789	1,488,881	2,568,243					
Eight years later	1,068,789	1,488,881						
Nine years later	1,068,789							
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	($441,211)	($361,119)	($1,326,757)	($1,257,963)	($1,640,253)	($1,235,583)	($1,035,000)	($650,000)

LIST OF PARTICIPATING MEMBERS Schedule T-1

The following is a list of WCRP membership during the fiscal year 2013-2014

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

Walla Walla County

Whatcom County

Yakima County (*)

(*) Not participating in the jointly-purchased WCPP (property coverage) option.

(**) Membership cancelled by WCRP Board action effective at 12:00:01 April 29, 2014, but with authority to continue WCPP participation through the fiscal/policy year (September 30, 2014).

WASHINGTON COUNTIES RISK POOL

DES Schedule of Expenses

For Fiscal Years Ended September 30, 2014 and September 30, 2013

	09/30/2014	09/30/2013
Insurance Premiums/Reserve Expense	$12,012,677	$12,557,406
ULAE Expense	573	28,568
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	(1,075,806)	(1,795,695)
Adjustment to Prior Years' "SIR" Reserves	360,768	(1,905,071)
Adjustment to Prior Years" "10% (8x2 Layer) Quota Share	(20,000)	
Contracted Services:		
Actuarial	73,800	119,300
State Audit Expense	9,477	9,922
State Risk Manager Expenses	11,734	11,734
Legal Fees	149,743	158,053
IT Consultants	30,103	41,362
Other Consulting Fees	69,332	74,299
Broker Fees	-	-
Consulting Member Services Manager	25,150	28,650
General Administrative Expenses		
Employee Salaries and Benefits	931,946	896,452
Communication	15,335	12,739
Supplies	28,658	24,116
Dues and Memberships	8,734	5,616
Travel - Employee	77,271	90,638
Committee and Board Meetings	84,467	100,103
Depreciation	70,000	51,673
Building and Auto Insurance	16,255	14,518
Operating Leases	120,226	33,998
Utilities	18,472	16,732
Member Services - Training	86,039	104,198
Member Services - Grants/Scholarships	112,705	112,453
Miscellaneous Expenses	14,875	25,059
Total Operating Expenses	$13,232,533	$10,816,824

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as fraud, state whistleblower and citizen hotline investigations.

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

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

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