



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Washington Counties Risk Pool
Thurston County

For the period October 1, 2014 through September 30, 2016

Published May 30, 2017

Report No. 1019281





Office of the Washington State Auditor
Pat McCarthy

May 30, 2017

Executive Director
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,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Washington Counties Risk Pool
Thurston County
October 1, 2014 through September 30, 2016**

Executive Director
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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated May 30, 2017. As discussed in Note 2 to the financial statements, during the year ended September 30, 2016, the Pool implemented Governmental Accounting Standards Board *Statement No. 72, Fair Value Measurement and Application*.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

May 30, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Risk Pool Thurston County October 1, 2014 through September 30, 2016

Executive Director
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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 10.

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 opinions 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 opinions.

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, 2016 and 2015, 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

As discussed in Note 2 to the financial statements, in 2016, the Pool adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 72, Fair Value Measurement and Application*. 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 11 through 14, pension plan information on pages 36 through 37 and risk pools information on pages 38 through 39 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 and Department of Enterprise Services (DES) Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017 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.



Pat McCarthy
State Auditor
Olympia, WA

May 30, 2017

FINANCIAL SECTION

Washington Counties Risk Pool Thurston County October 1, 2014 through September 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016 and 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position – 2016 and 2015

Statement of Cash Flows – 2016 and 2015

Notes to Financial Statements – 2016 and 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 & 2/3 – 2016

Schedule of Employer Contributions – PERS 1 & 2/3 – 2016

Ten-Year Claims Development Information – 2016

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2016 and 2015

DES Schedule of Expenses – 2016 and 2015

WASHINGTON COUNTIES RISK POOL

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Tumwater, WA 98512-6103

Created by Counties for Counties



Management's Discussion & Analysis

The Washington Counties Risk Pool (WCRP) management provides this discussion and analysis for the Pool's financial activities following the conclusion of its 28th Fiscal Year (FY), ending September 30, 2016. The information in this discussion and analysis should be considered in conjunction with that in the financial statements and accompanying notes to understand WCRP's financial position.

WCRP has no other component units for which it is financially accountable. It operates as an enterprise fund and uses the accrual accounting basis in accordance with the *U.S. generally accepted accounting principles*. 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.

WCRP's operating revenues consist mostly of assessments paid by its member counties. Its operating expenses consist primarily of payments made to resolve liability claims, including allocated loss adjustment expenses, and for premiums for reinsurances and excess liability, property and cyber risk/security insurance policies acquired from superior-rated commercial carriers.

Discussion of the Financial Statements:

The basic financial statements are comprised of two components: the financial statements and the notes to those financial statements. WCRP's three financial statements in a condensed format are presented hereafter with three-year comparative data.

The *Statement of Net Position* presents information on an entity's assets and liabilities at fiscal year-end with the difference between them reported as *Net Position*.

COMPARATIVE STATEMENT OF NET POSITION	Fiscal Years Ending		
	09/30/2014	09/30/2015	09/30/2016
Current Assets	\$46,343,850	\$47,703,622	\$45,838,799
Capital Assets (Net)	1,069,560	1,089,480	1,011,091
Total Assets	\$47,413,410	\$48,793,102	\$46,849,889
Total Deferred Outflows of Resources		\$63,610	\$134,538
Current Liabilities	\$16,165,932	\$17,455,251	\$19,682,994
Non-Current Liabilities	11,878,307	12,401,409	9,315,965
Total Liabilities	\$28,044,239	\$29,856,660	\$28,998,959
Total Deferred Inflows of Resources		\$83,946	\$12,069
Net Investment in Capital Assets	\$1,069,560	\$1,089,480	\$1,011,091
Unrestricted Net Position	18,299,611	17,826,626	16,962,308
Total Net Position	\$19,369,171	\$18,916,106	\$17,973,399

Analysis: The WCRP's Net Position saw a year-over-year decrease of \$942,707 between year-end 2015 and year-end 2016. This was due to a combination of the settlement of the litigated matter outlined in Note 13 – Subsequent Events in the Notes to Financial Statements, as well as the increase in liabilities as a result of the GASB 68 pension liability calculation.

The *Statement of Revenues, Expenses and Changes in Net Position* presents details of an entity's revenues and expenses during a fiscal year that resulted in the reported *Change in Net Position* — an increase in net position is the result of revenues exceeding expenses, while a decrease in net position results when revenues are less than expenses.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	FY-2014	FY-2015	FY-2016
<i>Operating Revenues</i>			
Member MLC Assessments	\$11,727,035	\$10,276,349	\$10,654,325
Member Cyber Assessments		93,697	126,005
Member WCPP Assessments	3,072,645	2,782,175	2,696,205
Operating Revenues – Miscellaneous	150,000	150,000	150,000
Total Operating Revenues	\$14,949,680	\$13,302,221	\$13,626,535
<i>Non-Operating Revenues (and Expenses)</i>			
Interest Income	\$219,858	\$257,362	\$340,586
Other (Net) Non-Operating Revenues	48,320	26,857	(21,252)
Total Non-Operating Revenues	\$268,177	\$284,219	\$319,334
Total Revenues	\$15,217,857	\$13,586,440	\$13,945,869
<i>Operating Expenses</i>			
Adjustments to (MLC) Claims/ULAE Reserves	\$4,149,664	\$4,539,223	\$4,536,127
Premiums for MLC Insuring Policies	4,169,152	3,821,325	3,906,713
Premium for Cyber Insurance Policy		93,697	126,005
Premiums for Property Insurance Policies	2,959,396	2,681,290	2,485,368
Depreciation, Bad Debt & Administrative Expenses	1,954,321	2,252,141	3,834,364
Total Operating Expenses	\$13,232,533	\$13,387,676	\$14,888,577
Changes in Net Position	\$1,985,324	\$198,765	\$(942,707)
Beginning Net Position (October 1st)	\$16,722,846	\$19,369,171	\$18,916,105
Prior Period Adjustment	661,000	(651,830)	
Ending Net Position (September 30th)	\$19,369,171	\$18,916,106	\$17,973,398

Analysis: An overall increase in total operating expenses is largely attributed to the legal expenses incurred following the resolution of the pending legal matter discussed in Note 13 – Subsequent Events. This increase is offset, however, by an increase in revenues, a number of unspent budgeted line items, and finally, an increase in investment income.

Budget Discussion:

The WCRP Board of Directors approves the upcoming Fiscal Year budget at their Annual Meeting in July of each year. Budgeted revenues and expenses are identified based on information known at the time of budget approval, with the understanding that final premiums from reinsurers and excess insurers will be confirmed prior to the beginning of the upcoming Fiscal Year. Budget amendments are generally not required and no amendments were requested during FY2016.

Fiscal 2016 Budget	2015 Actual	2016 Budget	2016 Actual
Operating Revenues:			
Member C/A – Liability Coverage	\$10,276,349	\$10,654,325	\$10,654,325
Member C/A – Property Insurance	2,782,175	2,696,205	2,696,205
Member C/A – Cyber Insurance	93,697	126,005	126,005
Member Services Revenues	150,000	150,000	150,000
Total Operating Revenues	\$13,302,221	\$13,626,535	\$13,626,535
Operating Expenses:			
Current Year “SIR” Claims Reserves	\$1,099,403	\$1,008,468	\$1,008,468
Current Year’s “Corridor” Claims Reserves	3,350,000	3,450,000	3,450,000
Premiums for Reinsurances Purchased	3,320,056	3,399,350	3,399,350
Premiums for Excess Insurances Purchased	501,269	507,363	507,363
Premiums for Property Insurance Purchased	2,681,290	2,485,368	2,485,368
Premiums for Cyber Insurance Purchased	93,697	126,005	126,005
Depreciation (of Capital Assets) Expense	72,644	70,650	78,389
Administrative (OH) (with contingency)	2,179,497	2,928,954	3,755,978
Total Operating Expenses	\$13,297,856	\$13,976,158	\$14,810,921
Operating Income / (Loss)	\$4,365	(\$349,623)	(\$1,184,386)
Non-Operating Revenues / (Expenses):			
Interest Income	\$257,362	\$335,000	\$340,586
Rental Income (Net)	35,956	23,100	38,137
Miscellaneous Income			
Total Non-Operating Revenues / (Expenses)	\$293,318	\$358,100	\$378,723
Changes in Net Position	\$297,683	\$8,477	(\$805,663)
Net Position, Beginning of Fiscal Period	\$19,369,170	\$18,916,105	\$18,916,105
NET POSITION, End of Fiscal Period	\$19,666,853	\$18,924,582	\$18,110,442

Analysis: When evaluating the amount budgeted compared to the actual amount realized for Fiscal Year 2016, it is again noteworthy that the increase in administrative expenses is largely the result of the legal expenses incurred following the resolution of the pending legal matter described in Note 13 – Subsequent Events. The WCRP incurred legal expenses during the handling of the legal matter described, an amount that is then offset by an increase in revenues, a number of unspent budgeted line items and an increase in investment income.

Overall Analysis of Financial Position and Result of Operations:

The WCRP's financial position continues to remain quite strong. While a slight decline in the Net Position has been seen over the past two-year period, this followed a number of years which saw significant increases, as the membership made intentional efforts to increase its fund balance, in anticipation of a change in the hardening of the commercial insurance market and in anticipation of increasing its Self-Insured Retention (SIR). Further, the Pool was financially positioning itself for utilizing funds to offset unexpected rate increases, a possibility which became a reality for the 2016-17 Fiscal Year, the resolution of its pending legal matter, and other unexpected liabilities or expenses, such as the GASB 68 pension liability calculations.

While a few matters continue to remain pending against county members, the adverse outcome of which can further impact the WCRP's overall position, the Pool continues to remain confident in its claim handling. Appropriate reserve estimates were included within the Pool's FY-2016 financials for any such matter stemming from liability claim against a member county. The WCRP anticipates continued success and favorable outcomes of cases currently pending.

Finally, it should be noted that the WCRP's assessments to its members have remained stable, an ongoing goal of the organization, while the unrestricted Net Position continues to meet the solvency requirements established by the State under Washington Administrative Code (WAC) 200-100, and continues to fall within the funding target established by the WCRP Board of Directors.

Capital Asset and Long-Term Debt Activity:

No capital asset activities occurred during FY-2016 and no long-term debt has been pursued by the Washington Counties Risk Pool.

Request for Information:

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, 2558 R W Johnson Rd SW, Suite 106, Tumwater, WA, 98512-6103; or by telephone at (360) 292-4500.

**WASHINGTON COUNTIES RISK POOL
STATEMENT OF NET POSITION**

As of September 30, 2016 and 2015

ASSETS	As of 9/30/2016	As of 9/30/2015
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 4,896,133	\$ 3,536,452
Investments	33,966,134	40,765,231
Receivables:		
Members' MLC Deductibles Receivable	715,119	571,772
Excess Insurance/Reinsurance Recoverable	178,909	541,618
Members' MLC Assessments Receivable	609,756	1,491,720
Members' Cyber Liability Receivable	13,115	-
Members' WCPP Assessments Receivable	2,701,123	759,650
Other Accounts Receivables	131,482	26,843
Accrued Interest	44,351	7,676
Prepaid Expenses	2,582,677	2,660
TOTAL CURRENT ASSETS	\$ 45,838,799	\$ 47,703,622
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	\$ 1,011,091	\$ 1,089,480
TOTAL NON CURRENT ASSETS	\$ 1,011,091	\$ 1,089,480
TOTAL ASSETS	\$ 46,849,889	\$ 48,793,102
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows -- GASB 68	\$ 134,538	\$ 63,610
LIABILITIES		
CURRENT LIABILITIES:		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	\$ 1,177,614	\$ 1,038,133
IBNR Reserve - SIR	-	-
"1st/2nd Layers' Corridor" Reserves	-	-
Open Claims - Corridor Reserves	4,141,666	2,750,093
IBNR Reserve - Corridor	-	-
Accounts Payable	219,305	240,493
Unearned Revenue - Members Assessments	14,144,409	13,426,532
TOTAL CURRENT LIABILITIES	\$ 19,682,994	\$ 17,455,251
NON CURRENT LIABILITIES		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	\$ 1,979,323	\$ 1,988,116
IBNR Reserve - SIR	65,544	(246,342)
Open Claims - Corridor Reserves	2,945,766	8,176,775
IBNR Reserve - Corridor	2,163,980	494,469
"8x2 10% Quota Share" Reserve	120,000	240,000
Reserve for ULAE	1,116,000	986,452
Compensated Absences	85,660	122,464
Net Pension Liability -- GASB 68	839,692	639,475
TOTAL NON CURRENT LIABILITIES	\$ 9,315,965	\$ 12,401,409
TOTAL LIABILITIES	\$ 28,998,959	\$ 29,856,660
TOTAL DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows on Pensions	\$ 12,069	\$ 83,946
NET POSITION:		
Net Investment in Capital Assets	\$ 1,011,091	\$ 1,089,480
Unrestricted Net Position	16,962,308	17,826,626
TOTAL NET POSITION	\$ 17,973,399	\$ 18,916,106

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, 2016 and 2015

	Year Ended 9/30/2016	Year Ended 9/30/2015
OPERATING REVENUES:		
Members' Assessments -- MLC Coverage	\$ 10,654,325	\$ 10,276,349
Members' Assessments Cyber Coverage	\$ 126,005	\$ 93,697
Members' Assessments -- WCPP Insurance	2,696,205	2,782,175
Member Services - Revenues	150,000	150,000
	\$ 13,626,535	\$ 13,302,221
OPERATING EXPENSES:		
Current Year's "SIR" Reserves	\$ 1,008,468	\$ 1,099,403
Current Year's "1st/2nd Layers' Corridor" Reserves	3,450,000	3,350,000
Adjustment in Prior Years' "SIR" Reserves	575,252	(4,642)
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	(507,141)	13,868
Adjustment in Reserve for ULAE	129,548	(29,406)
Adjustment of Prior Year's 8x2 10% Quota Share" Reserve	(120,000)	110,000
MLC Reinsurance Premiums	3,399,350	3,320,056
Excess Liability Insurance Policies Premiums	507,363	501,269
Cyber Premiums	126,005	93,697
WCPP Insurance Premiums	2,485,368	2,681,290
Depreciation Expense	78,389	72,644
Operating Expenditures	3,755,975	2,179,497
	\$ 14,888,576	\$ 13,387,676
Total Operating Revenues	\$ 13,626,535	\$ 13,302,221
	\$ (1,262,041)	\$ (85,455)
OPERATING INCOME (LOSS)		
NON OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	\$ 340,586	\$ 257,362
Rental Income	38,137	35,956
Rental Expense	(6,380)	(9,098)
Fair Value Adjustment on Investments	(55,261)	0
Gain (Losses) on Capital Assets Disposition	2,252	-
	\$ 319,334	\$ 284,220
Total Nonoperating Revenues (Expenses)	\$ 319,334	\$ 284,220
CHANGES IN NET POSITION	\$ (942,707)	\$ 198,765
TOTAL NET POSITION, Beginning of Year	\$ 18,916,105	\$ 19,369,170
Change in Accounting Principles -- GASB 68	\$ -	\$ (651,830)
PRIOR PERIOD ADJUSTMENT	\$ -	\$ -
TOTAL NET POSTION, End of Year	\$ 17,973,398	\$ 18,916,105

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, 2016 and 2015

	<u>Year Ended</u> <u>9/30/2016</u>	<u>Year Ended</u> <u>9/30/2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Members & Insurers	\$ 13,386,511	\$ 14,530,272
Cash payments for goods and services	(17,744,563)	(10,750,360)
Cash payments to employees for services	(1,221,221)	(1,029,985)
Net Cash Provided (Used) by Operating Activities	\$ (5,579,273)	\$ 2,749,926
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Equipment & Building	\$ -	\$ (92,563)
Cash from Rental of Office (net)	31,757	26,858
GASB 68 -- Pension Liability (net)	(142,805)	(631,494)
Non Operating Miscellaneous Income	-	-
Proceeds from Sale and Maturities of Investments	(53,009)	-
Net Cash Provided (Used) from Capital and Related Financing Activities	\$ (164,057)	\$ (697,199)
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest/Accrued Income	\$ 303,911	\$ 249,685
Net Cash Provided (Used) by Investing Activities	\$ 303,911	\$ 249,685
Increase (Decrease) in Cash and Cash Equivalents	\$ (5,439,419)	\$ 2,302,412
Cash and Cash Equivalents - Beginning of the Year	\$ 44,301,682	\$ 41,999,271
Cash and Cash Equivalents (including restricted) - End of the Year	\$ 38,862,263	\$ 44,301,682

The accompanying notes are an integral part of this financial statements

	<u>Year Ended</u> <u>9/30/2016</u>	<u>Year Ended</u> <u>9/30/2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	\$ (1,262,041)	\$ (85,455)
Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:		
Depreciation Expense	78,389	72,644
Decrease (Increase) in Accounts Receivable	(957,901)	950,017
Increase (Decrease) in "SIR" Reserves	442,573	86,922
Increase (Decrease) in "8x2 10% Quota Share" Reserve	(120,000)	110,000
Increase (Decrease) in "1st/2nd Layers' Corridor" Reserves	(2,169,925)	580,418
Increase (Decrease) in Reserve for ULAE	129,548	(29,407)
Increase (Decrease) in Unearned Revenue	717,877	278,034
Increase (Decrease) in Accounts Payable	(21,189)	137,108
Increase (Decrease) in Accrued Liabilities	163,413	649,345
Increase (Decrease) in Prepaid Expenses	(2,580,017)	300
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (5,579,273)	\$ 2,749,926
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		

The accompanying notes are an integral part of this financial statements

October 1, 2015 Thru September 30, 2016

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 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 of the Revised Code of Washington (“RCW”).

The WCRP is governed by its 26-member Board of Directors with a President, Vice-President, and Secretary/Treasurer serving as its annually elected officers. The WCRP Board meets three times each year at its Spring Conference & Board Meeting, Fall Conference & Board Meeting, and its Summer Annual Conference & Board Meeting. The WCRP’s Executive Committee, consisting of 11 members of the Board of Directors, meet four to six times each year for general Pool administration and oversight.

Through the Executive Director, the Pool’s 12-member staff carries out of the mission and directives of the Board of Directors. The Administrative and Finance Department handles day-to-day operations and administration of the Pool, the six-member Claims Department manages all liability claims brought against member counties, and the Member Services Department, consisting of both Loss Control/Risk and Member Programs, provide the various training, consulting and other risk management and risk-reducing resources to participating members.

Annual deposit assessments are adjusted to incorporate actuarial projections and operational needs, and then approved by the (WCRP) Board of Directors at their Annual Meeting. If the Pool’s assets were depleted, members would be responsible for outstanding liabilities of the WCRP.

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 ,while its operating expenses include both claims paid from current year’s allowances and adjustments to prior year’s reserves, premiums for reinsurances and excess, property and cyber risk insurances, and the Pool’s administrative expenses.

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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 6

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 2.

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. 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 and 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 actuary uses 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.

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i. Reinsurance

The WCRP acquires reinsurance (agreements) to directly reduce its exposure to large third-party liability losses and to indirectly reduce 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, 2016, and 2015 as being reinsured were \$100,403,423 and \$100,647,246 respectively. Premiums ceded to reinsurers during 2016 and 2015 were \$3,399,350 and \$3,320,056 respectively. The independent actuary's estimate for the ceded reinsured amount of gross loss reserves as of September 30, 2016, was \$42,624,820.

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, upon the values of the real and personal properties scheduled by the participating counties for property coverage and simply equal shares for cyber risk coverage. Investment income is not presently 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.

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the

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Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

NOTE 2 - 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); a US Bank custodial account; 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, 2016 and September 30, 2015 were as follows:

	<u>9/30/2016</u>	<u>9/30/2015</u>
Wells Fargo (checking)	\$ 4,896,133	\$ 3,536,451
Washington State Investment Pool (LGIP)	665,899	663,289
Spokane County Investment Pool (SCIP)	17,154,310	36,092,533
US Bank Custodial Account	<u>16,145,925</u>	<u>4,009,409</u>
Total deposits and investments	<u>\$ 38,862,267</u>	<u>\$ 43,301,682</u>

b. Investments:

Investments Measured at Amortized Cost

	<u>Maturities</u>	<u>Market Ratings</u>	<u>Average Value</u>
WA State Investment Pool (LGIP)	1 day average		\$ 665,899
Money Market Fund	1 day average	Aaa AAA	534,775

Concentration of Credit:

<u>Issuer Name:</u>	<u>Cost</u>	<u>Market Value</u>	<u>Average Duration</u>	<u>Average Maturity</u>	<u>Rating Moody/Sp</u>	<u>% of Portfolio</u>
Government of United States	\$ 7,466,878	\$7,502,127	1.23	1.25	Aaa/AA+	46.46%
Federal National Mortgage Assoc.	2,536,503	2,543,408	1.97	2.01	Aaa/AA+	15.75%
Federal Home Loan Bank	2,522,486	2,528,245	1.93	1.97	Aaa/AA+	15.66%
Federal Home Loan Mortgage Corp	3,025,198	3,037,370	2.24	2.29	Aaa/AA+	18.81%
First American Govt Oblig Fund	534,775	534,775	0.00	0.00	Aaa/AAA+	3.31%

Investments Measured at Fair Value

WCRP's measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

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At September 30, 2016, WCRP had the following investments measured at fair value:

<u>Investment by Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Spokane County Investment Pool		\$17,154,310		\$17,154,310
U.S. Agencies		\$ 8,109,023		\$ 8,109,023
U.S. Treasuries		\$ 7,502,127		\$ 7,502,127
Total Investments at Fair Value Level		\$32,765,460		\$32,765,460

Disclosure of Custodial Credit Risk

WCRP's investment policy states that all security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the Pool will be delivered against payment and held in a custodial safekeeping account with the trust department of a bank. A third party custodian will be designated by the Executive Director and all transactions will be evidenced by safekeeping receipts.

Concentration of Credit Risk

Concentration Risk disclosure is required for all investments in any one issuer that represents 5% or more of the Pool's total investments, excluding investment pools and investments issued by the U.S. government. No disclosure of concentration risk currently meets this requirement.

Interest Rate Risk

Interest rate risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Pool recognizes that, over time, longer-term portfolios have higher volatility of return. The Pool mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The Pool has deposits of \$17,154,310 with the Spokane County Investment Pool and \$665,899 with the Washington State Investment Pool that are available immediately. The Pool further recognizes that certain types of securities will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The Pool restricts callable securities to a maximum of 20% of the portfolio, restricts maximum maturity to 5 years, and constrains duration to plus or minus 20% of a market benchmark index selected by the Investment Committee based on the Pool's investment objectives, constrains and risk tolerances.

NOTE 3 - JOINT SELF-INSURED RETENTION

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 fiscal years 2016 and 2015, 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, for those same claims between \$1,000,000 and \$2,000,000, the Pool's annual aggregate reinsurance was limited to \$20,000,000; and for those between \$2,000,000 and \$5,000,000, the Pool's annual aggregate reinsurance was limited to \$30,000,000. Also, Reinsurer's liability for **ultimate net loss** arising from claims between \$5,000,000 and \$10,000,000, the Pool's annual aggregate reinsurance was limited to

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\$50,000,000. Furthermore, with regard to ultimate net loss subject to the \$8 million excess of \$2 million reinsurance layer for Fiscal Year 2013, the Pool agreed to accept a 10% quota-share.

Through pre-funded member assessments (deposit assessments) collected immediately prior to or at the beginning of each pool fiscal year, WCRP committed assets for the years ended September 30, 2016 and 2015 of \$1,008,468 and \$1,099,403 respectively, and is committing for PY-2017 \$1,083,493, specifically for 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 \$3,450,000 (PY-2016) and \$3,350,000 (PY-2015).

NOTE 4 – 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, WCRP partners with multiple superior-rated commercial insurers by acquiring reinsurance agreements and "following form" excess, property, and cyber risk insurances. The limits provided by these insuring agreements, contracts and policies for PY-2016 follow:

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

The total "occurrence" coverage grew 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 MLC years including PYs 2016 and 2015. 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 MLC 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 \$3,399,350, while the independent actuary's estimate of the amounts recoverable from reinsurers (and excess insurers) which reduced the liabilities of gross loss reserves on the balance sheet (as of September 30, 2016,.) totaled \$42,624,820.

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

- b. **Washington Counties Property Program ("WCPP")**: Beginning with PY-2006, 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-2016, all 26 WCRP counties 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). Other coverages included Green Construction Upgrades, Reproduction for Historic Structures, and Terrorism (\$20 million).

AOP occurrence deductibles between \$5,000 and \$25,000 were/are selected by the participating counties which they are solely responsible for paying. Higher deductibles amounts apply to catastrophe losses.

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c. **Cyber Risk and Other Coverage:** Beginning with fiscal year 2014-15, the Pool added jointly purchased cyber risk and security coverage which includes (1st party) business interruption, data recovery, cyber extortion, breach response and management (regulatory compliance) protections associated with data breaches.

NOTE 5 - 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 Fiscal Year 2016, there was no deficiency, and no additional retroactive assessments were levied or collected.

NOTE 6 – 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, 2016 were as follows:

	Beginning Balance 10/01/15	Increase	(Decrease)	Ending Balance 9/30/16
Capital Assets Being Depreciated:				
Building	\$ 1,320,950			1,320,950
Office Furnishings and Equipment	212,753			212,753
Total Capital Assets being Depreciated	\$ 1,533,703			1,533,703
Less Accumulated Depreciation for:				
Building	\$ 345,089	47,549		392,638
Office Furnishings and Equipment	99,134	30,840		129,974
Total Accumulated Depreciation	\$ 444,223	78,389		522,612
TOTAL CAPITAL ASSETS NET	\$ 1,089,480	78,389		1,011,091

Capital assets activities for the fiscal year ended September 30, 2015 were as follows:

	Beginning Balance 10/01/14	Increase	(Decrease)	Ending Balance 9/30/15
Capital Assets Being Depreciated:				
Building	\$ 1,274,140	46,810		1,320,950
Office Furnishings and Equipment	169,100	45,755	(2,102)	212,753
Total Capital Assets being Depreciated	\$ 1,443,240	92,565	(2,102)	1,533,703
Less Accumulated Depreciation for:				
Building	\$ 299,769	45,320		345,089
Office Furnishings and Equipment	73,912	27,323	(2,102)	99,134

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Total Accumulated Depreciation	\$	373,681	72,643	(2,102)	444,223
TOTAL CAPITAL ASSETS NET	\$	<u>1,069,558</u>	<u>19,922</u>	<u>(0)</u>	<u>1,089,480</u>

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:

<u>Asset</u>	<u>Years</u>
Building	30
Building Improvements	30
Vehicles	5
Equipment	5

NOTE 7: SOLVENCY

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 *80% confidence level* estimate of unpaid claims (70% before 2015). 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

Primary Asset Test 1	2016	2015
Cash and cash equivalents	\$ 4,896,133	\$ 3,536,452
Investments	33,966,134	40,765,231
Total	\$38,862,267	\$ 44,301,683
Non-claims Liabilities	\$ 304,965	\$ 362,957
Unearned Revenues	14,144,409	13,426,532
Total Primary Assets	\$24,412,893	\$30,512,194
Claims Liability – Expected Level	\$13,709,893	\$15,427,697
Test 1 Result – Primary Asset Test	PASS	PASS
Secondary Asset Test		
Cash and cash equivalents	\$ 4,896,133	\$ 3,536,452
Investments	33,966,134	40,765,231
Receivables	4,349,504	3,391,603
Prepaid Expenses	2,582,677	2,660
Accrued Interest	44,351	7,679
Capital Assets	1,011,091	1,089,480
Less:		
Non-Claims Liabilities	\$ 304,965	\$ 362,957
Unearned Revenues	14,144,409	13,426,532
Total Secondary Assets	\$ 7,987,623	\$ 4,491,419
Total Primary plus Secondary Assets	\$32,400,516	\$ 35,003,613
Claims Liabilities at 80%	\$14,760,000	\$16,727,000
Test 2 Results – Secondary Asset Test	PASS	PASS

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NOTE 8: RESTRICTED AND UNRESTRICTED NET POSITION

In 2016, WCRP's statement of net position reflects no restricted amounts.

NOTE 9 – Changes in Accounting Principles

WCRP's Statement of Net Position reflects no change in accounting principles in PY16 and a change of \$651,830 in PY15. The change in PY15 was due to the implementation of GASB 68.

NOTE 10 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the years 2016 and 2015:

Aggregate Pension Amounts – All Plans		
	2016	2015
Pension liabilities	\$839,691	\$639,474
Pension assets	\$	\$
Deferred outflows of resources	\$134,538	\$ 63,610
Deferred inflows of resources	\$ 12,069	\$ 83,946
Pension expense/expenditures	\$ 145,341	\$ 7,981

State Sponsored Pension Plans

Substantially all *Washington Counties Risk Pool (WCRP)* full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible

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for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

The *WCRP's* actual contributions to the plan for fiscal years ended September 30, 2016 and 2015 were \$14,233 and \$13,951 respectively.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

The *WCRP's* actual contributions to the plan for years ended September 30, 2016 and 2015 were \$78,240 and \$56,580 respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.00% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

October 1, 2015 Thru September 30, 2016

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The *Washington State Investment Board (WSIB)* used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the *Washington Counties Risk Pools* proportionate share* of the net pension liability calculated using the discount rate of 7.5%, as well as what the *Washington Counties Risk Pools* proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

2016	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 571,723	\$ 474,105	\$ 390,099
PERS 2/3	673,109	365,586	(190,308)

2015	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 497,712	\$ 408,797	\$ 332,337
PERS 2/3	674,510	230,677	(109,150)

October 1, 2015 Thru September 30, 2016

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2016 and 2015, the *Washington Counties Risk Pool* reported a total pension liability of \$839,691 and \$639,474 respectively for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)	Liability (or Asset)
	2016	2015
PERS 1	\$474,105	\$408,797
PERS 2/3	\$365,586	\$230,677

At June 30 2016 and 2015, the *Washington Counties Risk Pool's* proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.007815%	.008828%	.0000657%
PERS 2/3	.006456%	.007261%	.000805%

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.007457%	.007815%	.000358%
PERS 2/3	.005880%	.006456%	.000576%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended September 30, 2016 and 2015, the *Washington Counties Risk Pool* recognized pension expense as follows:

	Pension Expense	Pension Expense
	2016	2015
PERS 1	\$ 81,069	\$6,281
PERS 2/3	\$ 64,272	\$1,700
TOTAL	\$ 145,341	\$7,981

October 1, 2015 Thru September 30, 2016

Deferred Outflows of Resources and Deferred Inflows of Resources

At September 30, 2016, the *Washington Counties Risk Pool* reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 11,937	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 6,997	
TOTAL	\$ 18,934	\$

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,467	\$ (12,069)
Net difference between projected and actual investment earnings on pension plan investments	\$ 44,737	\$
Changes of assumptions	\$ 3,779	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$38,482	\$
Contributions subsequent to the measurement date	\$ 9,138	
TOTAL	\$115,604	\$ (12,069)

October 1, 2015 Thru September 30, 2016

At September 30, 2015, the *Washington Counties Risk Pool* reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 22,366
Net difference between projected and actual investment earnings on pension plan investments	\$	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 11,000	
TOTAL	\$ 11,000	\$ 22,366

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,521	\$ 61,580
Net difference between projected and actual investment earnings on pension plan investments	\$	\$
Changes of assumptions	\$ 372	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$18,534	\$
Contributions subsequent to the measurement date	\$ 9,183	
TOTAL	\$ 52,610	\$ 61,580

Deferred outflows of resources related to pensions resulting from the *Washington Counties Risk Pools* contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

October 1, 2015 Thru September 30, 2016

Year ended September:	PERS 1	PERS 2/3
2017	\$ (2,939)	\$ 13,641
2018	\$ (2,939)	\$ 13,641
2019	\$ 10,963	\$ 44,324
2020	\$ 6,853	\$ 22,790
Thereafter	\$	
TOTAL	\$11,937	\$ 94,396

NOTE 11: 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, 2016 and 2015 were \$52,079 and \$45,964, respectively. There are no employee contributions to this plan.

NOTE 12 - DEFERRED COMPENSATION PLANS

The WCRP offers its employees a choice of two deferred compensation plans created in accordance with Section 457 of the Internal Revenue Code. The plans are with the International City/County Management Association (ICMA) and the Washington State Department of Retirement. 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 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

- a. **WCRP v. Northrop, Davis, Clark County, and Donald Slagle:** This case involves a dispute between the WCRP and former WCRP member, Clark County and its employee, Slagle. Following the WCRP's declination of coverage for the defense and indemnification of Clark County in a case filed against it by two plaintiffs, Clark County stipulated to a settlement and assigned its rights under the WCRP interlocal agreement to the plaintiffs. The plaintiffs' suit against the WCRP, along with the WCRP's suit against the plaintiffs and Clark County, were consolidated into a single action in Cowlitz County Superior Court.

The trial court ruled in favor of the WCRP on all matters and granted certification for appellate review. The Washington Supreme Court then accepted direct appellate review on June 1, 2015. Oral argument before the Washington Supreme Court occurred on May 10, 2016. Prior to the Supreme Court's decision, the case resolved for \$15.5 million. \$13.5 Million was paid by Lexington Insurance Company, or one of its subsidiaries, \$1 Million was paid by ACE Insurance Company and \$1 Million by the Washington Counties Risk Pool.

- b. **WCRP and Douglas County v. Corter and Groseclose:** Under a reservation of rights, WCRP paid for the defense for Douglas County sheriff's detective Groseclose in a civil rights lawsuit brought by his ex-wife Corter. After a verdict was entered on behalf of Corter, WCRP enforced its reservation of rights and refused to indemnify Groseclose for the damages awarded to Corter. Rather than administratively appealing WCRP's decision as required under the WCRP Bylaws, Groseclose assigned his rights against WCRP and Douglas County to Corter. WCRP and Douglas County filed a declaratory judgment action against Corter and Groseclose in Douglas County Superior Court. The trial court granted Summary Judgment in favor of WCRP and Douglas

October 1, 2015 Thru September 30, 2016

County, the Court of Appeals upheld the trial court's decision, and, on September 30, 2016, the Washington State Supreme Court denied Corter and Groseclose's petition for review.

- c. Following the resolution of the case identified in (a) above, and as is also common in continuous claim and litigation adjusting, the WCRP has recently focused attention on confirming dates of occurrence for all of its liability claims. While this process is on-going, it has also resulted in changes to the dates of occurrence applied to certain claims, and in turn, changes to coverage years applicable.

It is currently not known if or how changes may impact the WCRP's assets, liabilities and net position. Additional file reviews and independent actuarial analysis will be conducted in the weeks and months that follow, and the WCRP will promptly provide information and results when available.

NOTE 14 - UNPAID CLAIMS LIABILITIES

As discussed somewhat in Notes 1.h and 1.k, 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 WCRP's SIR Reserves during the past two years:

	<u>2016</u>	<u>2015</u>
SIR - Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	\$ 2,779,907	\$ 2,692,985
SIR - Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,008,468	1,099,403
Increase (Decrease) in Provision for Insured Events		
Prior Years	<u>575,252</u>	<u>(5,791)</u>
Total Incurred Claims and Claims Adjustment Expenses	\$4,363,627	3,786,597
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	\$ 0.00	\$ 161,645
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	<u>1,141,147</u>	<u>845,045</u>
Total Payments	\$ 1,141,147	\$ 1,006,690
SIR -Total Unpaid Claims and Claims Adjustment Expenses		
End of Year	<u>\$ 3,222,484</u>	<u>\$ 2,779,907</u>

The actuary estimated the current Unpaid Claims and Claims Adjustment liability at the end of 2016 and 2015 to be \$1,177,614 and \$1,038,133 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	\$ 14,441,244	\$ 13,663,903
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	4,458,468	4,449,403
Increase (Decrease) in Provision for Insured Events		
Prior Years	<u>(51,890)</u>	<u>118,078</u>
Total Incurred Claims and Claims Adjustment Expenses	\$ 18,847,822	\$17,750,764

October 1, 2015 Thru September 30, 2016

SIR - Payments:

Claims and Claims Adjustment Expenses Attributable to Insured Events of the Current Year	\$ 0	\$ 198,364
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	<u>6,253,921</u>	<u>3,591,776</u>
Total Payments	\$ 6,253,921	\$ 3,790,140
SIR -Total Unpaid Claims and Claims Adjustment Expenses	<u>\$12,593,893</u>	<u>\$ 14,441,244</u>

The actuary estimated the current SIR – Total Unpaid Claims and Claims Adjustment Liability at the end of 2016 and 2015 to be \$5,319,280 and \$3,788,266 respectively.

Washington Counties Risk Pool
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	0.007815%	0.008828%
Employer's proportionate share of the net pension liability	408,797	474,105
TOTAL	<u>408,797</u>	<u>474,105</u>
Employer's covered employee payroll	716,208	807,402
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	175.20%	170.30%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

Washington Counties Risk Pool
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	0.006456%	0.007261%
Employer's proportionate share of the net pension liability	230,677	365,586
TOTAL	<u>230,677</u>	<u>365,586</u>
Employer's covered employee payroll	572,850	644,146
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	56.76%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

Washington Counties Risk Pool
Schedule of Employer Contributions
PERS 1
As of September 30, 2016
Last 10 Fiscal Years

	2015	2016
Statorily or contractually required contributions	38,174	47,705
Contributions in relation to the statorily or contractually required contributions	38,174	47,705
Contribution deficiency (excess)	0	0
Covered Employer Payroll	728,221	803,177
Contributions as a percentage of covered employee payroll	5.24%	5.94%

Washington Counties Risk Pool
Schedule of Employer Contributions
PERS 2/3
As of September 30, 2016
Last 10 Fiscal Years

	2015	2016
Statorily or contractually required contributions	31,045	44,017
Contributions in relation to the statorily or contractually required contributions	31,045	44,017
Contribution deficiency (excess)	0	0
Covered Employer Payroll	584,437	675,866
Contributions as a percentage of covered employee payroll	5.31%	6.51%

October 1, 2015 Thru September 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

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

1. 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:

- a. 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.
- b. This line shows each fiscal year's other operating costs of the WCRP including overhead and claims expense not allocable to individual claims.
- c. 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).
- d. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- e. This line shows the latest estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- f. This section of ten rows show how each year's net incurred claims increased or decreased as of the end of successive years. (This annual estimation 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.)
- g. This line compares the latest estimated net incurred claims amount 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 estimated 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
MLC Claims Development
September 2007-2016

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
1. Required Contribution and investment revenue:									
Earned	12,221,809	12,203,136	11,993,561	14,732,223	14,122,973	14,602,491	14,715,659	15,169,538	13,559,583
Ceded	3,772,810	3,806,063	3,697,000	5,480,000	5,480,000	5,602,250	3,199,125	3,593,317	3,320,056
Net earned	8,448,999	8,397,073	8,296,561	9,252,223	8,642,973	9,000,241	11,516,534	11,576,221	10,239,527
2. Unallocated expenses	4,148,923	4,098,577	4,528,441	4,880,297	4,728,089	5,113,060	6,036,859	5,490,125	5,518,065
3. Estimated claims and expenses end of policy year:									
Incurred				14,000,000	13,000,000	10,200,000	8,000,000	7,300,000	10,900,000
Ceded				9,750,000	8,950,000	6,375,000	3,125,000	2,875,000	6,415,000
Net incurred	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000	4,425,000	4,485,000
4. Net paid (cumulative) as of:									
End of policy year:	75,153	87,032	-	41,325	42,951	193,680	19,510	-	198,365
One year later	207,883	227,021	197,532	519,161	648,326	380,131	929,023	394,618	2,562,875
Two years later	751,102	541,119	605,051	477,611	959,084	1,133,512	1,676,522	2,545,482	
Three years later	1,278,211	1,244,824	1,071,363	1,049,714	1,664,193	1,348,078	3,783,540		
Four years later	1,654,586	2,066,751	1,437,932	2,180,521	2,912,031	1,851,657			
Five years later	2,071,627	2,267,997	1,951,969	2,643,104	2,922,055				
Six years later	2,113,346	2,336,472	2,033,458	1,748,686					
Seven years later	2,123,298	2,356,994	2,034,189						
Eight years later	2,538,578	2,368,611							
Nine years later	2,538,578								
5. Estimated ceded claims and expenses	7,515,502	1,594,242	7,528,204	12,235,264	11,646,195	1,175,136	3,169,235	3,827,500	9,860,000
6. Estimated net incurred claims and expenses:									
End of policy year:	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000	4,425,000	4,485,000
One year later	3,770,000	3,700,000	3,875,000	4,300,000	3,575,000	3,500,000	4,670,000	4,232,500	4,640,000
Two years later	3,350,000	3,200,000	3,660,000	3,745,000	3,235,000	3,175,000	4,860,000	4,472,500	
Three years later	3,519,745	2,971,395	3,472,159	2,475,172	3,015,000	3,284,800	4,930,765		
Four years later	3,089,550	2,664,731	2,694,107	3,014,417	2,967,514	3,224,864			
Five years later	2,946,327	2,547,037	2,434,747	3,014,817	2,953,805				
Six years later	2,481,812	2,617,037	2,515,246	2,864,736					
Seven years later	2,568,243	2,563,548	2,505,713						
Eight years later	2,588,578	2,368,611							
Nine years later	2,588,578								
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(\$1,306,422)	(\$1,311,452)	(\$1,559,754)	(\$1,235,183)	(\$1,082,486)	(\$540,200)	(\$15,000)	(\$192,500)	\$0

October 1, 2015 Thru September 30, 2016

LIST OF PARTICIPATING MEMBERS

Schedule T-1

The following is a list of WCRP membership during the fiscal year 2015-2016

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

DES Schedule of Expenses
For Fiscal Years Ended September 30, 2016 and September 30, 2015

	<u>09/30/2016</u>	<u>09/30/2015</u>
Insurance Premiums/Reserve Expense	\$10,976,554	\$11,045,715
ULAE Expense	129,548	(29,406)
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	(507,141)	13,868
Adjustment to Prior Years' "SIR" Reserves	575,252	(4,642)
Adjustment to Prior Year' "10% (8x2 Layer) Quota Share	(120,000)	110,000
Contracted Services:		
Actuarial	110,400	68,300
State Audit Expense	11,021	7,965
State Risk Manager Expenses	11,734	11,734
Legal Fees	1,743,433	329,449
IT Consultants	18,847	25,737
Property Appraiser	63,163	32,022
Investment Advisor	8,808	3,000
Consulting Member Services Manager	12,000	27,500
Leadership Search Consultant	3,547	68,634
Other Consulting Fees	3,984	8,984
General Administrative Expenses		
Employee Salaries and Benefits	1,221,221	1,029,985
Communication	15,295	15,568
Supplies	24,021	22,231
Dues and Memberships	8,087	7,156
Travel - Employee	92,366	95,432
Committee and Board Meetings	91,692	137,029
Depreciation	78,389	72,644
Building and Auto Insurance	22,726	20,216
Operating Leases	102,115	54,659
Utilities	17,972	17,504
Member Services - Training	99,929	91,285
Member Services - Grants/Scholarships	55,874	85,735
Miscellaneous Expenses	17,739	19,372
Total Operating Expenses	<u>\$14,888,576</u>	<u>\$13,387,676</u>

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.

Contact information for the State Auditor's Office	
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