Washington State Auditor's Office

Financial Statements Audit Report

Washington Counties Risk Pool

Thurston County

Audit Period
October 1, 2012 through September 30, 2013

Report No. 1011488

Issue Date
March 27, 2014

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

March 27, 2014

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,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Washington Counties Risk Pool
Thurston County
October 1, 2012 through September 30, 2013

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, 2012 through September 30, 2013

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, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated March 17, 2014. Our report includes information about the Pool's pending litigations. This information is more fully described in Note 11 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

March 17, 2014

Independent Auditor's Report on Financial Statements

Washington Counties Risk Pool
Thurston County
October 1, 2012 through September 30, 2013

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, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 6.

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, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the year 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 11 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 7 through 12 and claims development information on pages 34 through 35 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 Office of Financial Management 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 March 17, 2014 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

March 17, 2014

Financial Section

Washington Counties Risk Pool
Thurston County
October 1, 2012 through September 30, 2013

WCRP… ***Management's Discussion and Analysis***

The management of the Washington Counties Risk Pool ("WCRP" or "Pool") presents the Pool's Silver Anniversary edition narrative overview and analysis ("MD&A") of the Risk Pool's financial activities for the fiscal year ended September 30, 2013. To more fully understand the entity's financial position, this MD&A should be considered in conjunction with the information in the companion financial statements and the accompanying notes.

The WCRP was established August 18, 1988 to administer a jointly funded, (third-party liability) self-insurance program for its member counties and to provide associated services. Noteworthy is fact that the definition of "insurer" in RCW 48.01.050 for the purposes of applying the Washington Insurance Code contains the following:

> *Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an "insurer" under this code.*

Thus, under Washington law, the WCRP is not an insurance company and is therefore not necessarily subject to the rules governing insurance policy interpretation.

Most of the Pool'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 reinsurance, excess insurance and property insurance carriers.

The WCRP 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.

During fiscal 2013 WCRP assets grew 11% (+$4.8 million) and liabilities by 3% (+$1.0 million). The net (financial) position, which is commonly referred to as "net assets" and sometimes as "owners' equity", improved 30% (+$3.9 million) during the Pool's Silver Anniversary to $16.7 million as of September 30, 2013. Much of the net position is 'restricted' ($12.5 million) to address the Board of Directors' recently revised requirements in section D of the WCRP Underwriting Policy. *NOTES: The Board's policy revision resulted in the Pool's own restriction increasing $7.5 million (+187%) and the unrestricted declining $3.8 million (-53%). The (State Risk Manager's) solvency provisions in WAC 200.100.03001(3) now requires $0.9 million for satisfaction, a year-over-year increase of $0.1 million (+15%).* Another $0.9 million is invested in capital assets (net of debt). The remaining $3.3 million is unrestricted.

$3.75 million in operating income was experienced during FY-2013, an increase of 111% from FY-2012. Operating revenues were 'flat', but operating expenses declined nearly $2.0 million (-15%). This reduction was due in part to even more favorable adjustments by the independent actuary, PricewaterhouseCoopers LLP ("PwC"), to the Pool's claims-related reserves, and to the reduction (-26%) in the premiums for the reinsurance, excess insurance and property insurance policies acquired.

616 third-party liability claims (and lawsuits) were reported to the Pool by its member counties during FY-2013 and added to the WCRP administrative database. This represented a 3% reduction in year-over-year filings and a continuation of the decline in annual filings. The new filings raised the to-date total (Oct 1988 – Sep 2013) to 19,232. Only 326 claims remained classified as *'open'* at year-end. With 307 additional claims projected by the actuary from all years as incurred but not yet reported ("IBNR"), the Pool's estimated ultimate claims totaled 19,539 as of September 30, 2013.

The actuary's projection of total reserves for claims that are expected to be the WCRP's responsibility decreased slightly (-1%) from FY-2012 to $14.6 million. This amount includes $3.4 million (-21% from FY-2012) for losses within the Pool's self-insured retention, $10.0 million (+7%) for losses subject to the "corridor" programs with the Pool's reinsurers, $0.2 million for losses within the new quota-shared (10%) upper reinsured layer, and $1.0 million (+3%) for estimated unallocated loss adjustment expenses. *NOTE: The corridor programs involving the WCRP's first (and now second) layer reinsurers began seven years ago. These programs included an occurrence coverage maximum of $0.5 million during the first* *three years, $1.0 million during the next three years, and of both $1.0 million and $2.0 million beginning with FY-2013. The occurrence coverage minimums have remained since the corridor program began the greater of the applicable member deductible or $100,000.*

Overview of the Financial Statements

The basic financial statements are comprised of two components: the financial statements and the notes to the 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.

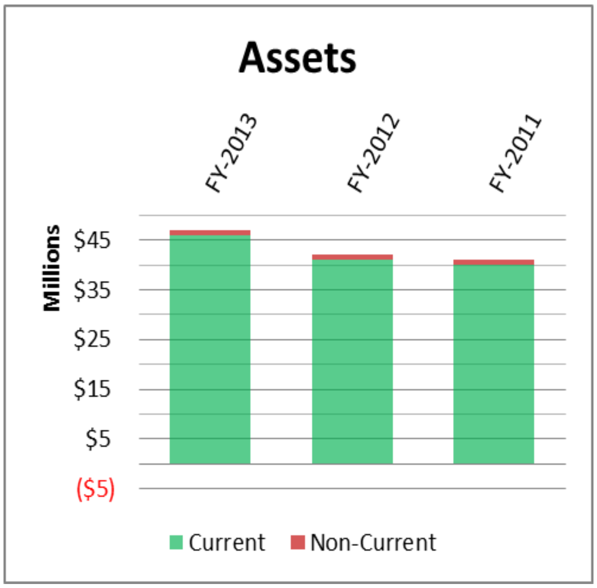
Financial Statements

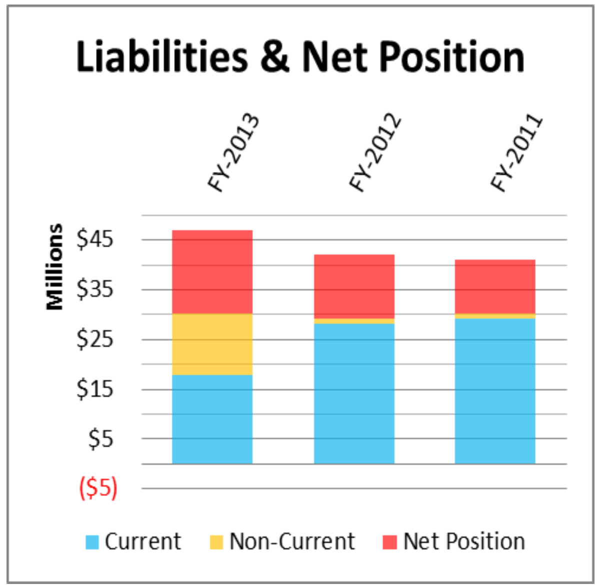
This MD&A is presented with three comparative financial statements: the *Comparative Statement of Net Position*; the *Comparative Statement of Revenues, Expenses and Changes in Net Position*, and the *Comparative Statement of Cash Flow*, along with a budgetary variation summary.

COMPARATIVE FINANCIAL INFORMATION
Washington Counties Risk Pool

NET POSITION

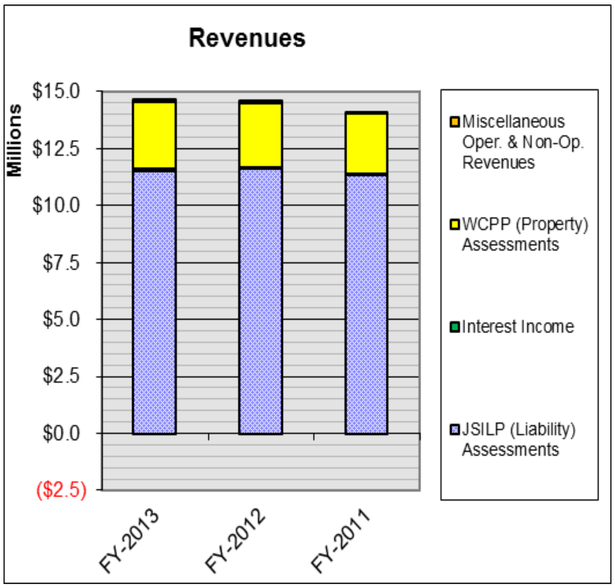
	09/30/2013	09/30/2012	09/30/2011
Current Assets	$46,017,808	$41,159,087	$39,993,492
Non-Current Assets	919,442	950,134	1,133,848
Total Assets	**$46,937,250**	**$42,109,221**	**$41,127,340**
Current Liabilities	$17,888,932	$28,165,704	$29,167,816
Non-Current Liabilities	12,325,473	1,080,500	929,473
Total Liabilities	**$30,214,405**	**$29,246,204**	**$30,097,289**
Restricted Net Position	$12,500,000	$4,834,776	$5,614,009
Invested (Net) in Capital Assets	919,442	950,134	983,848
Non-Restricted Net Position	3,303,403	7,078,107	4,432,194
Total Net Position	**$16,722,845**	**$12,863,017**	**$11,030,051**

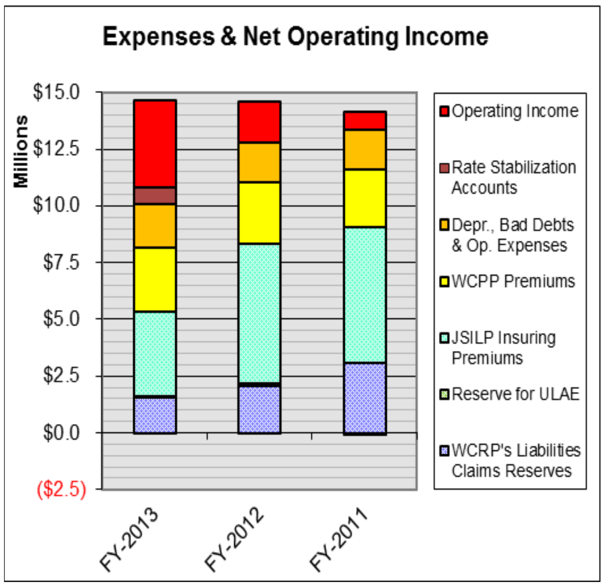




REVENUES, EXPENSES and CHANGES IN NET POSITION

	FY-2013	FY-2012	FY-2011
Operating Revenues			
Member Assessments	$11,487,536	$11,648,053	$11,354,006
Member WCPP Assessments	2,927,485	2,799,807	2,606,107
Operating Revenues – Miscellaneous	150,000	107,627	106,930
Total Operating Revenues	***$14,565,021***	***$14,555,487***	***$14,067,043***
Non-Operating Revenues (and Expenses)			
Interest Income	$150,638	$47,004	$55,930
Other Non-Operating Revenues	(39,007)	12,950	0
Total Non-Operating Revenues	***$111,631***	***$59,954***	***$55,930***
Total Revenues	**$14,676,652**	**$14,615,441**	**$14,122,973**
Operating Expenses			
Adjustments to (All WCRP) Claims Reserves	$1,580,840	$2,067,166	$3,094,203
Adjustment to ULAE Reserve	28,568	142,510	(45,092)
Premiums for JSILP Insuring Policies	3,745,615	6,113,108	6,005,054
Premiums for Property Insurance Policies	2,798,095	2,726,208	2,535,007
Depreciation, Bad Debt & Administrative Expenses	1,931,616	1,733,484	1,713,120
Rate Stabilization Accounts (JSILP / WCPP)	732,090		
Total Operating Expenses	**$10,816,824**	**$12,782,476**	**$13,302,291**
CHANGES IN NET POSITION	**$3,859,828**	**$1,832,965**	**$820,682**
Beginning Net Position (October 1st)	**$12,863,017**	**$11,030,052**	**$10,209,369**
Ending Net Position (September 30th)	**$16,722,845**	**$12,863,017**	**$11,030,052**





CASH FLOWS

	FY-2013	FY-2012	FY-2011
Net Cash Provided (Used) For Operating Activities	$7,549,576	$315,298	$2,654,816
Net Cash Provided (Used) For Capital Activities	(59,989)	140,833	
Net Cash Provided (Used) For Investing Activities	150,638	47,004	55,930
Increase (Decrease) in Cash & Cash Equivalent	**$7,640,225**	**$503,135**	**$2,710,747**
Cash & Cash Equivalents (Beginning of the Year)	$36,240,373	$35,737,238	$33,026,490
Cash & Cash Equivalents (End of the Year)	**$43,880,599**	**$36,240,373**	**$35,737,238**

BUDGET VARIATIONS

Fiscal 2013	Actual	Amended Budget	Variance
Operating Revenues:			
Member C/A – Liability Coverage	$11,487,536	$11,481,242	$6,294
Member C/A – Property Insurance	2,927,485	2,857,829	69,656
Member Services Revenues	150,000	150,000	0
Total Operating Revenues	**$14,565,021**	**$14,489,071**	**$75,950**
Operating Expenses:			
Current Year "SIR" Claims Reserves	$1,531,606	$1,531,606	$0
Current Year's "1st Layer Corridor" Claims Reserves	2,950,000	2,950,000	0
Current Year's "2nd Layer Corridor" Claims Reserve	650,000	650,000	0
Current Year's "10% Quota-Shared" Claims Reserve	150,000	202,000	52,000
Adjustment for Prior Year's "SIR" Reserves	(1,905,071)		1,905,071
Adjustment for Prior Year's "Corridor" Reserves	(1,795,695)		1,795,695
Reserve for Unallocated Loss Adjustment Expenses	28,568		(28,568)
Rate Stabilization Account (JSILP)	730,000		(730,000)
Rate Stabilization Account (WCPP)	2,090		(2,090)
Premiums for Reinsurances Purchased	3,199,125	3,199,125	0
Premiums for Excess Insurances Purchased	546,490	546,490	0
Premiums for Property Insurance Purchased	2,798,095	2,798,095	0
Depreciation (of Capital Assets) Expense	51,673	58,300	6,627
Administrative (OH) Expenses	1,879,943	2,078,056	198,113
Total Operating Expenses	**$10,816,824**	**$14,013,671**	**$3,196,848**
Operating Income / (Loss)	**$3,748,197**	**$475,400**	**$3,272,797**
Non-Operating Revenues / (Expenses):			
Interest Income	$150,638	$160,000	($9,362)
Rental Income (Net)	25,516	19,500	6,016
Property Fraud /Restitution	(66,010)		(66,010)
Miscellaneous Income	1,487		1,487
Total Non-Operating Revenues / (Expenses)	**$111,631**	**$179,500**	**($67,869)**
Changes in Net Position	**$3,859,828**	**$654,900**	**$3,204,928**
Net Position, Beginning of Fiscal Period	$12,863,017	$12,863,017	$0
NET POSITION, End of Fiscal Period	**$16,722,845**	**$13,517,917**	**$3,204,928**

Capital Assets and Long-Term Debt

Capital Assets acquired by the Pool during FY-2013 included the replacement of another fleet automobile used by the claims division staff ($20,981). *(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

Again, this MD&A is provided for those interested in the Pool's finances as a general overview of the financial operations of the Washington Counties Risk Pool. Questions concerning the information provided and the Pool's financial report, or requests for additional information, should be addressed to: WASHINGTON COUNTIES RISK POOL, Attn: Executive Director Vyrle Hill, 2558 R W Johnson 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, 2013 and 2012

ASSETS:	As of 9/30/2013	As Restated 9/30/2012	As Published 9/30/2012
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 17,745,096	$ 36,240,373	$ 21,544,798
Cash and Cash Equivalents - Restricted			$ 14,695,575
Investments	26,135,502	-	-
Members' JSILP Deductibles Receivable	467,448	904,039	904,039
Excess Insurance/Reinsurance Recoverable	57,273	115,339	115,339
Members' JSILP Assessments Receivable	892,124	897,477	897,477
Members' WCPP Assessments Receivable	702,421	2,857,829	2,857,829
Prepaid Expenses	4,375	3,500	3,500
Other Accounts Receivables	13,569	140,530	140,530
TOTAL CURRENT ASSETS	$ 46,017,808	$ 41,159,087	$ 41,159,087
NONCURRENT ASSETS:			
Capital Assets (Net of Accumulated Depreciation)	$ 919,442	$ 950,134	$ 950,134
TOTAL NON CURRENT ASSETS	$ 919,442	$ 950,134	$ 950,134
TOTAL ASSETS	$ 46,937,250	$ 42,109,221	$ 42,109,221
LIABILITIES			
CURRENT LIABILITES:			
Claims Reserves:			
"SIR" Reserves			
Open Claims - SIR Reserves	$ 1,029,553	$ 2,486,685	$ 2,486,685
IBNR Reserve - SIR	-	1,814,161	1,814,161
"1st/2nd Layers' Corridor" Reserves	-	-	-
Open Claims - Corridor Reserves	2,017,431	4,853,147	4,853,147
IBNR Reserve - Cooridor	-	4,554,868	4,554,868
Accounts Payable	44,729	117,772	117,772
Unearned Revenue - Members Assessments	14,797,219	14,339,071	14,339,071
TOTAL CURRENT LIABILITIES	$ 17,888,932	$ 28,165,704	$ 28,165,704
NON CURRENT LIABILITIES			
Claims Reserves:			
"SIR" Reserves			
Open Claims - SIR Reserves	$ 1,973,957	-	-
IBNR Reserve - SIR	410,985	-	-
"1st/2nd Layers' Corridor" Reserves	-	-	-
Open Claims - Corridor Reserves	2,545,642	-	-
IBNR Reserve - Cooridor	5,472,852	-	-
"8x2 10% Quota Share" Reserve	150,000		
Reserve for ULAE	$ 1,015,285	$ 986,717	$ 986,717
Compensated Absences	93,662	93,783	93,783
JSILP Rate Stabilization Account	661,000	-	-
WCPP Rate Stabilization Account	2,090	-	-
TOTAL NON CURRENT LIABILITIES	$ 12,325,473	$ 1,080,500	$ 1,080,500
TOTAL LIABILITIES	$ 30,214,405	$ 29,246,204	$ 29,246,204
NET POSITION:			
Restricted Net Position - WAC 200.100.03001	$ 920,000	$ 797,841	$ 797,841
Restricted Net Position - Satisfaction of WCRP Policy (UWP Sec D-2)	11,580,000	4,036,935	4,036,935
Non-Restricted Net Position	3,303,403	7,078,107	7,078,107
Net Investment in Capital Assets	919,442	950,134	950,134
TOTAL NET POSITION	$ 16,722,845	$ 12,863,017	$ 12,863,017
TOTAL NET POSTION AND LIABILITIES	**$ 46,937,250**	**$ 42,109,221**	**$ 42,109,221**

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, 2013 and 2012

	Year Ended 9/30/2013	Year Ended 9/30/2012
OPERATING REVENUES:		
Members' Assessments -- JSILP Coverage	$ 11,487,536	$ 11,648,053
Members' Assessments -- WCPP Insurance	2,927,485	2,799,807
Member Services - Revenues	150,000	107,627
Total Operating Revenues	$ 14,565,021	$ 14,555,487
OPERATING EXPENSES:		
Current Year's "SIR" Reserves	$ 1,531,606	$ 1,605,472
Current Year's "1st/2nd Layers' Corridor" Reserves	3,600,000	2,375,000
Adjustment in Prior Years' "SIR" Reserves	(1,905,071)	(1,913,306)
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	(1,795,695)	-
Adjustment in Reserve for ULAE	28,568	142,510
WCPP Rate Stabilization Account	2,090	-
JSLIP Rate Stabilitzation Account	730,000	-
Current Year's "8x2 10% Quota Share" Reserve	150,000	-
JSILP Reinsurance Premiums	3,199,125	5,602,250
Excess Liability Insurance Policies Premiums	546,490	510,858
WCPP Insurance Premiums	2,798,095	2,726,208
Depreciation Expense	51,673	55,831
Operating Expenditures	1,879,943	1,677,653
Total Operating Expenses	***$ 10,816,824***	***$ 12,782,476***
OPERATING INCOME (LOSS)	$ 3,748,197	$ 1,773,011
NON OPERATING REVENUES (EXPENSES)		
Interest Income	$ 150,638	$ 47,004
Rental Income	30,731	17,269
Rental Expense	(5,215)	(6,319)
Bad Debt Expense - Franjo Beach Property Recovery	(66,010)	-
Miscellaenous Income	1,487	-
Gain on Sale of Asset	-	2,000
Total Nonoperating Revenues (Expenses)	$ 111,631	$ 59,954
CHANGES IN NET POSITION	$ 3,859,828	$ 1,832,965
TOTAL NET POSITION, Beginning of Year	$ 12,863,017	$ 11,030,052
TOTAL NET POSTION, End of Year	**$ 16,722,845**	**$ 12,863,017**

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, 2013 and 2012

	Year Ended 9/30/2013	Year Ended 9/30/2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Members & Insurers	$ 17,085,548	$ 13,709,915
Cash payments for goods and services	(8,639,520)	(12,527,516)
Cash payments to employees for services	(896,452)	(867,101)
Net Cash Provided (Used) by Operating Activities	$ 7,549,576	$ 315,298
CASH FLOW FROM CAPITAL ACTIVITIES:		
Purchase of Equipment & Building	$ (20,981)	$ (22,117)
Cash from Rental of Office (net)	25,516	10,950
Non Operating Miscellaneous Income	1,485	-
Bad Debt Expense -- Franjo Beach Property Recovery	(66,010)	-
Gain on Sale of Assets	-	2,000
Sale of Property Held for Resale	-	150,000
Net Cash Provided (Used) by Investing Activities	$ (59,989)	$ 140,833
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest Income	$ 150,638	$ 47,004
Net Cash Provided (Used) by Investing Activities	$ 150,638	$ 47,004
Increase (Decrease) in Cash and Cash Equivalents	$ 7,640,225	$ 503,135
Cash and Cash Equivalents - Beginning of the Year	$ 36,240,373	$ 35,737,238
Cash and Cash Equivalents (including restricted) - End of the Year	**$ 43,880,599**	**$36,240,373**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
STATEMENT OF CASH FLOWS

	Year Ended 9/30/2013	Year Ended 9/30/2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 3,748,197	$ 1,773,011
Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:		
Depreciation Expense	51,672	55,831
Decrease (Increase) in Accounts Receivable	2,782,378	(660,959)
Increase (Decrease) in "SIR" Reserves	(886,350)	(1,272,133)
Increase (Decrease) in "8x2 10% Quota Share" Reserve	150,000	-
Increase (Decrease) in "1st/2nd Layers' Corridor" Reserves	627,910	833,079
Increase (Decrease) in Reserve for ULAE	28,568	142,510
Increase (Decrease) in JSILP Stabilitzation Account	661,000	-
Increase (Decrease) In WCPP Stabilization Account	2,090	-
Increase (Decrease) in Unearned Revenue	458,148	(184,613)
Increase (Decrease) in Accounts Payable	(73,043)	(378,447)
Increase (Decrease) in Accrued Liabilities	(121)	8,516
Increase (Decrease) in Prepaid Expenses	(876)	(1,500)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ 7,549,577**	**$ 315,298**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Investment Held for Resale - Franjo Beach Property	$ -	$ 150,000

The accompanying notes are an integral part of this financial statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

A new member county makes a 60-month commitment when joining the WCRP. After that, a member may withdraw at the end of any WCRP fiscal year provided the county has given the WCRP written notice of its intent to withdraw at least twelve months in advance. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the (WCRP) Executive Committee may approve the admission, fees and 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 475,600.

Underwriting and rate-setting policies are modified after consultation 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 its assets were depleted, members would be responsible for outstanding liabilities of the WCRP as pooling members are subject under present regulations to supplemental assessment(s) in the event of deficiencies.

Twenty million dollars (member option for additional five million dollars) in third-party "*per occurrence*" liability coverage was provided via the WCRP to its member counties during Policy Year 2013 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury. That included jointly self-insured coverage from the WCRP of ten million dollars, subject to the applicable member's selected deductible, along with "following form" excess insurance coverage of ten (or fifteen) million dollars. The WCRP is reinsured for losses within its layer(s) of coverage exceeding the greater of one hundred thousand dollars or the member's deductible. Members annually select their "*per occurrence*" deductible amounts of ten, twenty five, fifty, one hundred, two hundred fifty, or five hundred thousand dollars. There are no annual aggregate limits to the payments the WCRP might make for any one member county or for all member counties combined.

The WCRP also offers a jointly-purchased program with extraordinary limits for insuring participating counties' scheduled real and personal properties. This includes five hundred million dollars "*all other perils*" coverage with two hundred million dollars *per occurrence*/annual aggregate catastrophe limits each for earthquake and for flood coverage. During the 2013 policy year, there were twenty six counties participating.

b. Basis of Accounting and Presentation

The accounting records of the WCRP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09, RCW. The WCRP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement 10, *Accounting And Financial Reporting For Risk Financing And Related Insurance*

Issues, as amended by GASB Statement 30, *Risk Financing Omnibus*, 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 (also referred to as premiums or contributions), while operating expenses include claims paid from current year allowances and adjustments to prior year's reserves, insurance (reinsurance, excess and property) premiums, and administrative expenses.

c. Cash and Cash Equivalents

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

The SAO mandated that some cash and cash equivalents be reported as restricted in the 2012 filing. After those reports were issued, the mandate was removed by the SAO.

d. Capital Assets and Depreciation

See Note 7

e. Receivables

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

f. Investments

See Note 3.

g. Compensated Absences

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

Annual Leave may be accumulated up to 30 days and is payable upon resignation, retirement, or death. 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 ½ the amounts earned.

h. Unpaid Claim Liabilities

The WCRP establishes claim 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 damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly general liability coverage.

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

The cumulative to-date incurred loss amount deducted from claims liabilities as of September 30, 2013 and 2012 as being reinsured were $78,487,120 and $76,260,874 respectively. Premiums ceded to reinsurers during 2013 and 2012 were $3,199,125 and $5,602,250 respectively. The independent actuary's cumulative to-date ceded reinsured amount of total loss reserves deducted from claims liabilities as of September 30, 2013 was $19,155,507.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which coverage is provided. On the balance sheet, member assessments receivables were billed on or about September 1st with up to the amount equivalent to 105% of the prior year's assessment being due by September 30th, and any remaining assessments balance(s) due by the following January 31st. The assessments calculated for liability coverage were based in 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 to incorporate the Jury Verdict Value process, and any resulting adjustments are reflected in current earnings.

l. Reserve for Unallocated Loss Adjustment Expense

The reserve for unallocated loss adjustment expenses (ULAE) represents the estimated cost to be incurred with respect to the settlement of both 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). Chapter 48.62 RCW exempts the WCRP from state insurance premium taxes and from business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

This shall serve as still another follow up to the now aged fraud involving the Washington Counties Risk Pool which was committed by a former WCRP employee. This matter was investigated by the SAO and initially reported upon in Report No. 1001789 (issued July 20, 2009) with the Mason County Prosecuting Attorney pursing the former employee with criminal charges of First Degree Theft, and the former employee pleading guilty and awaiting sentencing.

Superior Court Judge Toni A. Sheldon sentenced the former employee August 3, 2009 to 60 months' confinement in the custody of the state Department of Corrections. The former employee was released from custody after serving the DOC-managed sentence. Judge Sheldon also included restitution in favor of the Pool in the sentencing order in the amount of $237,053.26 with payments of not less than $50.00 per month commencing within 60 days following release from confinement. The order also reserved to the Court jurisdiction to consider additional restitution amounts for potential civil litigation to set aside a fraudulent conveyance and/or for civil litigation for failure of the property owner to disclose engineering issues to a buyer, and/or for significant depreciation or diminution in value of property based upon prevailing market conditions and/or a reasonable rental value, if sought. Any funds from the sale of the property by the WCRP were to offset the restitution amount.

The Pool commenced civil legal actions to obtain reconveyance of the real property. The court later issued a Quiet Title order in favor of the Risk Pool. Disposal of the reacquired real property occurred via a public auction process in 2011. The Executive Committee reviewed the auction results October 13, 2011, and agreed to accept the highest bid of $85,000. Closing documents were signed October 27, 2011.

To obtain the cooperation needed on the Quit Claim deed and on the lawsuit, the Pool's counsel agreed that no damages in the quiet title action would be sought as to anyone other than the former employee. And while the restitution order against the former employee to our knowledge still stands as it was issued by the Court at the sentencing hearing, the Executive Committee asked the Prosecuting Attorney for support in requesting that the Court reduce the restitution order to only reflect the added costs the Pool incurred a) addressing the fraud investigation and criminal proceedings, b) to recover ownership and O&M costs incurred, c) arranging for and conducting the public auction and for the final disposal/transfer of the property's ownership, and d) to secure the amended restitution order. Those added costs totaled $21,737.25, with $1,440.00 in restitution payments from the former employee having been forwarded by the Court through September 30, 2013. At this time, the Pool is waiting to learn the Court's updated restitution response.

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), the Clark County Treasurer's Clark County Investment Pool (CCIP), or the Spokane

County Treasurer's Spokane County Investment Pool (SCIP). There are no credit ratings for positions in external investment pools.

Due to the decline in investment earning from the LGIP over the past several years, the WCRP's board determined it was necessary to add other investment opportunities to the portfolio. To meet the recommendations from the WCRP board, Spokane County Investment Pool and Clark County Investment Pool were added to the investment portfolio during FY-2013.

WCRP funds on deposit as of September 30, 2013 and September 30, 2012 were as follows:

	9/30/2013	9/30/2012
Wells Fargo (checking)	$ 2,984,910	$ 4,438,322
Washington State Investment Pool (LGIP)	14,760,186	31,802,051
Spokane County Investment Pool (SCIP)	15,104,136	
Clark County Investment Pool (CCIP)	11,031,366	
Total deposits and investments	$43,880,598	$ 36,240,373

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.

All investments are reported at fair market 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 the three fiscal year, Pool has not approved a settlement that exceeded the insurance coverage noted herein and more specifically outline in Note 5.

For fiscal years 2013 and 2012, WCRP's *per-occurrence* retention limit for liability claims was $100,000 or the applicable member's deductible, whichever was greater. For Public Officials, Employment Practices and Employee Benefits Liabilities claims exceeding the retention limit but less than $1,000,000, the Pool's annual aggregate reinsurance was limited to $20,000,000, and for those same claims between $1,000,000 and $2,000,000, the Pool's annual aggregate reinsurance was limited to $10,000,000.

Through pre-funded member assessments (deposit assessments) collected immediately prior to or at the beginning of each policy year, the WCRP committed assets for the years ended September 30, 2013 and 2012 of $1,531,606 and $1,605,472 respectively, and is committing $1,259,129 for PY-2014, specifically for the purpose of funding its self-insured retentions for those years.

NOTE 5 – REINSURANCE/EXCESS INSURANCE CONTRACTS

The WCRP, on behalf of and in conjunction with its members, maintains both reinsurance and "following form" excess insurance contracts with several superior-rated commercial insurance carriers which provide various limits of coverage over the WCRP third-party liability self-insured retention limits. The limits provided by these reinsurance/excess insurance contracts for both PY-2012 and PY-2011 were as follows:

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

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

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

** WCRP provides joint, self-insurance for the balance between the member selected deductibles and $10,000,000, with reinsurance purchased to protect the WCRP from losses exceeding its Self-Insured Retention.

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

II. The Washington Counties Property Program (WCPP) was established as a WCRP-sponsored insuring product October 1, 2005. The coverage was initially purchased by seventeen counties. Five counties were added during the first policy year that ended September 30, 2006; three more counties joined in the 2006-07 policy year; another county joined at the beginning of Py2008; a 27th participated March through September 2008; and one more county joined but one also withdrew in Py2010 leaving the count of participating counties for PY-2013 and PY-2013 at 26. WCPP general coverage specifications and limits are as follows:

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

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

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

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

VALUATION:

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

DEDUCTIBLES

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

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

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

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

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

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

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

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

NOTE 6 - MEMBER'S SUPPLEMENTAL ASSESSMENTS AND CREDITS

RCW 48.62.141 and the WCRP Interlocal Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities. Deficits of the WCRP are financed through supplemental (retroactive) assessments against those counties that were WCRP members for the period(s) with the deficiencies. During policy year 2013, there was no deficiency and no additional retroactive assessments were levied or collected.

NOTE 7 – CAPITAL ASSETS

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

Capital assets activities for the fiscal year ended September 30, 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:

The State Risk Manager requires authorized pools to maintain adequate primary and secondary assets to satisfy the (minimal) solvency requirements in WAC 200-100-03001. A pool's 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, 2013 and September 30, 2012

	2013	2012
Primary Asset Test 1		
Primary Assets	$28,944,988	$21,689,747
Unpaid Claims – Expected Level	$14,615,706	$14,695,575
Test 1 Result	***PASS***	***PASS***
Primary and Secondary Test		
Secondary Assets	$3,056,652	$5,868,849
Primary + Secondary Assets	$32,001,642	$27,558,596
Unpaid Claims – 70% Confidence Level	$15,536,000	$15,493,416
Test 2 Result	***PASS***	***PASS***

WCRP's statement of net position includes $12,500,000 of restricted net position, $920,000 of which is 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 is restricted to satisfy the WCRP Board'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.*

NOTE 9 - 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. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest paid service months.)

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

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

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

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

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

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

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

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

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

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

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

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

Judicial Benefit Multiplier
During January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM Program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for the past judicial service.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Noninvested	51,005
Total	**262,285**

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 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of the current-year covered payroll as of December 31, 2012, were as follows:

Members not participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.5% for Plan 1 and 4.64% for Plan 2
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer State Agency*	9.75%	9.75%	9.75%**
Employer Local Government*	7.25%	7.25%	7.25%**
Employee State Agency	9.76%	9.10%	7.50%***
Employee Local Government	12.26%	11.60%	7.50%***

*The employer rates include the employer administrative expense fee currently set at 0.16%
**Plan 3 defined benefit portion only.
***Minimum rate.

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
2013	$ 4,072	$32,181	$6,577
2012	$ 2,101	$31,585	$5,460
2011	$10,211	$20,671	$3,099

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, 2013 and 2012 were $41,523 and $39,122, respectively. There are no employee contributions to this plan.

NOTE 10 - DEFERRED COMPENSATION PLANS

The WCRP offers its employees a choice of two deferred compensation plans created in accordance with Section 457 of the Internal Revenue Code. The plans are with the International City/County Management Association (ICMA) and Nationwide Retirement Solutions (NRS). The plans, available to all eligible employees, permit them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In 1998 NRS and ICMA Deferred Compensation Program plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32 and since the WCRP is no longer the owner of these assets, the plan assets and liabilities are no longer reported in the WCRP financial statements.

NOTE 11 – SUBSEQUENT EVENTS

Coverage and Assignment of Rights Disputes – Davis/Northrop v. Clark County/Slagle: Clark County is a Member County of the Washington Counties Risk Pool ("WCRP" or "Pool"), having joined effective July 10, 2002. 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, 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 is claiming breach of contract and is seeking a declaratory judgment that the WCRP had no duty to defend or indemnify Clark County or Donald Slagle in the USDC litigation. Defendants are expected to request by motion that the trial court transfer the case to King or Pierce Counties, and the Pool will counter. It is probable that the venue transfer request will be denied, and we expect that the Court will eventually rule that the Pool had no obligation to defend or indemnify Clark County and Slagle in the USDC action.

Northrop/Davis v. WCRP – King County Action. On November 26, 2013, Davis and Northrop delivered a Tort Claim Notice to the WCRP offices, which among other documents, included a complaint filed in King County Superior Court against the WCRP by Larry Davis and Alan Northrop as the alleged assignees of Clark County. The WCRP is challenging the King County venue due to the pending Cowlitz County lawsuit addressing identical issues and the purported assignees' filing entitlement. A favorable venue ruling is expected, but if needed the Pool will seek and expects dismissal of this lawsuit based upon the assignment restriction imposed upon Clark County and that WCRP is not an insurer.

<u>Coverage Concern – Pacheco v. Davalos/Kitsap County</u>: Kitsap County and Frank Davalos are defendants in a tort action filed November 1, 2013 by Karyssa Marie Pacheco in Kitsap County Superior Court which was removed to the U.S. District Court ("Underlying Lawsuit"). Pacheco alleges that Davalos had unwanted sexual contact with her between January 2005 and January 2007 while working as an employee for Kitsap County. Davalos was employed by the Kitsap County Sheriff's Office as a Sheriff's Deputy during the pertinent period. Davalos requested that Kitsap County defend and indemnify him against Pacheco's claims.

Kitsap County is a former Member County of the Washington Counties Risk Pool ("WCRP" or "Pool"). The County was a founding WCRP member and supported by the Pool's insuring documents for occurrences between October 1, 1988 and October 1, 2010, the latter being when the County's membership withdrawal was effective.

The Pool initially provided Davalos with counsel. However, Kitsap County later determined that the actions alleged against Davalos were not within the scope of his official duties as a Sheriff's Deputy as required by County Code 4.144.080 and RCW 4.96.041 and denied Davalos's request. As such, the Pool terminated the coverage and returned the matter to Kitsap County pursuant to the terms of the applicable Joint Self-Insurance Liability Policy ("JSILP"). On December 13, 2013, Kitsap County filed an action in Kitsap County Superior Court against Davalos, Pacheco and the WCRP to obtain a declaratory judgment with respect to the allegations raised in the Underlying Lawsuit that Davalos was not acting within the scope of his official duties as Sheriff's Deputy, that Kitsap County has no duty to defend Davalos against Pacheco's claims, and that Kitsap County be awarded costs and disbursements.

NOTE 12 - 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, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents comparative changes in those aggregate liabilities for only the WCRP's SIR Reserves during the past two years:

	2013	2012
SIR - Unpaid Claims and Claims Adjustment Expenses Beginning of Year	$ 4,300,846	$ 5,572,978
SIR - Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,531,606	1,605,472
Increase (Decrease) in Provision for Insured Events Prior Years	(1,905,071)	(1,913,306)
Total Incurred Claims and Claims Adjustment Expenses	$ 3,927,381	$ 5,265,144
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of the Current Year	$ 19,510	$ 106,569
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	493,376	857,729
Total Payments	$ 512,886	$ 964,298
SIR -Total Unpaid Claims and Claims Adjustment Expenses End of Year	$ 3,414,495	$ 4,300,846

The following represents comparative changes in those aggregate liabilities for all unpaid claims liabilities. (SIR, $1^{st}/2^{nd}$ Layer Corridor, and Quota Share) during the past two years:

	2013	2012
Unpaid Claims and Claims Adjustment Expenses Beginning of Year	$ 13,708,861	$ 14,147,914
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	5,281,606	3,980,472
Increase (Decrease) in Provision for Insured Events Prior Years	(3,700,766)	(1,913,306)
Total Incurred Claims and Claims Adjustment Expenses	$ 15,289,701	$ 16,215,080
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of the Current Year	$ 19,510	$ 193,679
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	1,669,771	2,312,540
Total Payments	$1,689,281	$ 2,506,219
SIR -Total Unpaid Claims and Claims Adjustment Expenses	$13,600,420	$ 13,708,861

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:

   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 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 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 11 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 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required Contribution and investment revenue:										
Earned	11,721,713	12,042,031	13,182,912	12,221,809	12,203,136	11,993,561	14,732,223	14,122,973	14,602,491	14,715,659
Ceded	6,791,100	7,019,288	6,398,439	3,772,810	3,806,063	3,697,000	5,480,000	5,480,000	5,602,250	3,199,125
Net earned	4,930,613	5,022,743	6,784,473	8,448,999	8,397,073	8,296,561	9,252,223	8,642,973	9,000,241	11,516,534
2. Unallocated expenses	1,375,775	1,590,008	2,955,343	4,148,923	4,098,577	4,528,441	4,880,297	4,728,089	5,113,060	6,036,859
3. Estimated claims and expenses end of policy year:										
Incurred							14,000,000	13,000,000	10,200,000	8,000,000
Ceded							9,750,000	8,950,000	6,375,000	3,125,000
Net incurred	1,900,000	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000
4. Net paid (cumulative) as of:										
End of policy year:	68,432	-	100,676	75,153	87,032	-	41,325	42,951	193,680	19,510
One year later	273,951	161,478	443,146	207,883	227,021	197,532	519,161	648,326	380,131	
Two years later	425,821	294,511	1,001,021	751,102	541,119	605,051	477,611	959,084		
Three years later	655,369	773,209	1,251,293	1,278,211	1,244,824	1,071,363	1,049,714			
Four years later	928,018	974,077	1,414,271	1,654,586	2,066,751	1,437,932				
Five years later	956,566	1,066,499	1,462,579	2,071,627	2,267,997					
Six years later	1,005,907	1,068,789	1,488,882	2,113,346						
Seven years later	1,009,105	1,068,789	1,488,881							
Eight years later	1,009,500	1,068,789								
Nine years later										
5. Reestimated ceded claims and expenses	3,818,345	5,587,673	12,224,511	9,910,450	6,528,605	9,140,000	8,700,000	8,950,000	6,375,000	3,125,000
6. Reestimated net incurred claims and expenses:										
End of policy year:	1,900,000	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000
One year later	1,765,000	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	1,510,000	1,890,000	2,575,000	3,350,000	3,200,000	3,660,000	3,745,000	3,235,000		
Three years later	1,335,000	1,540,000	2,060,000	3,519,745	2,971,395	3,472,159	2,475,172			
Four years later	1,168,000	1,320,000	1,579,433	3,089,550	2,664,731	2,694,107				
Five years later	1,084,000	1,103,064	1,575,489	2,946,327	2,547,037					
Six years later	1,055,394	1,069,664	1,488,882	2,481,812						
Seven years later	1,038,861	1,068,789	1,488,881							
Eight years later	1,009,500	1,068,789								
Nine years later	1,009,500									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	($890,500)	($441,211)	($361,119)	($1,413,188)	($1,327,963)	($1,380,893)	($1,774,828)	($815,000)	($325,000)	$0

LIST OF PARTICIPATING MEMBERS Schedule T-1

The following is a list of WCRP membership for the fiscal year 2012-2013

Adams County

Benton County

Chelan County

Clallam County

Clark County

Columbia County

Cowlitz County

Douglas County

Franklin County

Garfield County

Grays Harbor County

Island County

Jefferson County

Kittitas County

Lewis County

Mason County

Okanogan County

Pacific County

Pend Oreille County

San Juan County

Skagit County

Skamania County

Spokane County

Thurston County

WallaWalla County

Whatcom County

Yakima County (*)

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

DES Schedule of Expenses

For Fiscal Years Ended September 30, 2013 and September 30, 2012

	09/30/2013	09/30/2012
Insurance Premiums/Reserve Expense	$12,557,406	$12,819,788
ULAE Expense	28,568	142,510
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	(1,795,695)	-
Adjustment to Prior Years' "SIR" Reserves	(1,905,071)	(1,913,306)
Contracted Services:		
Actuarial	119,300	57,500
State Audit Expense	9,922	9,436
State Risk Manager Expenses	11,734	11,734
Legal Fees	158,053	180,539
IT Consultants	41,362	9,376
Other Consulting Fees	74,299	25,307
Broker Fees	-	21,500
Consulting Member Services Manager	28,650	29,650
General Administrative Expenses		
Employee Salaries and Benefits	896,452	867,101
Communication	12,739	13,762
Supplies	24,116	31,713
Dues and Memberships	5,616	6,654
Travel - Employee	90,638	72,607
Committee and Board Meetings	100,103	79,002
Depreciation	51,673	55,831
Building and Auto Insurance	14,518	13,624
Operating Leases	33,998	69,927
Utilities	16,732	16,656
Member Services - Training	104,198	85,862
Member Services - Grants/Scholarships	112,453	52,850
Miscellaneous Expenses	25,059	22,853
Total Operating Expenses	$10,816,824	$12,782,476

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

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

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

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

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Performance Audit	**Lou Adams, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
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