Washington State Auditor's Office

Financial Statements Audit Report

Washington Counties Risk Pool

Thurston County

Audit Period
October 1, 2008 through September 30, 2009

Report No. 1003226

Issued **March 29, 2010**
Reissued **May 10, 2010**

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

May 10, 2010

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

Report on Financial Statements

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

We are issuing this report in order to provide information on the Pool's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Thurston County
October 1, 2008 through September 30, 2009

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

Washington Counties Risk Pool
Thurston County
October 1, 2008 through September 30, 2009

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated February 18, 2010.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 18, 2010

Independent Auditor's Report on Financial Statements

Washington Counties Risk Pool
Thurston County
October 1, 2008 through September 30, 2009

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the accompanying basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2009 and 2008, as listed on page 5. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Risk Pool, as of September 30, 2009 and 2008, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 10 and risk pool information on pages 25 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The Pool has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The List of Participating members and Reconciliation of Claims Liabilities are not a required part of the basic financial statements but are supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 18, 2010

Financial Section

Washington Counties Risk Pool
Thurston County
October 1, 2008 through September 30, 2009

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009 and 2008

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Assets – 2009 and 2008
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets – 2009 and 2008
Comparative Statement of Cash Flows – 2009 and 2008
Notes to Financial Statements – 2009 and 2008

REQUIRED SUPPLEMENTAL INFORMATION

Ten-Year Claims Development Information Notes – 2009
Ten-Year Claims Development – 2009
List of Participating Members – 2009
Reconciliation of Claims Liabilities – 2009 and 2008

WCRP… *Management's Discussion and Analysis*

The management of the Washington Counties Risk Pool ("WCRP" or "Risk Pool") offers this narrative overview and analysis of the financial activities of the WCRP for the fiscal year that ended September 30, 2009. To enhance understanding of the WCRP financial performance, we encourage readers to consider the information presented here in conjunction with the financial statements for Fiscal Year ("FY") 2009 and the notes to those financial statements.

Financial Highlights from FY-2009

- Operating Income was experienced during FY-2009 of $1.15 million, a 40% increase from FY-2008.

- Interest Income slipped to just $0.22 million (-65%) due to the nearly non-existent interest rates associated with the national and worldwide recession.

- Total Assets grew by $4.64 million (15%) to more than $35.71 million. Specifically, current assets increased $4.69 million (16%) while non-current assets decreased $0.05 million (-4%).

- 966 cases were added to the Risk Pool's claims-related database during FY-2009, which raised the to-date (Oct. 1988 – Sep. 2009) total of third-party liability claims and lawsuits submitted by WCRP member counties to 16,470. Only 492 cases remained classified as "open" at year's end. Independent actuarial estimates suggest another 553 claims may be filed for covered occurrences from all years-to-date through September 2009.

- Net Assets (also referred to as "Members' Equity") increased nearly $1.38 million to more than $8.16 million at September 30, 2009. $6.35 million is classified as 'Restricted' to satisfy the Section D provisions of the WCRP Underwriting Policy (enhanced by the Board of Directors in March 2007). Another $1.06 million is invested in Capital Assets (net of debt). The remaining $0.76 million is listed as 'Non-Restricted' and is available. The WCRP Board of Directors is the authority to decide if, how much, and when distributions of any (Non-Restricted) Net Assets are to be made.

Overview of the Financial Statements

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

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

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

Financial Statements

The financial statements are designed to provide readers with a broad overview of the finances of the Washington Counties Risk Pool. They are prepared using the accrual accounting basis in accordance with the *U.S. generally accepted accounting principles* applicable to governmental enterprise funds.
The *Comparative Statement of Net Assets* (formerly referred to as the Balance Sheet) presents the financial position of the WCRP at September 30th of the Risk Pool's most recent fiscal year(s). Information is displayed on assets and liabilities, with the difference between the two reported as Net Assets. Over time, the changes in Net Assets may provide a useful indicator regarding how the WCRP is meeting the financial needs and expectations of its member counties.

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

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

Notes to the Financial Statements

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

COMPARATIVE FINANCIAL INFORMATION – Washington Counties Risk Pool

NET ASSETS

	09/30/2009	**09/30/2008**	**Change $**	**Chg %**
Current Assets	$34,650,705	$29,961,102	$4,689,603	15.7
Non-current (Capital) Assets	1,058,202	1,103,766	-45,564	-4.1
Total Assets	**$35,708,908**	**$31,064,868**	**$4,644,040**	**14.9**
Current Liabilities	$27,546,544	$24,286,364	3,260,180	13.4
Restricted Equity – UW Policy, § D	6,345,958	5,674,738	671,220	11.8
Unrestricted Net Assets	758,203	0	758,203	100.0
Invested in Capital Assets, Net of Debt	1,058,202	1,103,766	-45,564	-4.1
Total Liabilities and Net Assets	**$35,708,908**	**$31,064,868**	**$4,644,040**	**14.9**

REVENUES, EXPENSES and CHANGES IN NET ASSETS

	FY-2009	FY-2008	Change $	Chg %
Operating Revenues				
Member JSLIP Assessments	$9,139,429	$9,141,287	($1,858)	0.0
Member WCPP Assessments	2,546,189	2,322,429	223,760	9.6
Operating Revenues – Miscellaneous	70,566	100,000	(29,434)	-29.4
Total Operating Revenues	***$11,756,184***	***$11,563,716***	***$192,468***	***1.7***
Non Operating Revenues (and Expenses)				
Interest Income	$221,392	$630,365	($408,973)	-64.9
Miscellaneous Income	0	855	(855)	-100.0
Rental Income (net)	15,985	8,200	7,785	94.9
Total Non-Operating Revenues	***$ 237,378***	***$ 639,420***	***($ 402,042)***	***-62.9***
Total Revenues	**$11,993,562**	**$12,203,136**	**($209,574)**	**-1.7**
Operating Expenses				
Current Year's Claims Reserve	$1,437,299	$1,264,343	$172,956	13.7
Current Year's Aggregate Stop Loss	1,825,000	1,825,000	0	0.0
Prior Years' Claim Reserve Adjustment	(878,038)	(251,088)	(626,950)	249.7
Reserve for ULAE	43,585	40,932	2,653	6.5
Reinsurance Premiums (JSILP)	3,697,000	3,806,063	(109,063)	-2.9
Excess (Liability) Insurance Premiums	369,661	384,790	(15,129)	-3.9
WCPP (Property) Premiums	2,460,925	2,260,094	200,831	8.9
Depreciation Expenses	45,564	70,947	(25,383)	-35.8
Administrative Expenses	1,608,706	1,341,814	266,892	19.9
Total Operating Expenses	**$10,609,703**	**$10,742,895**	**($133,192)**	**-1.2**
CHANGES IN NET ASSETS	***$1,383,859***	***$1,460,241***	***($76,382)***	***-5.2***
Beginning Net Assets (October 1st)	**$6,778,505**	**$5,318,264**	**$1,460,241**	**27.5**
Ending Net Assets (September 30th)	**$8,162,363**	**$6,778,505**	**$1,383,858**	**20.4**

CASH FLOWS

	09/30/2009	09/30/2008	Change $	Chg %
Net Cash Provided (Used) For Op. Activities	$3,212,402	$(5,766,380)	$8,978,782	155.7
Net Cash Provided (Used) For Cap. Activities	15,985	(449,320)	465,305	103.6
Net Cash Provided (Used) For Investing Act.	221,392	630,365	(408,973)	-64.9
Increase (Decrease) in Cash & Cash Equiv.	**$3,449,780**	**$(5,585,335)**	**$9,035,114**	**161.8**
Cash & Cash Equivalents (Beg. of Year)	$19,317,651	$24,902,986	$(5,585,335)	-22.4
Cash & Cash Equivalents (End of Year)	$22,767,431	$19,317,651	$3,449,780	17.9

BUDGETARY VARIATIONS:

The following listing reflects the variations to the administrative budget with the greatest significance that occurred during the year ended September 30, 2009.

1. Staffing levels remained at those established prior to FY-2005. Further implementation of the board-approved salary schedule in 2006 with authorized cost of living adjustments and employee benefits elevated the Payroll and Benefits costs during FY-2009.

2. Stock binders, tabs and inserts used for multiple WCRP-sponsored trainings were generally responsible for the enhancement in the cost for Supplies during FY-2009.

3. Professional Services increased substantially during FY-2009 as funds were used to acquire:

   a. Specialty property appraisal and software development services associated with the Washington Counties Property Program (“WCPP”);

   b. Additional actuarial services to assist the Finance Committee with the reexamination of the Risk Pool’s experience rating methodology and factors;

   c. Increased audit costs (SAO) and oversight fees (SRM); and

   d. Legal services associated with the fraudulent actions of a former WCRP employee, public records requests presented to the Risk Pool, coverage questions, and pre-defense reviews.

4. Other Expenditures, which includes capital outlays, operating rentals/leases, business insurance, office maintenance and miscellaneous items, were significantly greater during FY-2008 due to capital acquisitions. However, increases in headquarters ownership and operating costs, and in the claims management software support services, materialized in FY-2009.

5. Training costs declined slightly even with another installment for the enhanced training program aimed at lessening severities and/or frequencies of member counties’ tortuous occurrences, especially those stemming from employment activities.

6. Operating Adjustments – Leave Expense increased with the stabilization of the Risk Pool’s employment base and no significant, unexpected absences.

ADMINISTRATIVE BUDGET

Comparative	Actual FY-09	Actual FY-08	Diff $	Diff %
Payroll & Benefits	$781,599	$740,223	$41,376	5.6
Supplies	20,767	15,942	4,825	30.3
Professional Services	369,047	179,198	189,849	105.9
Communications	17,553	17,596	(43)	-0.2
Travel, Conference & Meeting Expenses	143,779	149,242	(5,463)	-3.7
Repairs & Maintenance	908	1,509	(601)	-39.8
Other Expenditures (incl. Capital Outlays)	113,184	535,313	(422,129)	-78.9
Training	146,745	155,504	(8,759)	-5.6
TOTAL BUDGET EXPENDITURES	**$1,593,582**	**$1,794,527**	**($200,945)**	**-11.2**
Operating Adjustments:				
Capitalized & Depreciated Outlays	0	(458,374)	458,374	100.0
Annual/Sick Leave Expense	15,124	5,661	9,463	167.2
TOTAL ADMIN. EXPENDITURES	**$1,608,706**	**$1,341,814**	**$266,892**	**19.9**

Fiscal Year 2009	Actual	Budget	Diff $	Diff %
Payroll & Benefits	$781,599	$807,826	$(26,227)	-3.2
Supplies	20,767	17,600	3,167	18.0
Professional Services	369,047	293,475	75,572	25.8
Communications	17,553	18,700	(1,147)	-6.1
Travel, Conference & Meeting Expenses	143,779	209,200	(65,421)	-31.3
Repairs & Maintenance	908	3,900	(2,992)	-76.7
Other Expenditures (incl. Capital Outlays)	113,184	143,450	(30,266)	-21.1
Training	146,745	283,350	(136,605)	-48.2
TOTAL BUDGET EXPENDITURES	**$1,593,582**	**$1,777,501**	**($183,919)**	**-10.3**
Operating Adjustments:				
Capitalized & Depreciated Outlays	0			
Annual/Sick Leave Expense	15,124			
TOTAL ADMIN. EXPENDITURES	**$1,608,706**			

Fiscal Year 2008	Actual	Budget	Diff $	Diff %
Payroll & Benefits	$740,223	$780,066	($39,843)	-5.1
Supplies	15,942	19,000	(3,058)	-16.1
Professional Services	179,198	238,175	(58,977)	-24.8
Communications	17,596	21,500	(3,904)	-18.2
Travel, Conference & Meeting Expenses	149,242	181,800	(32,558)	-17.9
Repairs & Maintenance	1,509	4,500	(2,991)	-66.5
Other Expenditures (incl. Capital Outlays)	535,313	588,050	(52,737)	-9.0
Training	155,504	254,400	(98,896)	-38.9
TOTAL BUDGET EXPENDITURES	**$1,794,527**	**$2,087,491**	**($292,964)**	**-14.0**
Operating Adjustments:				
Capitalized & Depreciated Outlays	(458,374)			
Annual/Sick Leave Expense	5,661			
TOTAL ADMIN. EXPENDITURES	**$1,341,814**			

CAPITAL ASSET AND DEBT ACTIVITIES:

Capital Assets

The Risk Pool made no Capital Asset purchases in 2009.

Long-Term Debt

The Risk Pool also had no long-term debt as of September 30, 2009.

REQUEST FOR INFORMATION:

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

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF NET ASSETS

For the Fiscal Years Ended September 30, 2009 and 2008

ASSETS:	**Year Ended 9/30/2009**	**Year Ended 9/30/2008**
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 22,767,431	$ 19,317,651
Member Deductible	787,861	955,451
Excess/Reinsurance Recoverable	8,193,385	1,683,997
Member Liability Assessment Receivable	2,086,033	943,787
Property Insurance Assessment Receivable	706,987	412,721
Prepaid Expenses	0	6,647,495
Other Accounts Receivables	109,009	0
TOTAL CURRENT ASSETS	$ 34,650,705	$ 29,961,102
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	$ 1,058,202	$ 1,103,766
TOTAL ASSETS	**$35,708,908**	**$31,064,868**
LIABILITIES:		
CURRENT LIABILITIES:		
Claim Reserves		
Reserves for Open Claims	$ 3,354,196	$ 2,898,097
IBNR Claims Reserve	3,738,490	4,395,431
$400M xs $100M AL/GL Corridor Reserves		
Reserves for Open Claims	3,476,000	1,225,000
IBNR Claims Reserve	1,659,214	2,577,571
Reserve for ULAE	904,149	860,564
Accounts Payable	81,019	591,462
Accrued Liabilities	72,808	57,684
Unearned Revenue - Members Assessments	14,260,668	11,680,555
TOTAL CURRENT LIABILITIES	$ 27,546,544	$ 24,286,364
NET ASSETS:		
Restricted Net Assets - Underwriting Policy Section D	$ 6,345,958	$ 5,674,738
Non-Restricted Net Assets	758,203	
Capital Assets Net of Debt	1,058,202	1,103,766
TOTAL NET ASSETS	$ 8,162,363	$ 6,778,504
TOTAL NET ASSETS AND LIABILITIES	**$ 35,708,908**	**$ 31,064,868**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	Year Ended 9/30/2009	Year Ended 9/30/2008
OPERATING REVENUES:		
Member Assessments -- Liability Insurance	$ 9,139,429	$ 9,141,287
Member Assessments -- Property Insurance	2,546,189	2,322,429
Member Services - Revenues	70,566	100,000
Total Operating Revenues	$ 11,756,184	$ 11,563,716
OPERATING EXPENSES:		
Current Year's "Claims" Reserve	$ 1,437,299	$ 1,264,343
Current Year's "Corridor" Reserve	1,825,000	1,825,000
Adjustment of Prior Years' Claims Reserves	(878,038)	(251,088)
Reserve for ULAE	43,585	40,932
Reinsurance Premiums	3,697,000	3,806,063
Excess Insurance Premiums	369,661	384,790
Property Insurance Premiums	2,460,925	2,260,094
Depreciation Expense	45,564	70,947
Operating Expenditures	1,608,706	1,341,814
Total Operating Expenses	$ 10,609,703	$ 10,742,895
OPERATING INCOME	$ 1,146,481	$ 820,821
NON OPERATING REVENUES (EXPENSES)		
Interest Income	$ 221,392	$ 630,365
Rental Income	20,518	10,314
Rental Expense	(4,533)	(2,114)
Miscellaneous Income	0	855
Total Nonoperating Revenues (Expenses)	$ 237,378	$ 639,420
CHANGES IN NET ASSETS	$ 1,383,859	$ 1,460,241
TOTAL NET ASSETS, Beginning of Year	$ 6,778,504	$ 5,318,263
TOTAL NET ASSETS, End of Year	**$ 8,162,363**	**$ 6,778,504**

The accompanying notes are an integral part of this financial statements

MCAG NO. 0774

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF CASH FLOW

For the Fiscal Years Ended September 30, 2009 and 2008

	Year Ended 9/30/2009	Year Ended 9/30/2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members & insurers	$ 6,448,979	$ 9,945,781
Cash payments for goods and services	(2,439,853)	(14,966,278)
Cash payments to employees for services	(796,724)	(745,883)
Net Cash Provided (Used) by Operating Activities	$ 3,212,402	$ (5,766,380)
CASH FROM CAPITAL ACTIVITIES:		
Purchase of Equipment & Building	$ -	$ (458,374)
Miscellaneous Revenues	$ -	$ 855
Cash from Rental of Office (net)	15,985	8,199
Net Cash Provided (Used) by Capital Activities	$ 15,985	$ (449,320)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	$ -	$ -
Interest received	221,392	630,365
Net Cash Provided (Used) by Investing Activities	$ 221,392	$ 630,365
Increase (Decrease) in Cash and Cash Equivalents	$ 3,449,780	$ (5,585,335)
Cash and Cash Equivalents - Beginning of the Year	$ 19,317,651	$ 24,902,986
Cash and Cash Equivalents - End of the Year	**$ 22,767,431**	**$ 19,317,651**

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

	Year Ended 9/30/2009	Year Ended 9/30/2008
OPERATING INCOME	$ 1,146,481	$ 820,821
Adjustments to Reconcile Net Operating Income to Net Cash provided (useD) by Operating Activities:		
Depreciation Expense	45,564	70,946
Decrease (Increase) in Accounts Receivable	(7,887,318)	(1,868,314)
Increase (Decrease) in Claims Reserves	1,131,801	1,152,154
Increase (Decrease) in Reserve for ULAE	43,585	40,932
Increase (Decrease) in Unearned Revenue	2,580,113	250,380
Increase (Decrease) in Accounts Payable	(510,444)	(6,237,468)
Increase (Decrease) in Accrued Liabilities	15,125	4,169
Increase (Decrease) in Prepaid Expenses	6,647,495	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ 3,212,402**	**$ (5,766,380)**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
NOTES TO FINANCIAL STATEMENTS
October 1, 2008 Thru September 30, 2009

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Washington Counties Risk Pool 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 including self-insurance, purchase of insurance, and contracting for or hiring personnel to provide administrative, claims handling and risk management services pursuant to Chapter 48.62, RCW. It was established via agreement amongst Washington's counties under the Interlocal Cooperation Act (Chapter 39.34, RCW).

A new member county makes a for sixty months commitment when joining the WCRP. A member may withdraw after that time at the end of any WCRP fiscal year, provided the county has given the WCRP at least a twelve-month written notice of its intent to withdraw. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the (WCRP) Executive Committee may approve the admission, fees and premiums of any new member county of less than 125,000 population. The membership of the WCRP presently includes 28 counties with populations ranging from 2,400 to 443,800.

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

Twenty or twenty five million dollars (member option) in third-party "per occurrence" liability coverage was provided by the WCRP to its member counties during policy year 2009 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury. That included joint self-insurance coverage from the WCRP of ten million dollars, subject to each member's individual deductible, along with "following form" excess insurance coverage of ten or fifteen million dollars. The WCRP is reinsured for losses within its layer of coverage exceeding the greater of one hundred thousand dollars or the member's deductible. Members annually select a "per occurrence" deductible amount of ten-, twenty five, fifty, one hundred, two hundred fifty or five hundred thousand dollars. There are no annual aggregate limits to the payments the WCRP might make for any one member county or all members combined.

The WCRP also offers counties a joint-purchase program for insuring their properties with extraordinary limits. This includes five hundred million dollars "all other perils" coverage with two hundred fifty million dollars per occurrence/annual aggregate catastrophe limits each for earthquake and flood coverage. During the 2009 policy year, there were twenty-six counties participating.

b. Basis of Accounting and Presentation

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

Issues, as amended by GASB Statement 30, *Risk Financing Omnibus*, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*, and GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In 1999 GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The presented financial statements (including notes) reflect this and consecutive statements.

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

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

c. Cash and Cash Equivalents

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

d. Capital Assets and Depreciation

See Note 7

e. Receivables

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

f. Investments

See Note 2.

g. Compensated Absences

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

Annual Leave may be accumulated up to 30 days and is payable upon resignation, retirement, or death. An employee with more than sixty days sick leave accrued may convert the days earned in the previous year (less any sick leave days used in that previous 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 on independent actuarial estimates of the ultimate cost of claims, including future claims adjustment expenses for claims/lawsuits that have been

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

Claims liabilities are actuarially recomputed periodically using the Jury Verdict Value process and a variety of techniques and formulas to produce current estimates that reflect recent settlements, claims frequencies, and other economic and social factors. 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 its exposure to large third-party liability losses. Reinsurance permits recovery of substantial portions of the losses from 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 from reinsurers. The amount deducted from claims liabilities as of September 30, 2009 and 2008 for reinsurance were $10,443,682 and $9,458,734 respectively. Premiums ceded to reinsurers during 2009 and 2008 were $3,697,000 and $3,806,063 respectively.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. On the balance sheet, member assessments receivables were billed 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 due by the following January 31st. The assessments calculated are based on the members' prior year's worker hours and licensed vehicle counts. Investment income is not considered for the determination of member assessments.

k. Unpaid Claims

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

l. Reserve for Unallocated Loss Adjustment Expense

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

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m. Exemption From Federal And State Taxes

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

The former employee's sentencing hearing was conducted August 3, 2009 before Superior Court Judge Toni A. Sheldon. The former employee was sentenced by Judge Sheldon to 60 months confinement in the custody of the state Department of Corrections and taken into custody immediately.

A restitution hearing was conducted concurrently with the sentencing hearing to consider the recoveries sought by the Pool. Included was the $231,229.43 that the Pool had paid to settle a civil dispute and acquire the property, or for reconveyance of the real property that was fraudulently conveyed by the former employee without (fair market) payment. Also included was the $7,506.61 incurred by the Pool in support of the special investigations into the matter.

Judge Sheldon 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 property owner to disclose engineering issues to a buyer, and/or for significant depreciation or diminution in value of the property based upon prevailing market conditions and/or a reasonable rental value, if sought. Any funds from the sale of property by WCRP shall offset restitution amount.

Later in the week of the hearing, the Pool commenced civil legal actions to obtain reconveyance of the real property. A Quit Claim Deed and related papers, signed by the family members to whom the property was fraudulently conveyed, have been obtained be the Pool's legal counsel. These documents still need to be filed by the Pool's legal counsel in Mason County, Washington.

The Pool's legal counsel has served the individual named defendants in the property dispute and has received either acknowledgements or an affidavit of service (as to the incarcerated former employee). By the end of December, counsel will move for default. The publication of service as to all other "interested parties" is complete as well, and the Pool's counsel will move for default as to the other "interested parties" at the same time as the individual defendants.

The restitution order stands as it was issued by the Court at the sentencing hearing. And 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. Further, there are no specific plans presently for seeking a judgment for damages against the former employee. So the restitution order is likely sufficient, but the question remains whether it will ever be paid.

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NOTE 3 - DEPOSITS AND INVESTMENTS

a. Deposit

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

b. Investments

Invested with the Local Government Investment Pool and administered by the State Treasurer, the WCRP had invested funds on September 30, 2009 and 2008, of $21,696,579 and $19,269,287 respectively.

NOTE 4 - JOINT SELF-INSURED RETENTION

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

For fiscal years 2009 and 2008 the Pool's per-occurrence retention limit was $100,000 for liability claims. For liability claims greater than $100,000 but less than $500,000, the Pool's aggregate reinsurance retention pertaining only to Public Officials Liability, Employment Practices Liability and Employee Benefits Liability is $20,000,000.

Through pre-funded member assessments (deposit assessments) collected at the beginning of each policy year, the WCRP committed assets for the years ended September 30, 2009 and 2008 of $1,437,299 and $1,264,343 respectively, and is committing $1,502,751 for PY-2010, specifically for the purpose of funding its self-insured retentions for those years.

NOTE 5 – REINSURANCE/EXCESS INSURANCE CONTRACTS

The WCRP, on behalf of and in conjunction with its members, maintains both reinsurance and "following form" excess insurance contracts with several superior-rated insurance carriers which provide various limits of coverage over the WCRP third-party liability self-insured retention limits. The limits provided by these reinsurance/excess insurance contracts for both PY-2009 and PY-2008 are as follows:

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

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

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

** The WCRP provides joint, self-insurance for the balance between the member deductibles and $10,000,000 with reinsurance purchased to address losses that exceed the greater of the member's deductible or $100,000.

*** An additional $5,000,000 "following form" excess insurance policy is available as a county-by-county option that was purchased by the majority of the member counties.

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II. The Washington Counties Property Program (WCPP) was established October 1, 2005. The coverage was initially purchased by seventeen counties. Five counties were added during the first policy year that ended September 30, 2006; three more counties joined in the 2006-07 policy year; another county joined at the beginning of Py2008; and a 27th participated March through September 2008. 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.*

$250,000,000	Earthquake and Volcanic Eruption – Per Occurrence and Annual Aggregate
$250,000,000	Flood – Per Occurrence and Annual Aggregate, except:
$ 25,000,000	Flood for locations wholly or partially within a SFHA – Per Occurrence and Annual Aggregate
$ 20,000,000	Terrorism, certified and non-certified
$100,000,000	Equipment Breakdown

VALUATION:

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

DEDUCTIBLES

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

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

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

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

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

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

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

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

NOTE 6 - MEMBER'S SUPPLEMENTAL ASSESSMENTS AND CREDITS

RCW 48.62.141 and the WCRP Interlocal Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities. Deficits of the WCRP are financed through supplemental (retroactive) assessments against its affected member counties. During policy year 2009, 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, 2009 were as follows:

	Beginning Balance 9/30/08	Increase (Decrease)	Ending Balance 9/30/09
Capital Assets Being Depreciated:			
Building	$ 1,125,659		1,125,659
Office Furnishings and Equipment	308,479	(5,445)	303,034
Total Capital Assets being Depreciated	$ 1,434,138	(5,445)	1,428,693
Less Accumulated Depreciation for:			
Building	$ 64,448	37,522	101,970
Office Furnishings and Equipment	265,924	2,597	268,521
Total Accumulated Depreciation	$ 330,372	40,119	370,491
TOTAL CAPITAL ASETS NET	$ 1,103,766	45,564	1,058,202

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

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

Asset	Years
Buildings	30
Building Improvements	30
Vehicles	5
Equipment	5

NOTE 8 - PENSION PLANS

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

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

Plan Description

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

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

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to age 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of 2 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is not cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living as Plan 2.

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Nonvested	52,575
Total	**255,849**

<u>Funding Policy</u>
Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates were 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 2008 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.13%***
Employee	6.00%****	5.45%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	$8,662	$30,613	$3,674
2008	$7,414	$26,127	$1,890
2007	$5,630	$18,186	$1,609

b. Qualified Pension Plan

The WCRP also participates in a qualified pension plan created in accordance with Internal Revenue Code Section 401(a). This plan is with the International City/County Management Association (ICMA). Employer contributions to the Qualified Pension Plan for the years ended September 30, 2009 and 2008 were $35,203 and $33,813, respectively.

NOTE 9 - DEFERRED COMPENSATION PLANS

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

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

NOTE 10 – SUBSEQUENT EVENTS

Reinsurance agreements are acquired by the WCRP to reduce its exposure to large third-party liability losses. Reinsurance companies however sometimes require weeks, or even months when the amount is substantial, to review and process WCRP loss recovery payments. Late-year case resolutions or judgments, some substantial, resulted in receivables from reinsurers as of September 30, 2009 of $8,193,385. But more than $7.5 million (over 92%) of the year-end receivables were paid and satisfied within ten (10) weeks of the year-end closing date.

WASHINGTON COUNTIES RISK POOL
October 1, 2008 Thru September 30, 2009

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 and investment income compare to related costs of loss 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:

(1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.

(2) This line shows each fiscal year's other operating costs of the WCRP including overhead and claims expenses not allocable to individual claims.

(3) This line shows the WCRP incurred claims and allocated claims adjustment expense (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).

(4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.

(5) This section of ten rows shows how each policy year's 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.

(6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of 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 incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Washington Counties Risk Pool
10-Year Claims Development
September 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1 Net earned required contributions and investment revenues	$ 6,342	$ 6,800	$ 7,056	$ 10,416	$ 11,716	$ 12,042	$ 12,391	$ 11,428	$ 11,564	$ 11,756
2 Unallocated expenses	$ 3,734	$ 4,216	$ 4,531	$ 5,635	$ 8,071	$ 9,678	$ 9,437	$ 7,747	$ 7,864	$ 8,182
3 Estimated incurred claims and expenses, end of policy year	$ 2,000	$ 2,249	$ 1,860	$ 1,615	$ 1,900	$ 1,510	$ 1,354	$ 1,183	$ 1,264	$ 1,437
4 Paid (cumulative) as of:										
End of Policy Year	$ 18	$ 3	$ 36	$ 51	$ 68	$ -	$ 100	$ -	$ 87	$ -
One year later	$ 205	$ 204	$ 160	$ 240	$ 274	$ 161	$ 443	$ 185	$ 175	
Two years later	$ 365	$ 389	$ 282	$ 596	$ 426	$ 295	$ 1,001	$ 288		
Three years later	$ 680	$ 695	$ 618	$ 836	$ 655	$ 773	$ 1,251			
Four years later	$ 747	$ 725	$ 927	$ 1,103	$ 928	$ 974				
Five years later	$ 788	$ 742	$ 1,075	$ 1,202	$ 957					
Six years later	$ 825	$ 753	$ 1,096	$ 1,279						
Seven years later	$ 830	$ 753	$ 1,107							
Eight years later	$ 830	$ 753								
Nine years later	$ 830									
5 Reestimate incurred claims and expense:										
End of Policy Year	$ 2,000	$ 2,249	$ 1,860	$ 1,615	$ 1,900	$ 1,510	$ 1,354	$ 1,183	$ 1,264	$ 1,437
One year later	$ 1,985	$ 1,800	$ 1,685	$ 1,890	$ 1,765	$ 1,610	$ 2,345	$ 1,770	$ 1,875	
Two years later	$ 1,580	$ 1,730	$ 1,380	$ 1,950	$ 1,510	$ 1,890	$ 2,575	$ 1,350		
Three years later	$ 1,460	$ 1,350	$ 1,445	$ 1,505	$ 1,335	$ 1,540	$ 2,060			
Four years later	$ 1,370	$ 1,150	$ 1,432	$ 1,343	$ 1,168	$ 1,320				
Five years later	$ 1,218	$ 935	$ 1,392	$ 1,348	$ 1,084					
Six years later	$ 1,031	$ 833	$ 1,275	$ 1,348						
Seven years later	$ 946	$ 793	$ 1,230							
Eight years later	$ 896	$ 783								
Nine years later	$ 833									
6 Increase (decrease) in estimated incurred claims and expenses from end of policy year	$ (1,167)	$ (1,466)	$ (630)	$ (267)	$ (816)	$ (190)	$ 706	$ 167	$ 611	$ -

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
October 1, 2008 Thru September 30, 2009

2. List of Participating Member

The following is a list of WCRP membership for the fiscal year 2008-2009

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

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

WASHINGTON COUNTIES RISK POOL
October 1, 2008 Thru September 30, 2009

RECONCILATION OF CLAIMS LIABILITIES

As discussed in Note 1, the WCRP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents comparative changes in those aggregate liabilities for the WCRP during the past two years:

	2009	2008
Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 7,293,528	$ 7,943,944
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,437,299	1,264,343
Increase (Decrease) in Provision for Insured Events		
Prior Years	(878,040)	(251,086)
Total Incurred Claims and Claims Adjustment Expenses	$ 7,852,787	$8,957,201
Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ 0.00	$ 87,032
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	760,101	1,576,641
Total Payments	$ 760,101	$ 1,663,673
Total Unpaid Claims and Claims Adjustment Expenses		
End of Year	$ 7,092,686	$ 7,293,528

About The State Auditor's Office

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

Our mission is to work in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
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