Washington State Auditor's Office

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Financial Statements Audit Report

Washington Counties Risk Pool

Thurston County

For the period October 1, 2013 through September 30, 2015

Published May 9, 2016

Report No. 1016542

Washington State Auditor's Office

May 9, 2016

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 KELLEY
STATE AUDITOR
OLYMPIA, WA

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Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2015

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, 2015 and 2014, 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 14, 2016. As discussed in Note 1 to the financial statements, during the year ended September 30, 2015, the Pool implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

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

OLYMPIA, WA

March 14, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2015

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the Pool adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15, pension data on pages 36 through 37 and claims development information on pages 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016 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

OLYMPIA, WA

March 14, 2016

FINANCIAL SECTION

Washington Counties Risk Pool
Thurston County
October 1, 2013 through September 30, 2015

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Management's Discussion and Analysis

The management of the Washington Counties Risk Pool[1] ("WCRP" or "Pool") presents this narrative overview and analysis ("MD&A") for the Pool's financial activities from its 27th fiscal year ("FY") ending September 30, 2015. The information in this compilation should be considered in conjunction with that in the companion financial statements and accompanying notes to understand WCRP's financial position.

WCRP has no other component units for which it is financially accountable. It operates as an enterprise (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.

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

Discussion of the Basic Financial Statements: The basic financial statements are comprised of two components: the financial statements and the notes to those financial statements.

The *Statement of Net Position* presents information on an entity's assets and liabilities at fiscal year-end with the difference between them reported as *Net Position*. Changes over time in net position may serve useful as an indicator of whether the entity's financial position is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents details of an entity's revenues and expenses during a fiscal year that resulted in the reported *Change in Net Position* — ***Income*** results from revenues exceeding expenses while a ***Loss*** results when revenues are less than expenses. 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 leaves).

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*.

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[1] Washington State's joint self-insurance programs operate under its "pooling" laws and regulations, i.e. Revised Code of Washington ("RCW") Chapters 48.62 and 39.34 and Washington Administrative Code ("WAC") 200-100. These risk-sharing programs must be first approved by and are then overseen by and report to the State Risk Manager. They do not report to nor are they regulated by the Office of the Insurance Commissioner. As public entities, pools must annually report to and be audited by the State Auditor's Office. They are neither "insurers" (RCW 48.010.050) nor insurance companies, and they are not subject to the special laws and rules governing insurers and insurance companies.

WCRP was "Created *by* Counties *for* Counties" as *an association of member counties independent of all other associations of which the counties are members* in 1987-88 and approved by the State Risk Manager in January 1989. Its (foundation) interlocal agreement authorized the Pool's creation *to provide member counties programs of joint self-insurance, joint purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services*.

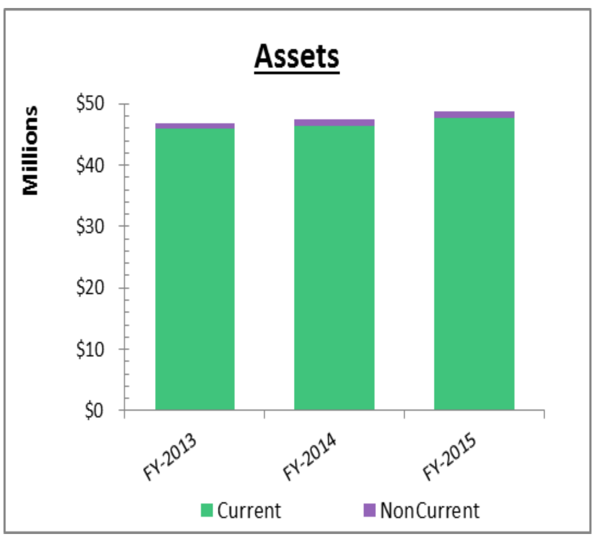
The *Notes to the Financial Statements* provide additional details and information essential to fully understanding the data provided in an entity's financial statements.

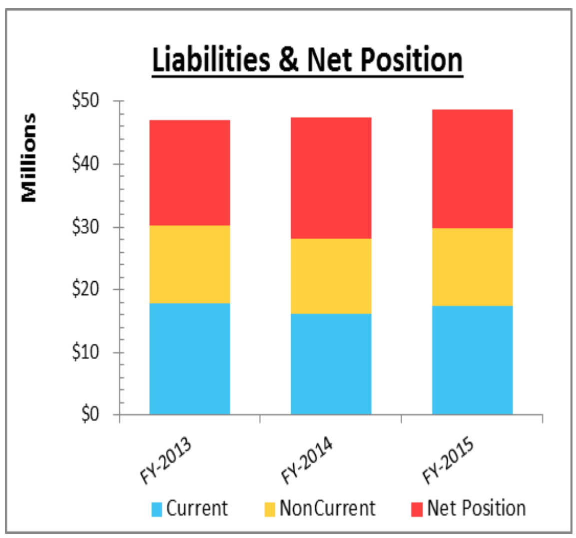
<u>Condensed Comparative Financial Data</u>: WCRP's three financial statements for FY-2015 and FY-2014 in a condensed format are presented hereafter with comparative data.

Assets continued to grow during the past two fiscal years to $48.8 million, increasing 3% in FY-2015 after a 1% rise in FY-2014. Only 2% are capital assets. Very modest deferred outflows and inflows of resources resulted from GASB 68 and the mandate for public entities with defined benefit pensions to begin recognizing that pension liability. Even with the GASB 68 accountings, liabilities declined slightly during the two-year period to $29.9 million. Unfavorable claims estimates elevated current liabilities, and GASB 68 accountings increased FY-2015's non-current liabilities. Total liabilities increased 6% in FY-2015 after falling 7% in FY-2014. When compared (assets to liabilities), they produced a ratio of 1.63:1.[2]

Net position (aka *net assets* or *owners' equity*) improved 13% since FY-2013 to $18.9 million. Yet the 2% decline experienced in FY-2015 (after the 16% increase in FY-2014) broke a series of positive annual changes that spanned more than a decade and raised the Pool's net position from its low-water mark of "negative" $1.8 million. With $1.1 million (net) invested in capital assets, the $17.8 million net position remaining "unrestricted" more than satisfies the State Risk Manager's solvency provisions (WAC 200.100.03001(3)). It also is within the target range ($12.7 to $23.5 million) desired by Pool's Board of Directors and specified in section D.2 of its Underwriting Policy.

COMPARATIVE STATEMENT OF NET POSITION	**Fiscal Years Ending**		
	09/30/2013	**09/30/2014**	**09/30/2015**
Current Assets	$46,017,808	$46,343,850	$47,703,622
Capital Assets (Net)	919,442	1,069,560	1,089,480
Total Assets	**$46,937,250**	**$47,413,410**	**$48,793,102**
Total Deferred Outflows of Resources			**$63,610**
Current Liabilities	$17,888,932	$16,165,932	$17,455,251
Non-Current Liabilities	12,325,473	11,878,307	12,401,409
Total Liabilities	**$30,214,405**	**$28,044,239**	**$29,856,660**
Total Deferred Inflows of Resources			**$83,946**
Net Investment in Capital Assets	$919,442	$1,069,560	$1,089,480
Internally Restricted Net Position	12,500,000		
Unrestricted Net Position	3,303,403	18,299,611	17,826,625
Total Net Position	**$16,722,845**	**$19,369,171**	**$18,916,105**





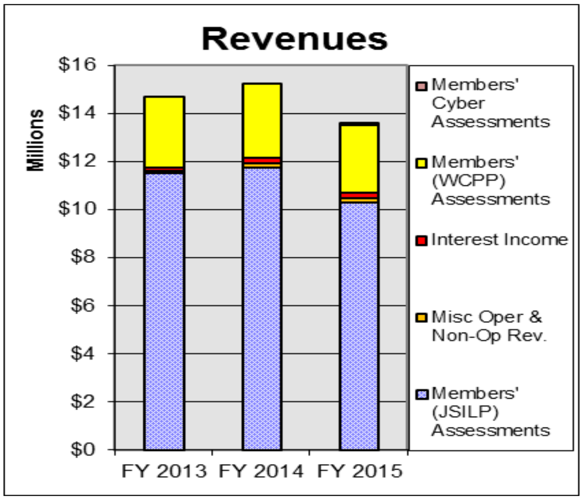
[2] As a comparison, the ratio from ten years ago (FY-2005) was 1.04:1. Also, that ratio would have been 0.96:1 except for members' reassessments receivables ("retroactive assessments") recognized as an asset that year.

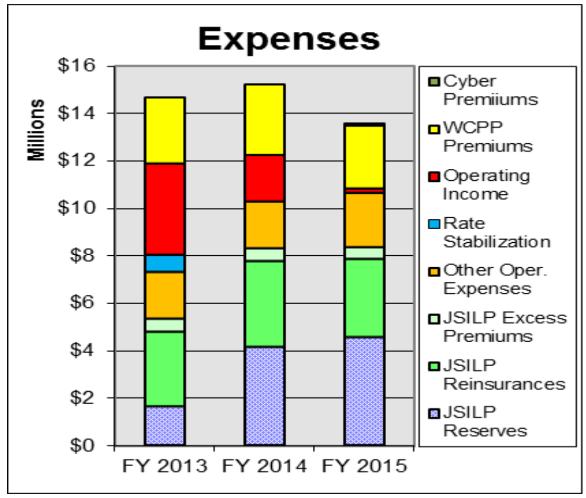
Reductions in members' assessments for both liability and property coverages drove revenues down 7% since FY-2013, even with cyber coverage and its assessments being added in FY-2015. Expenses increased 24% due substantially to the independent actuary's adjustments to liability claims-related reserves[3] and premiums for the reinsurance and excess liability insurance policies acquired. Net position as earlier communicated improved 13% during the most recent two years.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	**FY-2013**	**FY-2014**	**FY-2015**
Operating Revenues			
Member JSILP Assessments	$11,487,536	$11,727,035	$10,276,349
Member Cyber Assessments			93,697
Member WCPP Assessments	2,927,485	3,072,645	2,782,175
Operating Revenues – Miscellaneous	150,000	150,000	150,000
Total Operating Revenues	***$14,565,021***	***$14,949,680***	***$13,302,221***
Non-Operating Revenues (and Expenses)			
Interest Income	$150,638	$219,858	$257,362
Other (Net) Non-Operating Revenues	(39,007)	48,320	26,857
Total Non-Operating Revenues	***$111,631***	***$268,177***	***$284,219***
Total Revenues	**$14,676,652**	**$15,217,857**	**$13,586,440**
Operating Expenses			
Adjustments to (JSILP) Claims/ULAE Reserves	$1,609,408	$4,149,664	$4,539,223
Premiums for JSILP Insuring Policies	3,745,615	4,169,152	3,821,325
Premium for Cyber Insurance Policy			93,697
Premiums for Property Insurance Policies	2,798,095	2,959,396	2,681,290
Depreciation, Bad Debt & Administrative Expenses	1,931,616	1,954,321	2,252,141
Rate Stabilization Accounts (JSILP / WCPP)	732,090		
Total Operating Expenses	**$10,816,824**	**$13,232,533**	**$13,387,676**
Changes in Net Position	**$3,859,828**	**$2,646,325**	**$198,765**
Beginning Net Position (October 1st)	**$12,863,017**	**$16,722,846**	**$19,369,170**
Prior Period Adjustment		**661,000**	**(651,830)**
Ending Net Position (September 30th)	**$16,722,845**	**$19,369,171**	**$18,916,105**

[3] Claims reserves are estimated annually by the Pool's independent actuary. 456 third-party claims (and lawsuits) were reported by member counties for coverage from the Joint Self-Insurance Liability Program (JSILP), a 22% reduction in filings Y-O-Y and continuing the decline experienced the past several years. They raised the to-date (Oct 1988 – Sep 2015) total to 20,276. Only 322 cases remained *'open'* at year-end; however, the actuary projects another 241 cases as incurred but not yet reported ("IBNR") from all years, raising the estimated ultimate case count (through FY-2015) to 20,517.

Net reserves (estimated as of September 30, 2015) were $15.4 million, a 5% Y-O-Y increase, with those for the Pool's self-insured retention increasing 3%, the corridor deductibles by 5%, and the 10% quota-shared layer by 85%. $2.8 million is estimated for the SIR, $11.4 million for the "corridor program" deductibles and $0.2 million for the quota-shared losses, plus $1.0 million for unallocated loss adjustment expenses (ULAE). Gross estimates increased 61% to $53.7 million with $38.3 million ceded to reinsurers and excess insurers. NOTE: The corridor programs (from and involving the reinsurers for lower layers of liability coverage) began nine years ago with "occurrence" coverage maximums of $0.5 million for FYs 2007-2009, $1.0 million for FYs 2010-2012, both $1.0 million and $2.0 million for FYs 2013-2014, and $2.0 million for FY-2015. Occurrence minimums have remained the greater of the applicable member's deductible or $100,000 from the beginning.





Cash and cash equivalents increased 5% during FY-2015 to $44.3 million and benefitted significantly from net cash provided by operating activities ($2.73 million) and from that provided by investing activities ($0.25 million). $0.68 million was used during FY-2015 for capital and related financing activities, primarily to recognize pension liability (implementation of GASB 68) and for minor facility renovations.

COMPARATIVE STATEMENT OF CASH FLOW	**Fiscal Years Ending**		
	09/30/2013	**09/30/2014**	**09/30/2015**
Net Cash Provided (Used) by Operating Activities	**$7,549,576**	**($1,929,388)**	**$2,749,926**
Net Cash Provided (Used) from Capital and Related Financing Activities	**($59,989)**	**($171,797)**	**($697,200)**
Net Cash Provided (Used) by Investing Activities	**$150,638**	**$219,858**	**$249,685**
Increase (Decrease) in Cash and Cash Equivalents	**$7,640,225**	**($1,881,327)**	**$2,302,412**
Cash and Cash Equivalents – Beginning of the Year	**$36,240,373**	**$43,880,599**	**$41,999,271**
Cash and Cash Equivalents (including restricted) – End of Year	**$43,880,599**	**$41,999,271**	**$44,301,683**

Overall Analysis of Financial Position and Result of Operations: WCRP's finances are referred to by some as exceptional. Assets continued to grow a modest 3% in FY-2015, but liabilities increased 6% due to increased claims estimates and pension liability (GASB 68 accounting). Yet the assets-to-liabilities ratio remains in excess of 1.6:1. FY-2015's 2% decline in net position broke a trend of positive annual changes that spanned more than a decade and raised the Pool's net position from its low-water mark of "negative" $1.8 million to $18.9 million, midway in the $12.7 – $23.5 million target range desired by Board of Directors and specified within section D.2 of its Underwriting Policy. Also, the $17.8 million "unrestricted" net position is considerably more than that necessary to satisfy the State's solvency rules.

Budget Variances: WCRP's budget for FY-2015 was amended March 27, 2015 by the Board of Directors to include supplementations in response to both the final coverage selections of and properties scheduled by its member counties, and for modified investment activities with a professional investment advisor. Also, appropriations were again provided (via funding directly from Net Position) for a minor facility renovation which was not completed as planned before the FY-2014 appropriations lapsed.

Fiscal 2015 Budget	Original	Amended	Variance
Operating Revenues:			
Member C/A – Liability Coverage	$10,128,586	$10,276,345	$147,759
Member C/A – Property Insurance	2,578,804	2,787,732[4]	208,928
Member C/A – Cyber Insurance	96,995	96,995	0
Member Services Revenues	150,000	150,000	0
Total Operating Revenues	**$12,954,385**	**$13,311,072**	**$356,687**
Operating Expenses:			
Current Year "SIR" Claims Reserves	$1,099,213	$1,099,403	$190
Current Year's "Corridor" Claims Reserves	3,250,000	3,350,000	100,000
Premiums for Reinsurance Purchased	3,270,056	3,320,056	50,000
Premiums for Excess Insurances Purchased	503,700	501,269	(2,431)
Premiums for Property Insurance Purchased	2,482,299	2,681,290	198,991
Premiums for Cyber Insurance Purchased	96,995	96,995	0
Depreciation (of Capital Assets) Expense	70,650	70,650	0
Administrative (OH) Expenses	2,325,342	2,463,572	138,230
Total Operating Expenses	**$13,098,255**	**$13,583,235**	**$484,980**
Operating Income / (Loss)	**($143,870)**	**($272,163)**	**($128,293)**
Non-Operating Revenues / (Expenses):			
Interest Income	$235,200	$275,200	$40,000
Rental Income (Net)	28,400	23,050	5,350
Miscellaneous Income		700	700
Total Non-Operating Revenues / (Expenses)	**$263,600**	**$298,950**	**$35,350**
Changes in Net Position	**$119,730**	**$26,787**	**($92,943)**
Net Position, Beginning of Fiscal Period	$16,665,904	$19,369,170	$2,703,266
NET POSITION, End of Fiscal Period	**$16,785,634**	**$19,395,957**	**$2,610,323**

Capital Asset and Long-Term Debt Activity: Capital asset activities during FY-2015 consisted of completing minor renovations ($46,809) within Suite G (aka Suite 104) of the Pool's headquarters facility and the acquisition of several fire/impact-resistant file cabinets ($45,754). *(NOTE: Readers should view Note 7 in the 'Notes to the Financial Statements' for an expanded Capital Assets discussion.)* No long-term debt has been pursued by the Washington Counties Risk Pool.

Infrastructure: There is no infrastructure to account for by WCRP.

Other Potentially Significant Matters: A few matters with potential significance to WCRP are presently before Washington's appellate courts, either the Supreme Court or the Court of Appeals. And while favorable outcomes are anticipated, there always is the possibility for an adverse ruling. Appropriate reserve estimates were included within the Pool's FY-2015 financials for any such matter stemming from liability claim against a member county. However, a matter presently before the Supreme Court involving the entity, its reinsurers and excess insurers is quite complex, making the determination of a reasonable exposure value, if any, nearly impossible.

Request for Information: Recall that this MD&A is provided for those interested in a general overview of the financial operations of the Washington Counties Risk Pool. Questions concerning the information provided and WCRP's financial report, or requests for additional information, should be addressed to: WASHINGTON COUNTIES RISK POOL, Attn: Executive Director, 2558 R W Johnson Rd SW, Suite 106, Tumwater, WA, 98512-6103; or telephone 360/292-4500.

[4] The WCPP assessments collected totaled $2,787,732, but $3,722 was actually set aside by Board directive as an Advance Expenditure for application against the participating members' WCPP assessments for 2015-16.

WASHINGTON COUNTIES RISK POOL
STATEMENT OF NET POSITION

As of September 30, 2015 and 2014

ASSETS	As of 9/30/2015	As of 9/30/2014
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 3,536,452	$ 8,733,724
Investments	40,765,231	33,265,546
Receivables:		
Members' JSILP Deductibles Receivable	571,772	1,010,395
Excess Insurance/Reinsurance Recoverable	541,618	1,686,629
Members' JSILP Assessments Receivable	1,491,720	1,263,222
Members' WCPP Assessments Receivable	759,650	369,702
Other Accounts Receivables	26,843	11,672
Accured Interest	7,676	-
Prepaid Expenses	2,660	2,960
TOTAL CURRENT ASSETS	***$ 47,703,622***	***$ 46,343,850***
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	$ 1,089,480	$ 1,069,560
TOTAL NON CURRENT ASSETS	***$ 1,089,480***	***$ 1,069,560***
TOTAL ASSETS	**$ 48,793,102**	**$ 47,413,410**
TOTAL DEFERRRED OUTFLOWS OF RESOURCES	**63,610**	**-**
LIABILITIES		
CURRENT LIABILITES:		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	$ 1,038,133	$ 807,091
IBNR Reserve - SIR	-	-
"1st/2nd Layers' Corridor" Reserves	-	-
Open Claims - Corridor Reserves	2,750,093	2,106,958
IBNR Reserve - Corridor	-	-
Accounts Payable	240,493	103,385
Unearned Revenue - Members Assessments	13,426,532	13,148,498
TOTAL CURRENT LIABILITIES	***$ 17,455,251***	***$ 16,165,932***
NON CURRENT LIABILITIES		
Claims Reserves:		
"SIR" Reserves		
Open Claims - SIR Reserves	$ 1,988,116	$ 1,611,469
IBNR Reserve - SIR	(246,342)	274,425
Open Claims - Corridor Reserves	8,304,275	4,501,089
IBNR Reserve - Corridor	366,969	4,232,871
"8x2 10% Quota Share" Reserve	240,000	130,000
Reserve for ULAE	986,452	1,015,858
Compensated Absences	122,464	112,595
Net Penison Liability -- GASB 68	639,475	
TOTAL NON CURRENT LIABILITIES	***$ 12,401,409***	***$ 11,878,307***
TOTAL LIABILITIES	**$ 29,856,660**	**$ 28,044,239**
TOTAL DEFERRED INFLOWS OF RESOURCES	**$ 83,946**	**$ -**
NET POSITION:		
Net Investment in Capital Assets	$ 1,089,480	$ 1,069,560
Unrestricted Net Position	17,826,625	18,299,611
TOTAL NET POSITION	**$ 18,916,105**	**$ 19,369,171**

The accompanying notes are an integral part of this financial statements

MCAG NO 0774

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

For the Fiscal Years Ended September 30, 2015 and 2014

	Year Ended 9/30/2015	Year Ended 9/30/2014
OPERATING REVENUES:		
Members' Assessments -- JSILP Coverage	$ 10,276,349	$ 11,727,035
Cyber Coverage	$ 93,697	
Members' Assessments -- WCPP Insurance	2,782,175	3,072,645
Member Services - Revenues	150,000	150,000
Total Operating Revenues	***$ 13,302,221***	***$ 14,949,680***
OPERATING EXPENSES:		
Current Year's "SIR" Reserves	$ 1,099,403	$ 1,259,129
Current Year's "1st/2nd Layers' Corridor" Reserves	3,350,000	3,625,000
Adjustment in Prior Years' "SIR" Reserves	(4,642)	(1,075,806)
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	13,868	360,768
Adjustment in Reserve for ULAE	(29,406)	573
Adjustment of Prior Year's 8x2 10% Quota Share" Reserve	110,000	(20,000)
JSILP Reinsurance Premiums	3,320,056	3,593,317
Excess Liability Insurance Policies Premiums	501,269	575,835
Cyber Premiums	93,697	
WCPP Insurance Premiums	2,681,290	2,959,396
Depreciation Expense	72,644	70,000
Operating Expenditures	2,179,497	1,884,321
Total Operating Expenses	***$ 13,387,676***	***$ 13,232,533***
OPERATING INCOME (LOSS)	**$ (85,455)**	**$ 1,717,147**
NON OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	$ 257,362	$ 219,858
Rental Income	35,956	34,996
Rental Expense	(9,098)	(8,587)
Miscellaneous Income	0	2,133
Gain (Losses) on Capital Assets Disposition	-	19,778
Total Nonoperating Revenues (Expenses)	*$ 284,220*	*$ 268,178*
CHANGES IN NET POSITION	***$ 198,765***	***$ 1,985,325***
TOTAL NET POSITION, Beginning of Year	***$ 19,369,170***	***$ 16,722,845***
Change in Accounting Principles -- GASB 68	$ (651,830)	
PRIOR PERIOD ADJUSTMENT		$ 661,000
TOTAL NET POSTION, End of Year	**$ 18,916,105**	**$ 19,369,170**

The accompanying notes are an integral part of this financial statements

MCAG NO. 0774

WASHINGTON COUNTIES RISK POOL
STATEMENT OF CASH FLOWS

For the Fiscal Years Ended September 30, 2015 and 2014

	Year Ended 9/30/2015	Year Ended 9/30/2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Members & Insurers	$ 14,530,272	$ 11,092,175
Cash payments for goods and services	(10,750,360)	(12,089,617)
Cash payments to employees for services	(1,029,985)	(931,946)
Net Cash Provided (Used) by Operating Activities	$ 2,749,927	$ (1,929,388)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Equipment & Building	$ (92,564)	$ (234,811)
Cash from Rental of Office (net)	26,858	26,409
GASB 68 -- Pension Liability (net)	(631,494)	
Non Operating Miscellaneous Income	-	2,133
Gain on Sale of Assets	-	34,472
Net Cash Provided (Used) from Capital and Related Financing Activities	$ (697,200)	$ (171,797)
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest/Accrued Income	$ 249,685	$ 219,858
Net Cash Provided (Used) by Investing Activities	$ 249,685	$ 219,858
Increase (Decrease) in Cash and Cash Equivalents	$ 2,302,412	$ (1,881,327)
Cash and Cash Equivalents - Beginning of the Year	$ 41,999,271	$ 43,880,599
Cash and Cash Equivalents (including restricted) - End of the Year	**$ 44,301,683**	**$ 41,999,271**

The accompanying notes are an integral part of this financial statements

	Year Ended 9/30/2015	Year Ended 9/30/2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	$ (85,455)	$ 1,717,147
Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:		
Depreciation Expense	72,644	70,000
Decrease (Increase) in Accounts Receivable	950,017	(2,208,784)
Increase (Decrease) in "SIR" Reserves	86,922	(721,509)
Increase (Decrease) in "8x2 10% Quota Share" Reserve	110,000	(20,000)
Increase (Decrease) in "1st/2nd Layers' Corridor" Reserves	580,418	804,992
Increase (Decrease) in Reserve for ULAE	(29,407)	573
Increase (Decrease) In WCPP Stabilization Account	0	(2,090)
Increase (Decrease) in Unearned Revenue	278,034	(1,648,721)
Increase (Decrease) in Accounts Payable	137,109	58,656
Increase (Decrease) in Accrued Liabilities	649,345	18,932
Increase (Decrease) in Prepaid Expenses	300	1,415
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ 2,749,927**	**$ (1,929,388)**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The accompanying notes are an integral part of this financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

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

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

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

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

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

A new member county must make a 60-month commitment when joining the Pool. After that, a member may withdraw at the end of any WCRP fiscal year provided the county has given the Pool written notice of its intent to withdraw at least twelve months in advance of the fiscal year's end. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the Executive Committee may approve the admission, fees and initial deposit assessments/contributions for any new member county with a population of less than 125,000. The membership of the WCRP during this reporting period included 26 counties with population estimates ranging from 2,260 to 488,310.

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

Joint Self-Insurance Liability Program ("JSILP"): The Pool has provided risk-shared (jointly purchased and/or jointly self-insured) occurrence-based coverage for 3rd-party liability claims against members since October 1, 1988. $20 million (with member option for additional $5 million) in coverage was provided via the WCRP to its member counties during Policy Year 2015 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury covered by the JSILP. That included jointly self-insured coverage from the WCRP of $10 million, subject to the applicable member's selected deductible, with the remainder as "following form" excess insurance coverage. The WCRP acquired reinsurance for losses within its layer(s) of coverage exceeding the greater of one hundred thousand dollars or the member's deductible as protection for the Pool from unexpected losses and the membership from contingent liabilities that might result otherwise. Members selected their *occurrence* deductible amounts from the options available (in thousands of dollars — 10, 25, 50, 100, 250 or 500), which was/will be applied towards their initial JSILP expenses. There are no annual aggregate limits for the payments the WCRP might make for any one member county or for all member counties combined.

Washington Counties Property Program ("WCPP"): The WCRP also offered property coverage with extraordinary limits from a consortium of higher-rated commercial carriers for insuring the participating counties' scheduled real and personal properties as a jointly-purchased membership option. This included $500 million for typical "*all other perils*" coverage with $200 million *per occurrence*/annual aggregate catastrophe limits each for earthquake and for flood coverages, and many sub-limited coverages including Equipment Breakdown / Boiler & Machinery ($100 million) and Special Flood Hazard Areas ($25 million). Other coverages include Green Construction Upgrades, Reproduction for Historic Structures, and Terrorism ($20 million). AOP occurrence deductibles, which the participant is responsible for, were selected by the participating counties from the options that ranged between $5,000 and $50,000. Higher deductibles applied to catastrophe losses. During the 2015 policy year, all 26 WCRP counties participated.

Cyber Risk and Other Coverages: Beginning with fiscal year 2014-15, the Pool added jointly-purchased cyber risk and security coverage from a higher-rated commercial carrier.

b. Basis of Accounting and Presentation

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

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

The principal operating revenues of the WCRP are member assessments (sometimes referred to as premiums or contributions), while its operating expenses include both claims paid from current year allowances and adjustments to prior year's reserves, premiums for reinsurances and excess, property and cyber risk insurances, and the Pool's administrative expenses.

c. Cash and Cash Equivalents

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

d. Capital Assets and Depreciation

See Note 6

e. Receivables

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

f. Investments

See Note 2.

g. Compensated Absences

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

Annual Leave may be accumulated up to 30 days and is payable upon resignation, retirement, or death. Note: The executive director may accumulate up to 60 days, but will only be compensated at termination of employment for up to 30 days. An employee with more than sixty days sick leave accrued may convert the days earned in the previous year (less any sick leave days used in that year) to annual leave days at the rate of four days of sick leave for one day of annual leave. Sick leave may accumulate up to 130 days. Sick leave does not vest until death or retirement, and the accrued liability is booked at one-half of the amount earned.

h. Unpaid Claim Liabilities

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

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

i. Reinsurance

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

The cumulative to-date incurred loss amount deducted from claims liabilities as of September 30, 2015 and 2014 as being reinsured were $100,647,246 and $81,874,290 respectively. Premiums ceded to reinsurers during 2015 and 2014 were $3,320,056 and $3,593,317 respectively. The independent actuary's estimate for the ceded reinsured amount of gross loss reserves as of September 30, 2015 was $38,296,766.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which the coverage is to be provided. On the balance sheet, member assessments receivables were billed on or about September 1st with up to the amount equivalent to 105% of the prior year's assessment being due by September 30th, and any remaining assessments balance(s) due by the following January 31st. The assessments calculated for liability coverage were based in substantial part upon the members' prior year's worker hours and licensed units, upon the values of the real and personal properties scheduled by the participating counties for property coverage and simply equal shares for cyber risk coverage. Investment income is not presently considered for the determination of member assessments.

k. Unpaid Claims

Liability claims/lawsuits are charged to expenses as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid liability claims plus a provision for liability claims incurred but not reported (IBNR). These estimates are continually reviewed and updated by WCRP's consulting actuary and incorporate the Jury Verdict Value processes. Any resulting adjustments are reflected in current earnings.

l. Reserve for Unallocated Loss Adjustment Expense

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

m. Exemption From Federal And State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). RCW 48.62.151 exempts the WCRP from state insurance premium taxes and from business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS

a. Deposits

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

WCRP funds on deposit as of September 30, 2015 and September 30, 2014 were as follows:

	9/30/2015	9/30/2014
Wells Fargo (checking)	$ 3,536,451	$ 8,733,724
Washington State Investment Pool (LGIP)	663,289	662,376
Spokane County Investment Pool (SCIP)	36,092,533	32,603,170
US Bank Custodial Account	4,009,409	-----
Total deposits and investments	$44,301,682	$ 41,999,270

b. Investments:

		Market	Average	Average	Percent of	
	Maturities	Ratings	Value	Duration	Maturity	Portfolio
WA State Investment Pool (LGIP)	1 day average		$ 663,289			
Spokane County Investment Pool (SCIP)	1 day average		36,092,533			
U.S. Agencies	1-3 years	AA+	2,002,252	2.19	2.22	49.94%
U.S. Treasuries	1-3 years	AA+	2,000,127	2.17	2.20	49.89%
Money Market Fund	1 day average	AAA	7,030	0.00	0.00	.18%

Concentration of Credit:

		Market	Average	Average	Rating	% of
Issuer Name:	Cost	Value	Duration	Maturity	Moody/Sp	Portfolio
Government of United States	$1,994,470	$2,000,127	2.17	2.20	Aaa/AA+	49.89%
Federal National Mortgage Assoc.	996,169	999,985	2.27	2.30	Aaa/AA+	24.94%
Federal Home Loan Bank	500,096	501,917	2.21	2.24	Aaa/AA+	12.52%
Federal Home Loan Mortgage Corp	498,556	500,350	2.01	2.04	Aaa/AA+	12.48%
First American Govt Oblig Fund	7,030	7,030	0.00	0.00	Aaa/AA+	.18%

Disclosure of Custodial Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Pool recognizes that, over time, longer-term portfolios have higher volatility of return. The Pool mitigates interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The Pool has deposits of $36,092,533 with the Spokane County Investment Pool and $663,289 with the Washington State Investment Pool that are available immediately. The Pool further recognizes that certain types of securities will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The Pool restricts callable securities to a maximum of 20% of the portfolio, restricts maximum maturity to 5 years, and constrains duration to plus or minus 20% of a market benchmark index selected by the Investment Committee based on the Pool's investment objectives, constrains and risk tolerances.

NOTE 3 - JOINT SELF-INSURED RETENTION

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

For policy years 2015 and 2014, WCRP's *per-occurrence* retention limits for liability claims were $100,000 or the applicable member's deductible, whichever was greater. In addition, the first and second reinsurance layers' Reinsurer's liability for **ultimate net loss** arising from General Liability including claims arising out of sexual abuse, Products Liability, Law Enforcement Liability, Public Officials Liability, Employment Practices Liability, Employee Benefits Liability business lines exceeding the retention limit but less than $1,000,000, the Pool's annual aggregate reinsurance is limited to $40,000,000, for those same claims between $1,000,000 and $2,000,000, the Pool's annual aggregate reinsurance was limited to $20,000,000; and for those between $2,000,000 and $5,000,000, the Pool's annual aggregate reinsurance was limited to $30,000,000. Also, Reinsurer's liability for ***ultimate net loss*** arising from claims between $5,000,000 and $10,000,000, the Pool's annual aggregate reinsurance was limited to $50,000,000. Furthermore, with regard to ultimate net loss subject to the $8 million excess of $2 million reinsurance layer for Policy Year 2013, the Pool agreed to accept a 10% quota-share.

Through pre-funded member assessments (deposit assessments) collected immediately prior to or at the beginning of each policy year, WCRP committed assets for the years ended September 30, 2015 and 2014 of $1,099,403 and $1,259,129 respectively, and is committing $1,088,468 for PY-2016, specifically for the purpose of funding its self-insured retentions for those years. Additional member assessments were collected as WCRP assets and are/were committed in support of the Pool's "corridor deductible" exposures totaling $3,350,000 (PY-2015) and $3,625,000 (PY-2014).

NOTE 4 – REINSURANCE/EXCESS INSURANCE CONTRACTS

Through Arthur J. Gallagher Risk Management Services, Inc., the Producer (Broker-of Record) retained by the Pool's Board of Directors, WCRP partners with multiple superior-rated commercial insurers by acquiring reinsurance agreements and "following form" excess, property, and cyber risk insurances. The limits provided by these insuring agreements, contracts and policies for PY-2015 follow:

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

   The total "occurrence" coverage grew over time to the $20 million limit that has existed since October 1, 2003. Note: An additional "occurrence" limit of $5 million was available for member counties to acquire as an individual (county-by-county) option during many of the JSILP years including PYs 2015 and 2014. Each member annually selected a deductible amount from the options available, i.e. $10,000, $25,000, $50,000, $100,000, $250,000, $500,000, which was/will be applied to each of the member's occurrences from that year. There were/are no aggregate limits for the payments the Pool made/will make for any one member county.

   The initial $10 million of JSILP coverage was/is jointly self-insured. Reinsurance, subject to a self-insured retention ("SIR") equal to the greater of the applicable member deductible or $100,000, was acquired from multiple higher-rated carriers as protection for the Pool from unexpected losses and for the membership from contingent liabilities that might result otherwise. Reinsurance premiums ceded during the year totaled $3,320,056, while the independent actuary's estimate of the amounts recoverable from reinsurers (and excess insurers) which reduced the liabilities of gross loss reserves on the balance sheet (as of September 30, 2015) totaled $38,296,766.

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

b. **Washington Counties Property Program ("WCPP")**: Beginning with PY-2006,WCRP added jointly-purchased (1st-party) property coverage as an individual (county-by-county) option. This coverage was acquired from a consortium of higher-rated commercial carriers. During PY-2015, all 26 WCRP counties participated in the WCPP with covered properties (in composite) exceeding $2.6 billion.

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

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

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

NOTE 5 - MEMBER'S SUPPLEMENTAL ASSESSMENTS AND CREDITS

RCW 48.62.141 and the WCRP Interlocal Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities. Deficits of the WCRP are financed through supplemental (retroactive) assessments against those counties that were WCRP members for the deficient period(s). During policy year 2015, there was no deficiency, and no additional retroactive assessments were levied or collected.

NOTE 6 – CAPITAL ASSETS

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

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

	Beginning Balance 10/01/14	Increase	(Decrease)	Ending Balance 9/30/15
Capital Assets Being Depreciated:				
Building	$ 1,274,140	46,810		1,320,950
Office Furnishings and Equipment	169,100	45,755	(2,102)	212,753
Total Capital Assets being Depreciated	$ 1,443,240	92,565	(2,102)	1,533,703
Less Accumulated Depreciation for:				
Building	$ 299,769	45,320		345,089
Office Furnishings and Equipment	73,912	27,323	(2,102)	99,134
Total Accumulated Depreciation	$ 373,681	72,643	(2,102)	444,223
TOTAL CAPITAL ASSETS NET	$ 1,069,558	19,922	(0)	1,089,480

Capital assets activities for the fiscal year ended September 30, 2014 were as follows:

	Beginning Balance 10/01/13	Increase	(Decrease)	Ending Balance 9/30/14
Capital Assets Being Depreciated:				
Building	$ 1,125,659	148,481		1,274,140
Office Furnishings and Equipment	159,697	86,330	(76,927)	169,100
Total Capital Assets being Depreciated	$ 1,285,356	234,811	(76,927)	1,443,240
Less Accumulated Depreciation for:				
Building	$ 252,058	47,712		299,770
Office Furnishings and Equipment	113,857	22,288	(62,233)	73,912
Total Accumulated Depreciation	$ 365,915	70,000	(62,233)	373,682
TOTAL CAPITAL ASSETS NET	$ 919,441	164, 811	(14,694)	1,069,558

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 7: SOLVENCY

Washington Administrative Code (WAC) 200-100 requires the Washington Counties Risk Pool to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, i.e. cash and cash equivalents less non-claims liabilities, must at least equal the independent actuary's *expected* estimate of unpaid claims. Furthermore, a pool's total primary and secondary assets must at least equal the independent actuary's *80% confidence level* estimate of unpaid claims (70% before 2015). Secondary assets include insurance receivables, real estate or other assets less any non-claim liabilities, the values for which can be independently verified by the state risk manager.

Actuary Solvency Test Results
As of September 30, 2015 and September 30, 2014

Primary Asset Test 1		
Cash and cash equivalents	$ 3,536,452	$ 8,733,724
Investments	40,765,231	33,265,546
Total	***$44,301,683***	***$ 41,999,270***
Less:		
Non-claims Liabilities	$ 362,957	$ 215,980
Unearned Revenues	13,426,532	13,148,498
Total Primary Assets	***$30,512,194***	***$28,634,792***
Claims Liability – Expected Level	***$15,427,697***	***$14,680,000***
Test 1 Result – Primary Asset Test	**MET**	**MET**
Secondary Asset Test		
Cash and cash equivalents	$ 3,536,452	$ 8,733,724
Investments	40,765,231	33,265,546
Receivables	3,391,603	4,341,620
Prepaid Expenses	2,660	2,960
Accrued Interest	7,676	-
Capital Assets	1,089,480	1,069,560
Less:		
Non-Claims Liabilities	$ 362,957	$ 215,980
Unearned Revenues	13,426,532	13,148,498
Total Secondary Assets	***$ 4,491,419***	***$ 5,414,140***
Total Primary plus Secondary Assets	***$35,003,613***	***$ 34,048,932***
Claims Liabilities at 80% (70% 2014)	***$16,727,000***	***$15,752,000***
Test 2 Results – Secondary Asset Test	**MET**	**MET**

NOTE 8: RESTRICTED AND UNRESTRICTED NET POSITION

In 2014, WCRP's statement of net position was adjusted and no longer reflects any "internal" restrictions. This change was to conform to GASB, which only allows for the reporting of "external" restrictions on net position. Yet the $18,916,105 (ending) Net Position certainly lies within the actuary's estimated range ($12.7 – $23.5 million) for the Pool's target fund balance and would therefore satisfy its internal restriction (specified in Section 2 of its Board's Underwriting Policy).

NOTE 9 – Changes in Accounting Principles

In PY2015, WCRP's Statement of Net Position reflects change in accounting principles of $651,830 which resulted due to the implementation of GASB 68.

NOTE 10 – Pension Plans

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$639,474
Pension assets	$
Deferred outflows of resources	$63,610
Deferred inflows of resources	$83,946
Pension expense/expenditures	$ 7,981

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The *WCRP*'s actual contributions to the plan were $13,951 for the fiscal year ended September 30, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The *WCRP*'s actual contributions to the plan were $56,580 for the year ended September 30, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Re*

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

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

Pension Plan Fiduciary Net Position

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

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

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

	Liability (or Asset)
PERS 1	$408,797
PERS 2/3	$230,677

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

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

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

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	Pension Expense
PERS 1	$ 6,281
PERS 2/3	$ 1,700
TOTAL	$ 7,981

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

Deferred outflows of resources related to pensions resulting from the *Washington Counties Risk Pool*'s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2015. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September:	*PERS 2/3*
2016	$ 5,451
2017	$ 5,451
2018	$ 5,451
2019	$ 2,180
2020	$
Thereafter	$

NOTE 11: Qualified Pension Plan

The WCRP also participates in a defined contribution pension plan created in accordance with Internal Revenue Code Section 401(a). This plan is with the International City/County Management Association (ICMA). Employer contributions to the Qualified Pension Plan for the years ended September 30, 2015 and 2014 were $45,964 and $41,843, respectively. There are no employee contributions to this plan.

NOTE 12 - DEFERRED COMPENSATION PLANS

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

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

NOTE 13 – SUBSEQUENT EVENTS

a. **Coverage and Assignment of Rights Disputes – Davis/Northrop v. Clark County/Slagle**: Refer to the prior discussion (Note 13 – Subsequent Events) within the SAO Annual Report for FY-2014 as there have been no subsequent events of significance since then.

b. **WCRP v. Northrop, Davis, Clark County, and Donald Slagle – Cowlitz County Action**: Refer to the prior discussion (Note 13 – Subsequent Events) within the SAO Annual Report for FY-2014 for background and previous details. The trial court granted certification for appellate review on December 12, 2014. The Washington Supreme Court then accepted direct appellate review on June 1, 2015. Appellants (defendants in the trial court) filed their Opening Briefs on October 13, 2015. Respondents (WCRP and Lexington Insurance Company) filed their Response Briefs on January 15, 2016. Appellants' Reply Briefs are currently due on February 14, 2016, but that deadline is subject to extension. Oral argument before the Washington Supreme Court will then take [lave, but it is unlikely to occur before summer 2016. The Supreme Court's decision on appeal is not expected before late 2016 or early 2017.

c. **WCRP and Douglas County v. Corter and Groseclose**: Under a reservation of rights, WCRP paid for the defense for Douglas County sheriff's detective Groseclose in a civil rights lawsuit brought by his ex-wife Corter. After a verdict was entered on behalf of Corter, WCRP enforced its reservation of rights and refused to indemnify Groseclose for the damages awarded to Corter. Rather than administratively appealing WCRP's decision as required under the WCRP Bylaws, Groseclose assigned his rights against WCRP and Douglas County to Corter. WCRP and Douglas County filed a declaratory judgment action against Corter and Groseclose in Douglas County Superior Court. In August 2014, the trial court granted Summary Judgment in favor of WCRP and Douglas County. Corter and Groseclose appealed the decision to Division III of the Washington Court of Appeals. Oral argument before the Court of Appeals was held on June 11, 2015. A favorable decision from the Court of Appeals is expected shortly.

d. **Changes to Ceded Losses**: The cumulative to-date incurred amount deducted from claims liabilities increased nearly $18.8 million during FY-2015. However, three-quarters of the increase stems from an adverse outcome for one case. Appellant review was sought of the trial court's actions and the jury award. This appeal is being addressed by Division II of Washington's Court of Appeals. Briefs have been (are being) filed and oral arguments are expected to occur later (May, June or July) this year.

e. **Recent Changes in Members' Loss Activities**: With 96 new cases having been reported by WCRP's member counties, total to-date incurred loss estimates (payments plus reservations for covered cases) increased $7.8 million during the first quarter of FY-2016. The "open" cases count was reduced by two to 320, and total incurred loss estimates for the "open" cases increased $2.2 million during the quarter. Yet a favorable legal action issued in January 2016 will reduce the total $3.6 million.

NOTE 14 - UNPAID CLAIMS LIABILITIES

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

	2015	2014
SIR - Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 2,692,985	$ 3,414,495
SIR - Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,099,403	1,259,129
Increase (Decrease) in Provision for Insured Events		
Prior Years	(5,791)	(1,074,553)
Total Incurred Claims and Claims Adjustment Expenses	$ 3,786,597	$ 3,599,071
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ 161,645	$ -
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	845,045	906,086
Total Payments	$ 1,006,690	$ 906,086
SIR -Total Unpaid Claims and Claims Adjustment Expenses		
End of Year	$ 2,779,907	$ 2,692,985

The actuary estimated the current Unpaid Claims and Claims Adjustment liability at the end of 2015 and 2014 to be $1,038,133 and $807,091 respectively.

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

	2015	2014
Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 13,663,903	$ 13,600,420
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	4,449,403	4,884,129
Increase (Decrease) in Provision for Insured Events		
Prior Years	118,078	(733,785)
Total Incurred Claims and Claims Adjustment Expenses	$ 18,231,384	$ 17,750,764
SIR - Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ 198,364	$ 0
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	3,591,776	4,086,862
Total Payments	$ 3,790,140	$ 4,086,862
SIR -Total Unpaid Claims and Claims Adjustment Expenses	$14,441,244	$ 13,663,903

The actuary estimated the current SIR – Total Unpaid Claims and Claims Adjustment Liability at the end of 2015 and 2014 to be $3,788,266 and $2,914,049 respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Washington Counties Risk Pool
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2015
Last 10 Fiscal Years

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Employer's proportion of the net pension liability (asset)	0.007815%									
Employer's proportionate share of the net pension liability	408,797									
TOTAL	408,797									
Employer's covered employee payroll	143,784									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	35.17%									
Plan fiduciary net position as a percentage of the total pension liability	59.10%									

Washington Counties Risk Pool
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2015
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.006456%									
Employer's proportionate share of the net pension liability	230,677									
TOTAL	230,677									
Employer's covered employee payroll	587,820									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	39.24%									
Plan fiduciary net position as a percentage of the total pension liability	89.20%									

REQUIRED SUPPLEMENTARY INFORMATION

Washington Counties Risk Pool
Schedule of Employer Contributions
PERS 1
As of September 30, 2015
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	13,951									
Contributions in relation to the statutorily or contractually required contributions	13,951									
Contribution deficiency (excess)	0									
Covered Employer Payroll	143,784									
Contributions as a percentage of covered employee payroll	9.70%									

Washington Counties Risk Pool
Schedule of Employer Contributions
PERS 2/3
As of September 30, 2015
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	56,579									
Contributions in relation to the statutorily or contractually required contributions	56,579									
Contribution deficiency (excess)	0									
Covered Employer Payroll	587,820									
Contributions as a percentage of covered employee payroll	9.63%									

REQUIRED SUPPLEMENTARY INFORMATION

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

1. Ten-Year Claims Development Information

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

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

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

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

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

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

   f. This section of ten rows show how each 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.)

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

Washington Counties Risk Pool
JSILP Claims Development
September 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Required Contribution and investment revenue:										
Earned	13,182,912	12,221,809	12,203,136	11,993,561	14,732,223	14,122,973	14,602,491	14,715,659	15,169,538	13,559,583
Ceded	6,398,439	3,772,810	3,806,063	3,697,000	5,480,000	5,480,000	5,602,250	3,199,125	3,593,317	3,320,056
Net earned	6,784,473	8,448,999	8,397,073	8,296,561	9,252,223	8,642,973	9,000,241	11,516,534	11,576,221	10,239,527
2. Unallocated expenses	2,955,343	4,148,923	4,098,577	4,528,441	4,880,297	4,728,089	5,113,060	6,036,859	5,490,125	5,518,065
3. Estimated claims and expenses end of policy year:										
Incurred					14,000,000	13,000,000	10,200,000	8,000,000	7,300,000	10,900,000
Ceded					9,750,000	8,950,000	6,375,000	3,125,000	2,875,000	6,415,000
Net incurred	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000	4,425,000	4,485,000
4. Net paid (cumulative) as of:										
End of policy year:	100,676	75,153	87,032	-	41,325	42,951	193,680	19,510	-	198,365
One year later	443,146	207,883	227,021	197,532	519,161	648,326	380,131	929,023	394,618	
Two years later	1,001,021	751,102	541,119	605,051	477,611	959,084	1,133,512	1,676,522		
Three years later	1,251,293	1,278,211	1,244,824	1,071,363	1,049,714	1,664,193	1,348,078			
Four years later	1,414,271	1,654,586	2,066,751	1,437,932	2,180,521	2,912,031				
Five years later	1,462,579	2,071,627	2,267,997	1,951,969	2,643,104					
Six years later	1,488,882	2,113,346	2,336,472	2,033,458						
Seven years later	1,488,881	2,123,298	2,356,994							
Eight years later	1,488,881	2,538,578								
Nine years later	1,488,881									
5. Estimated ceded claims and expenses	10,521,152	7,506,487	6,444,240	3,784,754	3,585,183	17,832,486	2,315,200	3,240,000	4,467,500	6,415,000
6. Estimated net incurred claims and expenses:										
End of policy year:	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000	4,050,000	3,825,000	4,875,000	4,425,000	4,485,000
One year later	2,345,000	3,770,000	3,700,000	3,875,000	4,300,000	3,575,000	3,500,000	4,670,000	4,232,500	
Two years later	2,575,000	3,350,000	3,200,000	3,660,000	3,745,000	3,235,000	3,175,000	4,860,000		
Three years later	2,060,000	3,519,745	2,971,395	3,472,159	2,475,172	3,015,000	3,284,800			
Four years later	1,579,433	3,089,550	2,664,731	2,694,107	3,014,417	2,967,514				
Five years later	1,575,489	2,946,327	2,547,037	2,434,747	3,014,817					
Six years later	1,488,882	2,481,812	2,617,037	2,515,246						
Seven years later	1,488,881	2,568,243	2,563,548							
Eight years later	1,488,881	2,588,578								
Nine years later	1,488,881									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	($361,119)	($1,306,422)	($1,311,452)	($1,559,754)	($1,235,183)	($1,082,486)	($540,200)	($15,000)	($192,500)	$0

LIST OF PARTICIPATING MEMBERS Schedule T-1

The following is a list of WCRP membership during the fiscal year 2015-2014

Adams County

Benton County

Chelan County

Clallam County

Columbia County

Cowlitz County

Douglas County

Franklin County

Garfield County

Grays Harbor County

Island County

Jefferson County

Kittitas County

Lewis County

Mason County

Okanogan County

Pacific County

Pend Oreille County

San Juan County

Skagit County

Skamania County

Spokane County

Thurston County

Walla Walla County

Whatcom County

Yakima County

WASHINGTON COUNTIES RISK POOL
DES Schedule of Expenses
For Fiscal Years Ended September 30, 2015 and September 30, 2014

	09/30/2015	09/30/2014
Insurance Premiums/Reserve Expense	$11,045,715	$12,012,677
ULAE Expense	(29,406)	573
Adjustment to Prior Years' "1st/2nd Layers' Corridor" Reserves	13,868	(1,075,806)
Adjustment to Prior Years' "SIR" Reserves	(4,642)	360,768
Adjustment to Prior Year' "10% (8x2 Layer) Quota Share	110,000	(20,000)
Contracted Services:		
Actuarial	68,300	73,800
State Audit Expense	7,965	9,477
State Risk Manager Expenses	11,734	11,734
Legal Fees	329,449	149,743
IT Consultants	25,737	30,103
Property Appraiser	32,022	69,332
Investment Advisor	3,000	-
Consulting Member Services Manager	27,500	-
Leadership Search Consultant	68,634	-
Other Consulting Fees	8,984	25,150
General Administrative Expenses		
Employee Salaries and Benefits	1,029,985	931,946
Communication	15,568	15,335
Supplies	22,231	28,658
Dues and Memberships	7,156	8,734
Travel - Employee	95,432	77,271
Committee and Board Meetings	137,029	84,467
Depreciation	72,644	70,000
Building and Auto Insurance	20,216	16,255
Operating Leases	54,659	120,226
Utilities	17,504	18,472
Member Services - Training	91,285	86,039
Member Services - Grants/Scholarships	85,735	112,705
Miscellaneous Expenses	19,372	14,875
Total Operating Expenses	$13,387,676	$13,232,533

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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