Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Water Sewer Insurance Pool (Water and Sewer Risk Management Pool)

King County

For the period November 1, 2012 through October 31, 2013

Published October 30, 2014

Republished October 30, 2014

Report No. 1012883

Washington State Auditor
Troy Kelley

October 30, 2014

Board of Directors
Water and Sewer Risk Management Pool
Bellevue, Washington

Report on Financial Statements

Please find attached our report on the Water and Sewer Risk Management Pool's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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Schedule of Audit Findings and Responses

Water and Sewer Risk Management Pool
King County
November 1, 2012 through October 31, 2013

1. The Pool did not comply with the primary asset solvency requirement, increasing the risk it will be unable to pay its outstanding claims.

Background

The Water and Sewer Risk Management Pool (Pool) is a joint self-insurance program for member water and sewer utility districts. State regulations hold property and liability programs to standards of solvency as defined in Washington Administrative Code (WAC). WAC requires that the Pool establish and maintain primary assets in an amount at least equal to the unpaid claims estimate as determined by the program's actuary at fiscal year-end. Pools that do not meet this requirement are required to notify the state risk manager and risk receiving a "cease and desist" order from the state risk manager.

Description of Condition

We reviewed the Pool for compliance and noted that at fiscal year-end 2013 the Pool did not meet the primary asset solvency test defined by the Washington Adminstrative Code. The Pool did not have sufficient cash and investments to pay expected claims liabilities in the following year.

The Pool's management notified our office in January 2014 and the state risk manager in March 2014 that it did not meet the primary asset requirements.

We reviewed the Pool's 2014 projections for meeting the primary solvency test through September 2014, and it appears they will meet the requirement for fiscal year 2014.

Cause of Condition

Management believed that deferring payment for insurance would result in passing the primary asset solvency requirement for the year. Management did not have an adequate understanding and knowledge to monitor for solvency requirements.

Effect of Condition

The Pool did not have sufficient cash and investments on hand at year-end to cover its unpaid claims liabilities. The Pool was approximately $208,751 short of meeting its regulatory solvency requirements at the end of October 2013. This increases the possibility that the pool would not be able to cover the member's unpaid claims.

Recommendation

We recommend the Pool establish and follow procedures, including increasing its monitoring, to ensure the Pool meets regulatory solvency requirements.

We further recommend the Pool work with the state risk manager regarding its compliance with solvency requirements at year-end and work together to resolve any outstanding concerns.

Pool's Response

The State Auditor's Office conducted the annual exit conference in June 2013 and informed the Executive Committee the Pool did not have sufficient primary assets to pass the primary asset solvency test as of October 31,2012 caused by unusually high claims eroding our net asset position. In fact, financial practices also contributed to this result, as prepaid expenses reduced available liquid assets.

Subsequent to this notice, the Executive Committee adopted a budget for fiscal year 2013-2014 that increased member assessments and reduced expenses to generate sufficient net assets to not only pass the primary asset test but to also increase the Pool's confidence level above 90 percent. The Pool is now projecting the October 31, 2014 net assets to substantially exceed the requirements for passing the primary asset solvency test and also result in funding that exceeds the 95 percent confidence level. The State Auditor's Office, as well as our independent actuary, have tested our projections and find them credible, and the State Risk Manager has confirmed their support of our actions and practices in this regard. Management is now including in the annual budget preparation a projection of the primary and secondary asset solvency tests to insure compliance. Management has also increased the frequency of actuarial review and guidance to provide better monitoring of status and progress. We appreciate the assistance and cooperation of the State Auditor's Office in addressing this issue.

Auditor's Remarks

We appreciate the Pool's cooperation and willingness to take corrective action to address the issue identified as a result of our audit. We will review the status of this condition during our next audit.

Applicable Laws and Regulations

WAC 200-100-020 Definitions, states in part:

> (20) "Primary assets" means cash and investments (less any nonclaims liabilities).
>
> (23) "Secondary assets" means insurance receivables, real estate or other assets (less any nonclaims liabilities) the value of which can be independently verified by the state risk manager.

WAC 200-100-03001 Standards for solvency - Actuarially determined liabilities, program funding and liquidity requirements, states:

(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end, which provides estimates of the unpaid claims measured at the expected and the seventy percent confidence level.

(2) The governing body of the joint self-insurance program shall establish and maintain primary assets in an amount at least equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end. All joint self-insurance programs that do not meet the requirement to maintain sufficient primary assets shall notify the state risk manager in writing of the condition. The state risk manager shall take corrective action, which may include the service of a cease and desist order upon t he program, to require that the program increase primary assets in an amount equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end.

(3) The governing body of the joint self-insurance program shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the seventy percent confidence level as determined by the program's actuary as of fiscal year end. All joint self-insurance programs that do not meet the reserve requirements to maintain sufficient primary and secondary assets shall notify the state risk manager in writing of the condition. The state risk manager shall require that the program submit a written corrective action plan to the state risk manager within sixty days of notification. Such plan shall include a proposal for improving the financial condition of the self-insurance program and a t imeframe for completion. The state risk manager shall approve or deny the proposed plan in writing within thirty days of receipt of the final plan submission. Failure by the joint self-insurance program to respond or submit a plan to improve the financial condition of the program shall cause the state risk manager to take corrective action, which may include the service of a cease and desist order upon the program.

(4) The state risk manager shall evaluate the operational safety and soundness of the program by monitoring changes in liquidity, claims reserves and liabilities, member equity, self-insured retention, and other financial trends over time. Programs experiencing adverse trends may cause the state risk manager to increase frequency of on-site program review and monitoring, including increased communication with the governing body and requirements for corrective plans.

(5) When the state risk manager determines it necessary to analyze the program's soundness and financial safety, the state risk manager may obtain an independent actuarial evaluation to determine the adequacy of reserves. Costs of these services shall be the responsibility of the joint self-insurance program.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Water and Sewer Risk Management Pool
King County
November 1, 2012 through October 31, 2013

Board of Directors
Water and Sewer Risk Management Pool
Bellevue, 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 Water and Sewer Risk Management Pool, King County, Washington, as of and for the years ended October 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated October 30, 2014.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Finding 1.

POOL'S RESPONSE TO FINDINGS

The Pool's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Pool's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

October 30, 2014

Independent Auditor’s Report on Financial Statements

Water and Sewer Risk Management Pool
King County
November 1, 2012 through October 31, 2013

Board of Directors
Water and Sewer Risk Management Pool
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Water and Sewer Risk Management Pool, King County, Washington, as of and for the years ended October 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Pool’s basic financial statements as listed on page 13.

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 Water and Sewer Risk Management Pool, as of October 31, 2012 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 14 through 17 and risk pool information on pages 34 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.

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 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 October 30, 2014 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 30, 2014

Financial Section

Water and Sewer Risk Management Pool
King County
November 1, 2012 through October 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2013 and 2012

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Claims Development Information – 2013
Schedule of Claims Development Information – 2012
Reconciliation of Claims Liabilities by Type of Contract – 2013
Reconciliation of Claims Liabilities by Type of Contract – 2012

SUPPLEMENTAL INFORMATION

List of Participating Members – 2013
DES Schedule of Expenses – 2013 and 2012

Water and Sewer Insurance Pool
DBA Water and Sewer Risk Management Pool

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Water and Sewer Risk Management Pool's (WSRMP or the Pool) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of WSRMP's financial activity, identify changes in WSRMP's financial position, and identify any material deviations from the financial plan (the approved budget).

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with WSRMP's financial statements.

HIGHLIGHTS

Financial Highlights

Fiscal Year Ending October 31, 2013:

WSRMP's net position decreased by $122,567. The decrease was due to an increase in claims/expense reserves of $353,582, which was partially offset with a $209,215 increase in member assessments. The Pool increased its member assessments to offset claims increases.

The Pool's actual financial results, other than claims expense/reserves, were comparable to its budgeted amounts, with the exception of a few areas where the budget was exceeded. The areas where the Pool exceeded the budgeted amounts have already been identified in the financial highlights discussion above.

Fiscal Year Ending October 31, 2012:

WSRMP's net position increased by $270,497. The increase was due to an increase in member assessments of $357,847 as well as an overall reduction in claims/expense reserves of $673,897, both of which offset the large deficit for Fiscal Year Ending October 31, 2011 of $755,097. The claims expense/reserves reduction was due to the Pool settling several large claims during Fiscal Year Ending October, 31, 2011, which did not repeat in Fiscal Year Ending October 31, 2012.

The Pool's actual financial results, other than claims expense/reserves, were comparable to its budgeted amounts, with the exception of a few areas where the budget was exceeded. The areas where the Pool exceeded the budgeted amounts have already been identified in the financial highlights discussion above.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to WSRMP's basic financial statements. The Pool's financial statements comprise of two components: 1) basic financial statements (which are on and the same for the entity-wide and individual statements), and 2) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The *Statement of Net Position* presents information on all of the Pool's assets and liabilities, with the difference between the two reported as *Net Position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Pool is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Fund Net Position* presents information showing how the Pool's net position changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., loss reserves is an example).

The Pool's function is to provide property and casualty insurance to participating members. The Pool's primary source of revenue is assessments to members and it major expenses include payments on claims and payments for insurance coverage. The Pool reports as a business-type activity.

The Pool-wide financial statements include only WSRMP itself. The Pool has no other *component units* for which it is financially accountable.

Water and Sewer Insurance Pool
DBA Water and Sewer Risk Management Pool

- Three-year comparative summary financial data:

DESCRIPTION	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Total Assets – Capital	$11,281	$12,689	$16,374
Total Assets – Other	$4,111,514	$3,256,360	$2,643,350
Total Assets	$4,122,795	$3,269,049	$2,659,724
Total Current Liabilities	$3,602,017	$2,688,918	$2,345,571
Noncurrent Liabilities	$326,102	$262,888	$267,407
Total Liabilities	$3,928,119	$2,951,806	$2,612,978
Total Net Position-Invested in Capital Assets	$11,281	$12,689	$16,374
Total Net Position-Unrestricted	$183,395	$304,554	$30,372
Total Net Position	$194,676	$317,243	$46,746
OPERATING REVENUES			
Member Assessments	$2,391,369	$2,182,154	$1,824,307
Other Revenues	$12,993	$25,796	$33,661
TOTAL OPERATING REVENUES	$2,404,362	$2,207,950	$1,857,968
NON-OPERATING REVENUES			
Investment Income	$2,630	$1,562	$5,378
TOTAL REVENUES	$2,406,992	$2,209,512	$1,863,346
OPERATING EXPENSES			
Insurance expense	$1,072,471	$917,887	$864,917
Claims paid	$584,389	$436,807	$642,713
Wages and benefits	$357,352	$343,895	$355,014
Establish claims reserve	$159,000	($47,000)	$420,991
Other expense	$352,470	$287,426	$345,684
TOTAL OPERATING EXPENSES	$2,525,682	$1,939,015	$2,618,443
NON-OPERATING EXPENSE			
Interest Expense	$3,877	-	-
TOTAL EXPENSES	$2,529,559	$1,939,015	$2,618,443
NET INCOME (LOSS)	($122,567)	$270,497	($755,097)
BEGINNING NET POSITION	$317,243	$46,746	$801,843
ENDING NET POSITION	$194,676	$317,243	$46,746

- Overall the Pool's financial condition in fiscal year 2011 decreased due to large claims incurred in fiscal year 2011. During fiscal year 2012 the Pool recovered from the prior fiscal year loss by increasing member assessments as well as reducing claims expense/reserves (reduction was due to settling several large claims in fiscal year 2011 which did not repeat in fiscal year 2012). In fiscal year 2013 the Pool increased member assessments to offset anticipated claims expense/reserves increase. The Pool has not entered into any financial contracts or agreements during fiscal year 2013 that would restrict its future use of financial resources as reported on the Statement of Net Position as of October 31, 2013.

Water and Sewer Insurance Pool
DBA Water and Sewer Risk Management Pool

Operations Highlights

The Pool is continuing to provide its members with education workshops in an effort to reduce its and its member claims exposure. The education workshops that were provided to the membership include: Defensive Driving; Locating; Employee Handbooks; Incident/Claims Reporting; and other miscellaneous training

SUMMARY

The insurance industry has seen increases in premiums in many lines of insurance. The Pool continually researches coverage enhancements, changing self-insured retentions, raising/lowering limits, etc. in order to react to the ever changing insurance marketplace.

FINANCIAL CONTACT

The Pool's financial statements are designed to present users (members and or the general public) with a general overview of the Pool's finances and to demonstrate the Pool's accountability. If you have questions about the report or need additional information, contact Ken Goodwin, the Pool's Interim Executive Director, at 1750 112th Avenue NE, Suite B215, Bellevue, WA 98004.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Net Position
As of October 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 1,378,103	$ 511,478
Member receivables	2,341,265	1,920,406
Prepaid expenses	392,146	824,476
TOTAL CURRENT ASSETS	4,111,514	3,256,360
Capital assets, net	11,281	12,689
TOTAL ASSETS	$ 4,122,795	$ 3,269,049
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable and other current liabilities	$ 549,625	$ 17,033
Claim Reserves:		
IBNR	136,486	201,473
Open Claims (Case Reserves)	238,873	83,619
Unallocated Loss Adjustment Expenses	21,656	13,608
Unearned member assessments	2,655,377	2,373,185
TOTAL CURRENT LIABILITIES	3,602,017	2,688,918
Noncurrent Liabilities:		
Claim Reserves:		
IBNR	99,126	150,332
Open Claims (Case Reserves)	174,081	62,647
Unallocated Loss Adjustment Expenses	18,778	18,321
Noncurrent Liabilities - Compensated Absences	34,117	31,588
TOTAL NONCURRENT LIABILITIES	326,102	262,888
TOTAL LIABILITIES	$ 3,928,119	$ 2,951,806
Net Position:		
Net Investment in Capital Assets	11,281	12,689
Unrestricted	183,395	304,554
TOTAL NET POSITION	$ 194,676	$ 317,243
TOTAL LIABILITIES AND NET POSITION	$ 4,122,795	$ 3,269,049

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Revenues, Expenses
And Changes in Fund Net Position
For the Fiscal Years Ended October 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Member assessments	$ 2,391,369	$ 2,182,154
Other	12,993	25,796
TOTAL OPERATING REVENUES	$ 2,404,362	$ 2,207,950
OPERATING EXPENSES		
Insurance expense	1,072,471	917,887
Establish claims reserve	159,000	(47,000)
Claims paid on current losses	584,389	436,807
Wages, employee benefits and payroll taxes	357,352	343,895
Legal	61,137	47,833
Office supplies and expense	30,828	25,314
Travel	24,850	27,417
Accounting and Auditing	28,418	27,317
Rent	33,671	31,696
Claims adjusting expense	71,783	33,855
Seminars	17,452	18,487
Actuarial Study	7,200	7,150
Telephone	7,480	8,375
Depreciation	7,744	4,233
Dues, subscriptions and meetings	8,916	8,653
Promotion	2,520	2,150
Executive Committee Compensation	5,285	4,745
Postage	2,626	3,397
State Risk Manager Assessment	11,734	11,734
Consultants	29,367	22,906
Miscellaneous	1,459	2,164
TOTAL OPERATING EXPENSES	2,525,682	1,939,015
OPERATING INCOME (LOSS)	(121,320)	268,935
NON-OPERATING INCOME (EXPENSE)		
Interest Income	2,630	1,562
Interest Expense	(3,877)	-
TOTAL NON-OPERATING INCOME (EXPENSE)	(1,247)	1,562
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(122,567)	270,497
NET POSITION, beginning of fiscal year	317,243	46,746
NET POSITION, end of fiscal year	$ 194,676	$ 317,243

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Cash Flows
For the Fiscal Years Ended October 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	$ 2,265,695	$ 2,602,289
Cash paid to suppliers and employees	(1,391,487)	(2,547,972)
Net Cash Flows Provided (Used) by Operating Activities	874,208	54,317
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES		
Acquisition of equipment	(6,336)	(547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest Expense	(3,877)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,630	1,562
NET CHANGE IN CASH AND CASH EQUIVALENTS	866,625	55,332
CASH AND CASH EQUIVALENTS,		
Beginning of year	511,478	456,146
End of year	$ 1,378,103	$ 511,478
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$ (121,320)	$ 268,935
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation expense	7,744	4,233
Changes in assets and liabilities		
Receivables	(420,859)	2,008
Prepaid expenses	432,330	(559,687)
Accounts payable	532,592	(11,324)
Accrued liabilities	2,529	4,821
Unearned member assessments	282,192	392,331
Claims reserves	159,000	(47,000)
	995,528	(214,618)
Net Cash Flows Provided (Used) by Operating Activities	874,208	54,317

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the pool conform to generally accepted accounting principles as applicable to proprietary funds of governmental units (in most respects). The following is a summary of the more significant policies:

Reporting Entity

The Water and Sewer Risk Management Pool ("the Pool") was established in November, 1987, pursuant to RCW 48.62.031, 36.16.138 and 39.34, as a pool of member water and sewer districts (political subdivisions of the State of Washington) organized to provide a modified self-insurance program to the participants. The purpose of the Pool is to provide insurance protection, to seek the prevention or reduction of property and casualty losses, and to reduce injuries to persons or employees, which might result in claims being brought against the members.

The Pool is funded by its participants. In turn, the Pool acquires a $10,000,000 per occurrence liability insurance policy. The policy is subject to a $200,000 per occurrence self-insured retention. The Pool settles most liability claims internally before utilizing its insurers. The Pool also acquires property coverage for its members with "All Risk" limits of $1.0 billion.

Basis of Accounting and Presentation

The accounting records of the Pool are maintained in accordance with the methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The Pool 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 the GASB Statement 30, *Risk Financing Omnibus*, the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds,* and GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions.* In 1999 the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* In June 2011 the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The presented financial statements (including notes) reflect these and consecutive statements.

The Pool uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Capital Assets

Equipment is recorded at cost. Expenditures for maintenance and repairs are charged against current earnings as incurred. Upon sale or retirement of an asset, its cost and related accumulated depreciation are removed from the account balances and any gains or losses are charged to current earnings. Equipment purchases of $500 or more are capitalized and depreciated over their estimated useful lives.

Depreciation is computed using the straight-line method over the estimated useful lives (five years) of the individual assets.

Investments and Interest Income

Investments are recorded at cost, which approximates market. All investment funds are held by the State of Washington's Local Government Investment Pool. The Pool's investments are covered by the Federal Depository Insurance Corporation and the State Public Deposit Protection Commission. Interest income is recorded as earned.

Accrued Vacation/Sick Leave (Compensated Absences)

The Pool records a liability for sick leave based on a specific buy-back policy subject to a maximum of one hundred forty days. The Pool also records a liability for vacation time earned.

Unpaid Claims Liabilities

The Pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because a reliance is placed both on actual historical data that reflect 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.

Member Assessments And Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on a district's payroll, employee total hours, property values, number of vehicles, and loss experience.

Claims Reserves

Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates reported, unpaid claims, plus a provision for claims incurred, but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

Exemption From Federal And State Taxes

Pursuant to revenue ruling number 90-74, the Pool is exempt from federal income tax pursuant to Section 115(1) of the Internal Revenue Code.

Chapter 48.62 RCW exempts the Pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

Operating & Non-Operating Revenues & Expenses

The WSRMP's revenues and expenses related to insurance activities are considered operating activities, all other activities are considered non-operating activities.

Cash And Cash Equivalents

For purposes of the statement of cash flows, the Pool considers investments with an original maturity of ninety days or less to be cash equivalents. Funds invested with the Washington State Local Government Investment Pool are considered cash equivalents as they are readily accessible by the Pool.

Member Receivables

Member receivables are comprised of invoices for fiscal year 2014 insurance premiums.

Prepaid expenses

In fiscal year 2013 and 2012, prepaid expenses were $392,146 and $824,476, respectively. Included in the prepaid expenses were prepaid insurance premiums of $387,849 and $817,882 respectively, which are amortized over the insurance coverage period. The remaining $4,297 of prepaid expenses, for fiscal year 2013, relate to vendor services and deposits.

NOTE 2 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the Pool's funds are in obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, banker acceptances, certificate of deposit with Washington State banks, savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

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

The WSRMP's investments and cash accounts are not subject to custodial credit risk (the risk that the WSRMP would not be able to recover the value of the investment or cash balance from the counterparty to the investment or cash account).

NOTE 3 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by the Pool for fiscal year 2013.

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $10,000	$25,000	$1,000,000,000
Flood	$1,000 - A	$25,000	$50,000,000
Earthquake	$1,000 - B	$25,000	$50,000,000 – B
Terrorism	$1,000 - $10,000	$25,000 Primary Layer	$100,000,000 Primary Layer
Boiler and Machinery	$1,000 - $10,000	$25,000 - $350,000	$100,000,000
Auto Physical Damage - Included	$25,000	$200,000	$10,000,000

Comprehensive General Liability, including:	$1,000-$10,000-C	$200,000	$10,000,000
Professional Liability	$1,000 - $10,000	$200,000	$10,000,000
Terrorism Liability - Excluded	$1,000 - $10,000	$200,000	$10,000,000
Auto Liability	$1,000 - $10,000	$200,000	$10,000,000
Public Officials Errors & Omissions	$1,000 - $10,000	$200,000	$10,000,000
Employment Practices Liability	$1,000 - $10,000	$200,000	$10,000,000
Blanket Employee Dishonesty, Named Position	$1,000 - $10,000	$25,000	$2,000,000
Crime	$1,000 - $10,000	$25,000	$2,000,000

A) $100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; $250,000 member deductible, per occurrence, in Flood Zones A&V.
B) Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. If the stated deductible is a flat dollar amount, the deductible will apply on a Per Occurrence basis, unless otherwise stated. If the stated deductible is on a percentage basis, the deductible will apply Per Occurrence on a Per Unit basis, as defined in the policy form, subject to the stated minimum. Earthquake limits are $25,000,000 dedicated to Alderwood Water & Wastewater District and $50,000,000 shared by all members.
C) Cyber liability has a 10% coinsurance for Public Relations Consultancy and Credit File Monitoring. Cyber liability retention is $50,000 per occurrence for each insured/member with TIV up to $500,000,000 at the time of loss. $100,000 per occurrence for each insured/member with TIV greater than $500,000,000 at the time of loss. 8 hour waiting period for first party claims.

NOTE 4 – EXCESS/REINSURANCE INSURANCE CONTRACTS

The Pool maintains excess/reinsurance insurance contracts with several insurance carriers that provide various limits of coverage over the Pool's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

Excess/Reinsurance Insurance Contracts	
General Liability (GL, AL and POL)	$10,000,000
Property (includes B&M, EDP, & Contractor Equip.)	$1,000,000,000
Employee Dishonesty, Forgery, or Alteration	$2,000,000
Computer Fraud, Theft, Disappearance & Destruction	$2,000,000
Cyber Liability	$2,000,000

Computer fraud limit is $250,000/$5,000 deductible.

The Pool's settlements have not exceeded its insurance coverage in each of the last three years.

NOTE 5 – CAPITAL ASSETS

Capital assets (equipment) consisted of the following at October 31, 2013:

	Beginning Balance	**Additions**	**Deletions**	**Ending Balance**
Office furnishings and equipment, at cost	$92,811	6,336	(18,776)	$80,371
Less accumulated depreciation	(80,122)	(7,744)	18,776	(69,090)
CAPITAL ASSETS, NET	$12,689	$(1,408)	-	$11,281

Capital assets (equipment) consisted of the following at October 31, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance
Office furnishings and equipment, at cost	$92,264	547	-	$92,811
Less accumulated depreciation	(75,889)	(4,233)	-	(80,122)
CAPITAL ASSETS, NET	$16,375	$(3,686)	-	$12,689

NOTE 6 – CLAIMS RESERVES (UNPAID CLAIMS LIABILITIES)

As discussed in Note 2, the Pool establishes a liability for reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Pool during the current and previous year:

	2013	2012
Unpaid claims and claim adjustment expenses at the beginning of the year	$530,000	$577,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	913,000	418,000
Changes in provision for insured events of prior years	(132,890)	(36,481)
	780,110	381,519
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	406,051	105,721
Claims and claim adjustment expenses attributed to insured events of prior years	215,059	322,798
	621,110	428,519
Total unpaid claims and claim adjustment expenses at the end of the year	$689,000	$530,000

The unpaid claims at the beginning of each year represent the carry-forward effects of various unsettled claims.

NOTE 7 – LEASE COMMITMENT

The Pool has an agreement to lease office space. The lease for this space expires on July 31, 2014. The current monthly lease payment is $**2,772**. Future minimum lease payments under this lease are as follows:

FY 2014	$24,948

NOTE 8 – LONG-TERM LIABILITIES

During fiscal year ending October 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 11/1/2012	Additions	Reductions	Ending Balance 10/31/2013	Due Within One Year
Claims Reserves:					
IBNR	$ 351,805	$ -	$ 116,193	$ 235,612	$ 136,486
Open Claims (Case Reserves)	146,266	266,688	-	412,954	238,873
Unallocated Loss Adjustment Exp	31,929	8,505	-	40,434	21,656
Total Claims Reserves	530,000	275,193	116,193	689,000	397,015
Compensated Absences	31,588	2,529		34,117	28,159
Total Long-Term Liabilities	$ 561,588	$ 277,722	$ 116,193	$ 723,117	$ 425,174

During fiscal year ending October 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 11/1/2011	Additions	Reductions	Ending Balance 10/31/2012	Due Within One Year
Claims Reserves:					
IBNR	$ 243,593	$ 108,212	$ -	$ 351,805	$ 201,473
Open Claims (Case Reserves)	296,658		150,392	146,266	83,619
Unallocated Loss Adjustment Exp	36,749		4,820	31,929	13,608
Total Claims Reserves	577,000	108,212	155,212	530,000	298,700
Compensated Absences	26,767	4,821		31,588	13,021
Total Long-Term Liabilities	$ 603,767	$ 113,033	$ 155,212	$ 561,588	$ 311,721

NOTE 9 – PENSION PLANS

Tax Deferred Money Purchase Pension Plan

The Pool (employer) established a Money Purchase Pension Plan and Trust effective January 1, 1989, known as the Water and Sewer Insurance Pool Money Purchase Plan and Trust (the Plan). The Plan covers all Pool employees. The Plan is administered by Hunnex and Shoemaker, Inc. This is a defined contribution plan with a fixed employer contribution percentage of 6.2% for each Participant eligible to share in allocations as well as an employee voluntary contribution provision. The Plan can be amended by the Pool at any time, pursuant to the Plan document.

Total Plan contributions (employee and employer) during the fiscal year ended October 31, 2012 were $27,313 and $15,854, respectively. Employee and employer contributions during the fiscal year ended October 31, 2011 were $15,208 and $15,208, respectively.

Substantially all of WSRMP's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer defined public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers,* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

Public Employees' Retirement System (PERS) Plan 1, 2, and 3

Plan Description

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

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

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

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

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

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement account.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age in less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

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

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

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

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

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

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
TOTAL	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Pool and the employees made the required contributions. The Pool's required contributions for the fiscal years ending October 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total PERS
2013		$ 2,683	$ 18,258	$ 20,941
2012	$ -	$ 3,260	$ 15,681	$ 18,941
2011	$ -	$ 3,121	$ 9,910	$ 13,031

NOTE 10 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The interlocal governmental agreement for WSRMP provides for supplemental assessments to members based on actual claim experience. During Fiscal Year 2012, WSRMP did make a supplemental assessment for members.

WAC 82-60-03001 requires government insurance pools to maintain reserve funding at a minimum actuarial confidence level of seventy percent (70%). The Executive Committee has long insisted that the Pool's reserve funding be at or above an eighty percent (80%) confidence level. When developing the fiscal year 2012 budget in September of 2011, the Executive Committee elected to use $186,127 in reserves to "smooth" member premiums for fiscal year 2012 while still maintaining a minimum confidence level of eighty percent (80%). Final losses for 2011 were much higher than anticipated and unusually high historically. After consulting with the Pool's actuary, the Executive Committee determined that it was necessary to replenish the Pool's reserve funding to maintain reserve funding in excess of the eighty percent (80%) confidence level. Therefore, on April 20, 2012, the Executive Committee passed resolution 03-2012 to submit supplemental premium invoices to members in the aggregate amount $186,127 to replenish reserves.

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Pool is a joint self-insurance program. State regulations hold property and liability programs to standards of solvency as defined in Washington Administrative Code (WAC) 200-100-03001. The revised WAC includes various actuarial solvency standards for risk pools in Washington State. Specifically, there is a requirement for pools to obtain an annual actuarial review which provides estimates of the unpaid claims measured at the expected and 70% confidence level.

Under the defined solvency standard, assets are compared to unpaid claims estimates. In each of the two tests, the requirement is to have more assets than unpaid claims. In the first test, the unpaid claims estimate at the expected level is compared to primary assets, which are defined as cash and investments less non-claims liabilities. The second test compares the unpaid claims estimate at 70% confidence level with primary and secondary assets. Secondary assets are defined as insurance receivables, real estate or other assets, the value of which can be independently verified by the state risk manager.

At October 31, 2013, the Pool did not have sufficient cash and investments (primary assets) to cover the unpaid claims estimate, resulting in the failure to meet the primary asset solvency requirement set forth by WAC 200-100-03001. Total unpaid claims estimate as determined by the Pool's actuary was $689,000. WAC 200-100-020 (20) states "Primary assets" means cash and investments (less any non-claims liabilities). Cash and investments totaled $1,378,103 and non-claims liabilities totaled $897,854, which resulted in a primary asset balance of $480,249. The Pool was $208,751 short in meeting its primary asset regulatory solvency requirement at fiscal year-end October 31, 2013.

At October 31, 2012, the Pool did not have sufficient cash and investments (primary assets) to cover the unpaid claims estimate, resulting in a failure to meet the primary asset solvency requirement set forth by WAC 200-100-03001. Total unpaid claims estimate as determined by the Pool's actuary was $530,000. WAC 200-100-020 (20) states "Primary assets" means cash and investments (less any non-claims liabilities). Cash and investments totaled $511,478 and non-claims liabilities totaled $501,400, which resulted in a primary asset balance of $10,078. The Pool was approximately $520,000 short in meeting its primary asset regulatory solvency requirement at fiscal year-end October 31, 2012. The Pool had prepaid insurance of $817,882 at October 31, 2012. Had the Pool waited to pay the insurance premium until after fiscal year-end, their cash balance would have been sufficient to meet the WAC requirement.

The Pool's primary solvency test has improved significantly from a deficit of $520,000, for the period ending 10-31-2012, to a deficit of $208,751 for the period ending 10-31-2013. The Executive Committee increased member premiums for fiscal year ending 10-31-2014 an additional $292,000 to specifically increase the Pool's equity position. This action should be sufficient to allow the Pool to pass the primary solvency test on 10-31-2014.

The Pool passed the second test under the solvency standards as of October 31, 2013 and 2012.

There have been no other material violations of finance-related legal or contractual provisions.

NOTE 12 – CONTINGENT LIABILITIES

The Pool is not party to any pending legal actions. Certain member districts are involved in lawsuits; however, it is the opinion of the Pool's legal counsel that these cases would not affect the financial position or operation of the Pool.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Schedule of Claims Development Information (In thousands of dollars)
For The Ten Fiscal Years Ended October 31, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Net earned required contribution										
and investment revenues	$1,630	$1,622	$1,652	$1,811	$1,927	$1,916	$1,880	$1,830	$2,184	$2,394
Ceded	$830	$800	$813	$883	$755	$764	$851	$865	$918	$1,072
Net Earned	$800	$822	$839	$928	$1,172	$1,152	$1,029	$965	$1,266	$1,322
2. Unallocated expenses	525	590	489	513	576	557	710	701	631	710
3. Estimated incurred claims and										
expense, end of policy year										
(paid claims and open claims)	465	338	548	509	639	621	585	1,069	418	913
4. Paid (cumulative) as of:										
End of policy year	192	114	153	196	221	300	390	707	106	406
One year later	256	222	322	378	501	370	419	1,025	237	
Two years later	383	320	546	411	714	442	423	1,090		
Three years later	381	571	585	411	723	442	423			
Four years later	443	615	585	411	723	442				
Five years later	443	623	604	411	742					
Six years later	443	623	604	411						
Seven years later	443	623	604							
Eight years later	443	623								
Nine years later	443									
5. Re-estimated incurred claims and expense:										
End of policy year	465	338	548	509	639	621	585	1,069	418	913
One year later	407	339	588	457	730	447	520	1,142	327	
Two years later	398	346	588	440	773	502	471	1,125		
Three years later	382	671	592	412	739	454	432			
Four years later	443	623	610	416	723	442				
Five years later	443	623	604	411	742					
Six years later	443	623	604	411						
Seven years later	443	623	604							
Eight years later	443	623								
Nine years later	443									
6. Increase (decrease) in estimated										
incurred claims and expense										
from end of policy year	(22)	285	56	(98)	103	(179)	(153)	56	(91)	-

The schedule above illustrates how the Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Fund as of the end of each of the last ten years. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Schedule of Claims Development Information (In thousands of dollars)
For The Ten Fiscal Years Ended October 31, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Net earned required contribution										
and investment revenues	$1,668	$1,630	$1,622	$1,652	$1,811	$1,927	$1,916	$1,880	$1,830	$2,184
Ceded	$1,145	$830	$800	$813	$883	$755	$764	$851	$865	$918
Net Earned	$523	$800	$822	$839	$928	$1,172	$1,152	$1,029	$965	$1,266
2. Unallocated expenses	474	525	590	489	513	576	557	710	701	631
3. Estimated incurred claims and										
expense, end of policy year										
(paid claims and open claims)	306	465	338	548	509	639	621	585	1,069	418
4. Paid (cumulative) as of:										
End of policy year	98	192	114	153	196	221	300	390	707	106
One year later	146	256	222	322	378	501	370	419	1,025	
Two years later	173	383	320	546	411	714	442	423		
Three years later	198	381	571	585	411	723	442			
Four years later	197	443	615	585	411	723				
Five years later	198	443	623	604	411					
Six years later	198	443	623	604						
Seven years later	198	443	623							
Eight years later	198	443								
Nine years later	198									
5. Re-estimated incurred claims and expense:										
End of policy year	306	465	338	548	509	639	621	585	1,069	418
One year later	220	407	339	588	457	730	447	520	1,142	
Two years later	191	398	346	588	440	773	502	471		
Three years later	198	382	671	592	412	739	454			
Four years later	197	443	623	610	416	723				
Five years later	198	443	623	604	411					
Six years later	198	443	623	604						
Seven years later	198	443	623							
Eight years later	198	443								
Nine years later	198									
6. Increase (decrease) in estimated										
incurred claims and expense										
from end of policy year	(108)	(22)	285	56	(98)	84	(167)	(114)	73	-

The schedule above illustrates how the Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Fund as of the end of each of the last ten years. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
REQUIRED SUPPLEMENTAL INFORMATION
Reconciliation of Claims Liabilities by Type of Contract
For the Fiscal Year Ended October 31, 2013

	Property	Liability
Unpaid claims and claim adjustment expenses at the beginning of the year	$ 14,000	$ 516,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	81,000	832,000
Changes in provision for insured events of prior years	25,370	(158,260)
	106,370	673,740
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	61,306	344,745
Claims and claim adjustment expenses attributed to insured events of prior years	35,064	179,995
	96,370	524,740
Total unpaid claims and claim adjustment expenses at the end of the year	$ 24,000	$ 665,000

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
REQUIRED SUPPLEMENTAL INFORMATION
Reconciliation of Claims Liabilities by Type of Contract
For the Fiscal Year Ended October 31, 2012

	Property	Liability
Unpaid claims and claim adjustment expenses at the beginning of the year	$ 7,000	$ 570,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	45,000	373,000
Changes in provision for insured events of prior years	3,134	(39,615)
	48,134	333,385
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	33,504	72,217
Claims and claim adjustment expenses attributed to insured events of prior years	7,630	315,168
	41,134	387,385
Total unpaid claims and claim adjustment expenses at the end of the year	$ 14,000	$ 516,000

The board of directors is the governing body of the pool. Each district that is a signatory to the interlocal agreement is entitled to one representative to the board of directors. The member districts at October 31, 2013, were:

Acme Water District No. 18
Alderwood Water & Wastewater District
Beacon Hill Sewer District
Birch Bay Water and Sewer District
Bullerville Utility District
Camano Vista Water District
Cape San Juan Water District
Cascade Water Alliance
Cattle Point Water District
Cedar River Water and Sewer District
Chippewa Water and Sewer District
Clark Regional Wastewater District
Clearview Water Supply Agency
Clinton Water District
Coal Creek Utility District
Covington Water District
Cowiche Sewer District
Cross Valley Water District
Discovery Clean Water Alliance
East Gig Harbor Water District
Eastsound Water and Sewer District
Elkhorn Water District
Fall City Water District
Fisherman Bay Sewer District
Grays Harbor County Water District No. 2
Hartstene Pointe Water – Sewer District
Highlands Water District
Holmes Harbor Sewer District
Hunters Water District
King County Water District No. 1
King County Water District No. 45
King County Water District No. 54
King County Water District No. 90
King County Water District No. 119
King County Water District No. 125
Kitsap County Sewer District No. 7
Kittitas County Water District No. 5
Lake Forest Park Water District
Lake Whatcom Water District
Lewis County Water District No. 2
Lewis County Water District No. 3
Lewis County Sewer District No. 4
Maggie Lake Water District
Main Street Sewer District
NE Sammamish Sewer and Water District
North Perry Ave. Water District
Olympic View Water and Sewer District
Point Roberts Water District No. 4
Regional Water Supply System
Rocky Point Water District No. 12
Ronald Wastewater District
Sammamish Plateau Water and Sewer District
Saratoga Water District
Skagit County Sewer District No. 1
Skyway Water and Sewer District
Snoqualmie Pass Utility District
Steptoe Sewer and Water District
Sunnyslope Water District
Terrace Heights Sewer District
Trails End Water District
Valley Water District
Vashon Sewer District
Walla Walla Housing Authority
Water District No. 19
West Sound Utility District
Whatcom County Water District No. 2
Whatcom County Water District No. 7
Williams Lake Sewer District No. 2
Wollochet Harbor Sewer District
Woodinville Water District

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
SUPPLEMENTAL INFORMATION
DES Schedule of Expenses
For the Fiscal Years Ended October 31, 2013 and 2012

	2013	2012
Insurance	$ 1,072,471	$ 917,887
Contracted Services:		
Third Party Administrator Fees	71,783	33,855
Actuarial	7,200	7,150
Audit Expenses	28,418	27,317
Legal Fees	61,137	47,833
Other Consultant Fees	41,101	34,640
General Administrative Expenses:		
Communication	7,480	8,375
Supplies	30,828	25,314
Dues and Conferences	8,916	8,653
Retreat/Board Meetings	5,285	4,745
Training	17,452	18,487
Depreciation	7,744	4,233
Miscellaneous	1,459	2,164
Other	1,164,408	798,362
Total Operating Expenses	$ 2,525,682	$ 1,939,015

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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