



**Washington State Auditor's Office**

Government that works for citizens

## **Financial Statements Audit Report**

# **Central Washington Public Utilities Unified Insurance Program Trust**

**Grant County**

**For the period January 1, 2015 through December 31, 2015**

**Published July 21, 2016**

**Report No. 1017101**





## Washington State Auditor's Office

July 21, 2016

Board of Trustees  
Central Washington Public Utilities Unified Insurance Program Trust  
Okanogan, Washington

### Report on Financial Statements

Please find attached our report on the Central Washington Public Utilities Unified Insurance Program Trust's financial statements.

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

Sincerely,

A handwritten signature in dark ink, reading "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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

**Central Washington Public Utilities Unified Insurance Program Trust  
Grant County**

**January 1, 2015 through December 31, 2015**

Board of Trustees

Central Washington Public Utilities Unified Insurance Program Trust  
Kennewick, 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 Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 14, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority'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 Authority'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 KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 14, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Central Washington Public Utilities Unified Insurance Program Trust Grant County January 1, 2015 through December 31, 2015**

Board of Trustees  
Central Washington Public Utilities Unified Insurance Program Trust  
Kennewick, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

### **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 audit. We conducted our audit 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 Authority'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 Authority'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 Central Washington Public Utilities Unified Insurance Program Trust, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year 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 10 through 12 and risk pools information on pages 25 through 27 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 Authority'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 July 14, 2016 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 14, 2016



## **FINANCIAL SECTION**

**Central Washington Public Utilities Unified Insurance Program Trust  
Grant County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

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

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Reconciliation of Claims Liabilities by Type of Contract – 2015

Ten-Year Claims Development Information – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

List of Participating Members – 2015

DES Schedule of Expense – 2015

# **CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST**

## **Management's Discussion and Analysis For the Year Ended December 31, 2015**

The following management's discussion and analysis presents an overview and analysis of the financial activities of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) for the year ended December 31, 2015, with additional comparative data for the five months (short year) ended December 31, 2014. Information within this section should be used in conjunction with the accompanying financial statements and related notes.

### **Change in Year End**

On February 11, 2015, the members of the Trust approved a change in the fiscal year end, July 31 to a calendar year, December 31. Approval was also granted by the Washington State Department of Enterprise Services on February 26, 2015. As a result of this change, the Trust has a short year for five months from August 1, 2014 to December 31, 2014. This change was implemented to follow the change in the premium year to a calendar year. Comparative data is twelve months compared to the prior short year of five months.

### **Overview of the Trust and the Financial Statements**

The members of the Trust, as listed in the notes to the financial statements, pay into the Trust a predetermined premium for medical, vision and dental insurance which is established by the Broker and approved by the Trustees at the beginning of each fiscal year.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the Trust financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The financial statements of the Trust have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to proprietary funds of government units.

The basic financial statements, presented for the year ended December 31, 2015, are comprised of:

- *Statement of Net Position:* The Trust presents its statement of position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities and net position of the Trust at year-end.
- *Statement of Revenues, Expenses, and Changes in Fund Net Position:* This statement reflects the transactions and events that have increased or decreased the Trust's total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- *Statement of Cash Flows:* The Statement of Cash Flows reflects the sources and uses of cash separated into two categories of activities: operating and investing.

## **Condensed Comparative Financial Information**

Provided below is a two year comparison of key financial information:

<b>Statement of Net Position Information</b>				
	<b>12 Months</b>	<b>5 Months</b>	<b>Increase</b>	
	<b>12/31/2015</b>	<b>12/31/2014</b>	<b>(Decrease)</b>	<b>% Change</b>
Current Assets	\$ 2,891,532	\$ 3,743,333	\$ (851,801)	-22.76%
Investments	8,030,358	8,192,858	(162,500)	-1.98%
Current Liabilities	3,711,739	3,447,159	264,580	7.68%
Unrestricted Net Position	<u>\$ 7,210,151</u>	<u>\$ 8,489,032</u>	<u>\$ (1,278,881)</u>	-15.07%

<b>Statement of Revenues, Expenses, and Changes in Fund Net Position</b>				
	<b>12 Months</b>	<b>5 Months</b>	<b>Increase</b>	
	<b>12/31/2015</b>	<b>12/31/2014</b>	<b>(Decrease)</b>	<b>% Change</b>
Operating Revenues	\$ 19,713,811	\$ 8,345,276	\$ 11,368,535	136.23%
Nonoperating Revenues	110,223	40,995	69,228	168.87%
Total Revenues	<u>19,824,034</u>	<u>8,386,271</u>	<u>11,437,763</u>	136.39%
Operating Expenses				
Claims and Administrative Fees	20,644,301	8,077,625	12,566,676	155.57%
Other Contracts	96,695	12,809	83,886	654.90%
Other Expenses	361,919	268,905	93,014	34.59%
Total Operating Expenses	<u>21,102,915</u>	<u>8,359,339</u>	<u>12,743,576</u>	152.45%
Change in Net Position	(1,278,881)	26,932	(1,305,813)	-4848.56%
Beginning Net Position	8,489,032	8,462,100	26,932	0.32%
Ending Net Position	<u>\$ 7,210,151</u>	<u>\$ 8,489,032</u>	<u>\$ (1,278,881)</u>	-15.07%

## **Financial Analysis**

### **Revenues**

Operating revenues increased by \$11,368,535 from the year ended December 31, 2015 to the five months ended December 31, 2014 primarily attributable to the increase in the number of months for the current year end.

### **Expenses**

Operating expenses increased by \$12,743,576 from the year ended December 31, 2015 to the five months ended December 31, 2014 primarily attributable to the increase in the number of months for the current year end.

### **Summary of Financial Position**

The overall financial position of the Trust has deteriorated during the year ended December 31, 2015 with a decrease in net assets of \$1,278,881 or 15.07% of total net position. The decrease in net assets is attributable mainly to an increase in claims paid. There are no material restrictions, commitments or other limitations that affect availability of Trust resources for future use.

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF NET POSITION  
As of December 31, 2015

	<u>2015</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents (Notes 1.C and 2)	\$ 454,800
Investments (Notes 1.E and 2)	2,405,448
Accrued Interest Receivable	29,832
Prepaid Insurance	<u>1,452</u>
Total Current Assets	2,891,532
Non Current Assets:	
Investments (Notes 1.E and 2)	<u>8,030,358</u>
Total Assets	<u>\$ 10,921,890</u>
 <u>LIABILITIES AND NET POSITION</u>	
Current Liabilities:	
Accrued Administrative Expenses	\$ 217,683
Accrued Claims - Reported Medical	130,365
Accrued Claims - Reported Dental	153,843
Accrued Claims - IBNR (Note 1.F)	3,078,000
Prepaid Member Contributions	<u>131,848</u>
Total Current Liabilities	<u>3,711,739</u>
 Total Liabilities	<u>\$ 3,711,739</u>
Net Position:	
Unrestricted	<u>7,210,151</u>
 TOTAL NET POSITION	<u><u>\$ 7,210,151</u></u>

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

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
For The Year Ended December 31, 2015

	<b>Year Ended Dec 31 2015</b>
OPERATING REVENUES:	
Premiums Received from Members	\$ 19,495,185
Claims and Administrative Fee Refunds	218,626
Total Operating Revenues	<u>19,713,811</u>
 OPERATING EXPENSES:	
Medical Claims Paid	15,042,156
Medical Claims - IBNR (Note 1.F)	2,786,000
Dental Claims Paid	1,485,019
Dental Claims - IBNR (Note 1.F)	292,000
Administrative Fees	1,039,126
Other Insurance Premiums	96,695
Other Operating Expenses	361,919
Total Operating Expenses	<u>21,102,915</u>
 OPERATING LOSS	 (1,389,104)
 NONOPERATING REVENUES:	
Investment Income (net)	110,223
Total Nonoperating Revenues	<u>110,223</u>
 CHANGE IN NET POSITION	 (1,278,881)
 TOTAL NET POSITION, January 1	 <u>8,489,032</u>
 TOTAL NET POSITION, December 31	 <u><u>\$ 7,210,151</u></u>

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

# CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST

## STATEMENT OF CASH FLOWS For The Year Ended December 31, 2015

	<b>Year Ended Dec 31 2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Members	\$ 19,501,158
Cash Payments to Service Providers	(20,625,717)
Net Cash Used by Operating Activities	<u>(1,124,559)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from Maturities of Investments	2,700,955
Purchases of Investments (including Premium Paid of \$13,241)	(2,513,241)
Interest Received	133,796
Net Cash Provided by Investing Activities	<u>321,510</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(803,049)</b>
<b>CASH AND CASH EQUIVALENTS, August 1</b>	<b><u>1,257,849</u></b>
<b>CASH AND CASH EQUIVALENTS, December 31</b>	<b><u><u>\$ 454,800</u></u></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating Loss	\$ (1,389,104)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
(Increase)Decrease in Prepaid Insurance	(34)
Increase (Decrease) in Accrued Administrative Expenses	28,148
Increase (Decrease) in Accrued Claims - Reported Medical	88,617
Increase(Decrease) in Accrued Claims - Reported Dental	153,843
Increase (Decrease) in Accrued Claims - IBNR	(12,000)
Increase (Decrease) in Prepaid Members Contributions	<u>5,973</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u><u>\$ (1,124,557)</u></u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>	
Amortization and Change in Accrued Interest	<u><u>\$ 22,902</u></u>

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

# **CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST**

Notes to the Financial Statements  
December 31, 2015

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) conform to accounting principles generally accepted in the United States of America applicable to proprietary funds of governmental units as promulgated by the Governmental Accounting Standards Board. The significant accounting policies are described below.

### **A. Reporting Entity**

The Trust was organized as of October 1, 1982, pursuant to the provisions of the Revised Code of Washington, Chapter 54, and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) coverage.

Members of the Trust are the Public Utility District (PUD) No. 1 of Benton County, PUD No. 1 of Douglas County, PUD No. 1 of Ferry County, PUD No. 1 of Franklin County, PUD No. 2 of Grant County, PUD No. 1 of Okanogan County and PUD No. 1 of Pend Oreille County. The Trust is administered by a Board of Trustees comprised of an appointed Trustee and alternate Trustee from each of the seven member Districts (Member). The Trust has an agreement with Wells Fargo Bank to serve as custodian and investment manager of the Trust's assets. The Trustees are authorized to negotiate for, obtain, and maintain insurance policies to provide benefits which include, but are not limited to, medical, dental, life, AD&D and LTD insurance.

Effective August 1, 2002, the Trust established a self-insured medical plan which has been approved by the Washington State Office of Risk Management (currently the Washington State Department of Enterprise Services). Premera Blue Cross and the Trust have signed a Cost Plus Agreement for the self-insured medical, prescription and vision services. The Trust contracted with Washington Dental Services (WDS) to provide dental insurance until January 1, 2009 when the Trust became self-insured for dental. Effective January 1, 2009, WDS and the Trust have signed a Cost Plus Agreement for the self-insured dental. Effective August 1, 2009, the Trust contracted with Unum to provide life insurance, AD&D insurance, and LTD insurance. Effective August 1, 2011, the Trust voted to have these costs paid directly by the individual PUD's to Unum.



## **A. Reporting Entity (continued)**

Each participating Member is responsible for the collection and payment of contributions required for employees who are covered under the Trust program. All premiums for medical and dental are sent by each Member to the Trust. The Trust pays medical, prescription, and vision claims to Premiera based on the Cost Plus Agreement. The Trust pays WDS dental claims based on the Cost Plus Agreement.

A Member may withdraw from and terminate its participation in the Trust and its obligation to make contributions to the Trust fund provided that notice of intent to withdraw by such Member is given, in writing, to the Chair on or before the beginning of the Trust year and will become effective at the end of the year succeeding such notice. A withdrawn Member shall have no claim to, nor any right, title or interest in, any money or assets of or attributable to the Trust. Trust insurance policy contractual provisions apply to all claims by employees of the withdrawing Member incurred before the date of withdrawal.

On February 11, 2015, the members of the Trust approved a change in the fiscal year end, July 31 to a calendar year, December 31. Approval was also granted by the Washington State Department of Enterprise Services on February 26, 2015. As a result of this change, the Trust has a short year for five months from August 1, 2014 to December 31, 2014. This change was implemented to follow the change in the premium year to a calendar year. Comparative data is twelve months compared to the prior short year of five months.

## **B. Basis of Accounting, and Presentation**

The accounting records of the Trust are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. When applicable, the Trust also follows the accounting standards established by Statement No. 10 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB Statement 30, *Risk Financing Omnibus*, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

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

The principal operating revenues of the Trust are Member contributions. Nonoperating revenues represent income from investments.

Operating expenses include medical and dental claims and administrative fees, bank fees, broker fees, accounting fees, medical insurance premiums, and self-insurance program fees.

### **C. Cash and Cash Equivalents**

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

### **D. Capital Assets**

The Trust owns no capital assets.

### **E. Investments**

See Note 2B.

### **F. Unpaid Claims Liabilities**

The Trust 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 (IBNR). The liability for IBNR is based on 8 weeks of average medical, prescription and vision claims, and 8 weeks of average dental claims.

Actual claims costs depend on complex factors such as inflation, plan utilization by members, medical trend, changes in doctrines of legal liability, and damage awards. Therefore 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 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.

### **G. Trust Premiums**

Trust premiums are set annually and are effective January 1 (previously August 1) of each plan year, beginning with the 2015 plan year. Premiums include medical, prescription, vision and dental coverage. Trust premiums are paid monthly by each Member based upon the number of eligible employees and the contract year's premium. In addition, eligible retired employees are offered medical and dental coverage through the Trust. Participating Members manage the collection of premiums from retired employees and make remittance to the Trust.

## **H. Unpaid Claims**

Claims are charged to income as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims IBNR. Claims reserves are recomputed looking at past average monthly claims. These estimates are reviewed and updated on an annual basis and any resulting adjustments are reflected in current earnings.

## **I. Trust Held Reserves**

The Trust adopted a financial reserve policy in April 2011 that complies with guidelines for self-insured employee health benefit programs issued by the Washington State Department of Enterprise Services. Under the policy, the Trust maintains reserves in two accounts, the IBNR Reserve and the Contingency Reserve. The IBNR Reserve is intended to fully fund the IBNR liability. The Contingency Reserve holds the remainder of the Trust funds with a targeted balance equivalent to 12 weeks of estimated medical claims and 8 weeks of estimated dental claims based on the average monthly medical claims over the last fiscal year. As of December 31, 2015, the Contingency Reserve exceeded the target reserve levels by \$2,709,305 (60.58%) and the IBNR Reserve exceeded target levels by \$27,394 (.89%), netting 36.2% above target levels. Targeted reserve levels are revised annually in accordance with the financial reserve policy.

The Trust does not show a reserve for unallocated loss adjustment expenses, as an actuary or actuarial method is not used to calculate IBNR. The Trust has chosen to follow a non-actuarial method by using estimated monthly expenses multiplied by the reserve months by benefit to meet applicable requirements.

## **J. Stop Loss Insurance**

The Trust purchases stop loss coverage for medical and prescriptions coverage to reduce its exposure to large losses on all types of insured events. Stop loss insurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured. The Trust does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The individual and aggregate stop losses are negotiated based on the size of the group. The aggregate is recalculated each month based on the group census as of the first of each month. The minimum annual aggregate deductible is the greater of the Estimated Attachment Point or 95% of the first monthly aggregate deductible times 12 months.

## **J. Stop Loss Insurance (continued)**

The following shows the stop loss policy:

<b>Policy Dates</b>	<b>Insurance Company</b>	<b>Type of Coverage</b>	<b>Estimated Attachment Point</b>	<b>95% of First Monthly Aggregate x 5 months</b>
1/1/15 – 12/31/15	LifeWise Assurance Co	Group Excess Loss, Medical, Prescription, Vision	\$20,489,244	\$19,395,359

Individual Stop Loss Deductible                      \$250,000  
Aggregate Stop Loss Deductible                      125% of expected claims

Premera prefunds amounts exceeding the stop loss deductible, and advance funding from LifeWise is provided directly to Premera. The amount of Advanced Funded Stop Loss from Lifewise amounted to \$544,779 for year ended December 31, 2015.

## **K. Exempt from Federal and State Taxes**

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

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

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### **A. Deposits**

The Trust deposits were held in a money market account under an Investment Manager and Custodian Agreement with a major national bank as of December 31, 2015. The Trust deposits are entirely covered by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Under state law, public funds may only be deposited with institutions that are approved by the Washington PDPC. Public depositaries in turn are required to report public funds held to the PDPC and abide by requirements set forth in state law. Under the PDPC, public deposits are entirely insured by collateral held in a multiple financial institution collateral pool administered by the PDPC. Public depositaries may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. All amounts held in the Trust at December 31, 2015 have been reported to the PDPC.

## **B. Investments**

Investments are recorded at amortized cost in the financial statements. The following chart presents the investments at their face value and fair market value.

*Interest rate risk:* In accordance with its investment policy, the Trust manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy does not formally limit investment maturities.

*Credit risk:* The Trust's investment policy conforms with State law which restricts investment of public funds to debt securities of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and other investments allowed by Chapter 39.59 RCW.

*Concentration of credit risk:* The Trust's investment makeup at December 31, 2015 conformed with state law related to investment of public funds, as all investments were restricted to debt securities and obligations of the U.S. Treasury.

*Custodial credit risk:* This is the risk that in event of a failure of the counterparty to an investment transaction the Trust would not be able to recover the value of the investment or collateral securities. Of the Trust's total position of \$10,414,550 in debt securities and obligations of the U.S. Treasury, zero is exposed to custodial credit risk because the investments are held at the Federal Reserve.

**B. Investments (continued)**

As of December 31, 2015, the Trust had the following investments:

<i><b>Investments</b></i>	<i><b>Maturities</b></i>	<i><b>Face Values</b></i>		<i><b>Fair Values</b></i>	
		<i><b>December 31, 2015</b></i>		<i><b>December 31, 2015</b></i>	
Federal Home LN MTG Corp	05/13/16	\$	200,000	\$	200,018
Federal Home LN MTG Corp	05/13/16		200,000		200,018
US Treasury Note	06/30/16		250,000		251,153
US Treasury Note	06/30/16		250,000		251,153
US Treasury Note	07/15/16		200,000		200,016
Federal Natl Mortgage Assn	09/28/16		250,000		250,905
Federal Natl Mortgage Assn	09/28/16		200,000		200,724
Federal Home LN MTG Corp	10/14/16		250,000		250,185
Federal Home LN MTG Corp	11/01/16		500,000		499,330
US Treasury Note	12/31/16		100,000		100,063
Federal Home LN BK	06/21/17		500,000		499,725
Federal Home LN BK	06/21/17		250,000		249,863
Federal Home LN MTG Corp	06/29/17		500,000		499,950
Federal Home LN BK	09/08/17		200,000		203,724
Federal Home LN BK	09/08/17		200,000		203,724
Federal Home LN MTG Corp	09/29/17		250,000		249,312
Federal Home LN MTG Corp	09/29/17		200,000		199,450
Federal Home LN BK	12/08/17		250,000		254,875
Federal Home LN BK	03/09/18		450,000		451,413
Federal Home LN BK	03/09/18		400,000		401,256
US Treasury Note	03/31/18		200,000		198,210
Federal Natl Mortgage Assn	05/21/18		500,000		495,315
Federal Home LN BK	09/14/18		100,000		101,756
Federal Natl Mortgage Assn	09/18/18		500,000		507,000
Federal Natl Mortgage Assn	10/19/18		200,000		198,724
Federal Home LN BK	03/08/19		250,000		252,977
Federal Natl Mortgage Assn	06/20/19		500,000		503,830
Federal Home LN MTG Corp	08/01/19		200,000		197,776
Federal Home LN MTG Corp	08/01/19		200,000		197,776
Federal Natl Mortgage Assn	09/12/19		250,000		251,320
Federal Home LN MTG Corp	10/02/19		150,000		147,956
Federal Natl Mortgage Assn	01/21/20		250,000		249,057
Federal Natl Mortgage Assn	03/06/20		500,000		499,730
Federal Natl Mortgage Assn	03/06/20		100,000		99,946
Federal Home LN BK	03/13/20		500,000		501,300
Federal Natl Mortgage Assn	06/22/20		200,000		197,510
Federal Natl Mortgage Assn	06/22/20		200,000		197,510

### **NOTE 3 – UNPAID CLAIMS LIABILITY**

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustments expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Trust during the year ended December 31:

#### **RECONCILIATION OF CLAIMS LIABILITIES**

	<b><u>12 months</u></b> <b><u>12/31/2015</u></b>	<b><u>5 months</u></b> <b><u>12/31/2014</u></b>
Unpaid claims and claim adjustment expenses at beginning of year.	\$ 3,131,748	\$ 3,457,379
Incurred claims and claim adjustment expenses:		
- Provision for insured events of the current year	19,605,175	7,643,849
- Increases in provision for insured events of prior years	<u>-</u>	<u>-</u>
Total incurred claims and claim adjustment expenses	<u>\$ 22,736,923</u>	<u>\$ 11,101,228</u>
Payments for claims and claims adjustment expenses:		
- Attributable to insured events of the current year	(16,242,967)	(4,512,101)
- Attributable to insured events of prior years	<u>(3,131,748)</u>	<u>(3,457,379)</u>
Total Payments	<u>(19,374,715)</u>	<u>(7,969,480)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	3,362,208	3,131,748
Unallocated loss adjustment expense/claims reserve at the end of the year	<u>-</u>	<u>-</u>
Total Claims reserves at the end of the year	<u>\$ 3,362,208</u>	<u>\$ 3,131,748</u>

At December 31, 2015, \$3,362,208 of unpaid claims and claim adjustment expenses are presented as the excess of total incurred claims and claim adjustments over total payments.

### **NOTE 4 – RISK FINANCING LIMITS**

The following table reflects the risk financing limits on coverage policies issued and retained by the Trust at December 31, 2015:

Type of Coverage	Deductible	Self-Insured Retention	Excess Limits
Fiduciary Liability	-0-	-0-	\$1,000,000 each loss \$1,000,000 each policy period
Commercial Crime	\$5,000	-0-	\$1,000,000 each loss

## **NOTE 5 – MEMBERS’ SUPPLEMENTAL ASSESSMENTS AND CREDITS**

The Trust interlocal governmental agreement does not provide for supplemental assessments and credits to members.

## **NOTE 6 – SOLVENCY**

Washington Administrative code 200-110-040 requires all joint health and welfare programs self-insuring medical, vision, dental or prescription drug benefit programs or any combination of programs to establish program reserves in an amount not less than eight weeks of program expenses for each program offered. In addition maintain an aggregate stop-loss insurance policy with an attachment point set at or below one hundred twenty-five percent of annual expected claim costs (refer to Note 1.J); and establish by ordinance or resolution of the governing body, an additional contingency reserve for a joint program in the amount equal to at least eight weeks of program expenses.

<b>Eight Weeks Claims Test</b>		<b>Additional Contingency Reserve</b>	
<u>Program Expenses</u>		<u>Program Expenses</u>	
Medical Claims Paid	\$ 13,999,613	Medical Claims Paid	\$ 13,999,613
Prescription Claims Paid	3,594,217	Prescription Claims Paid	3,594,217
Vision Claims Paid	234,326	Vision Claims Paid	234,326
Dental Claims Paid	1,777,019		
Other Operating Expenses	<u>1,497,740</u>	Other Related Operating Expenses	<u>1,039,126</u>
TOTAL	21,102,915	TOTAL	18,867,282
<u>Minimum Program Reserves</u>		<u>Minimum Program Reserves</u>	
Total Program Expenses	21,102,915	Total Program Expenses	18,867,282
Divided by 52	405,825	Divided by 52	362,832
Multiplied by 8	\$ 3,246,602	Multiplied by 8	\$ 2,902,659
<u>Actual Program Reserves</u>		<u>Reserves after meeting 8 weeks test</u>	
Net Position	\$ 7,210,151	Net position - 8 weeks of claims	\$ 3,963,549
<b>Eight Weeks Claims Test</b>	<b>Met</b>	<b>Additional Contingency Reserve</b>	<b>Met</b>



**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

**REQUIRED SUPPLEMENTAL INFORMATION**

For the Year Ended December 31, 2015

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

**Reconciliation of Claims Liabilities by Type of Contract**

The schedule below presents the changes in the claims liabilities for the year ended December 31, 2015 and the five months ended December 31, 2014 for the Trust's two types of contracts: medical and dental health care benefits.

	<b>Medical</b>		<b>Dental</b>	
	<b>12 months</b>	<b>5 months</b>	<b>12 months</b>	<b>5 months</b>
	<b><u>12/31/2015</u></b>	<b><u>12/31/2014</u></b>	<b><u>12/31/2015</u></b>	<b><u>12/31/2014</u></b>
Unpaid claims and claim adjustment expenses at beginning of year.	\$ 2,811,748	\$ 2,990,389	\$ 320,000	\$ 466,990
Incurring claims and claim adjustment expenses:				
- Provision for insured events of the current year	17,828,156	7,015,809	1,777,019	628,040
- Increases in provision for insured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	<u>20,639,904</u>	<u>10,006,198</u>	<u>2,097,019</u>	<u>1,095,030</u>
Payments for claims and claims adjustment expenses:				
- Attributable to insured events of the current year	(14,911,791)	(4,204,061)	(1,331,176)	(308,040)
- Attributable to insured events of prior years	<u>(2,811,748)</u>	<u>(2,990,389)</u>	<u>(320,000)</u>	<u>(466,990)</u>
Total Payments	<u>(17,723,539)</u>	<u>(7,194,450)</u>	<u>(1,651,176)</u>	<u>(775,030)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u><u>\$ 2,916,365</u></u>	<u><u>\$ 2,811,748</u></u>	<u><u>\$ 445,843</u></u>	<u><u>\$ 320,000</u></u>

## **Ten-Year Claims Development Information**

The following table illustrates how the Trust's 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 Trust as of the end of each of the past ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims.
3. This line shows the Trust's gross incurred claims and allocated claim 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*).
4. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (The annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.)
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is 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.

CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST										
	Medical Program – Policy Years* Ended (in Thousands of Dollars)									
	2007	2008	2009	2010	2011	2012	2013	2014	5 Months 12/31/14	2015
1. Required contribution and investment revenue:										
Earned	13,871	12,854	14,872	15,251	16,646	17,104	17,863	17,920	7,275	17,145
Ceded	420	471	383	414	428	534	630	659	278	756
Net earned	13,451	12,383	14,489	14,837	16,218	16,570	17,233	17,261	6,997	16,389
2. Unallocated expenses	182	121	135	188	202	179	228	187	269	362
3. Estimated claims and expenses, end of policy year:										
Earned	12,503	13,399	12,979	15,627	16,255	16,377	16,202	15,640	7,016	18,373
Ceded	-	-	-	566	245	-	249	186	-	545
Net earned	12,503	13,399	12,979	15,061	16,010	16,377	15,953	15,454	7,016	17,828
4. Net paid (cumulative) as										
End of policy year	-	-	-	-	-	-	1	49	1,369	15,947
One year later	-	-	-	-	(1)	-	(32)	1,118	9,430	
Two years later	-	-	-	(2)	(2)	1	1,414	13,490		
Three years later	-	-	(4)	-	2	1,647	13,931			
Four years later	-	-	2	-	1,084	14,944				
Five years later	(9)	(2)	(5)	1,561	14,152					
Six years later	(4)	(21)	1,023	13,785						
Seven years later	48	872	11,695							
Eight years later	951	11,789								
Nine years later	11,008									
5. Reestimated ceded claims and expenses	Information not available. See Note II for further information.									
6. Reestimated net incurred claims and expenses	Information not available. See Note II for further information.									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	Information not available. See Note II for further information.									

\*Policy years prior to 12/31/14 were August 1 - July 31. Beginning August 1, 2014, the policy year was changed to a calendar year ending December 31.

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

**LIST OF PARTICIPATING MEMBERS**

Public Utility District (PUD) No. 1 of Benton County  
PUD No. 1 of Douglas County  
PUD No. 1 of Ferry County  
PUD No. 1 of Franklin County  
PUD No. 2 of Grant County  
PUD No. 1 of Okanogan County  
PUD No. 1 of Pend Oreille County

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

**DES SCHEDULE OF EXPENSES  
For The Year Ended December 31, 2015**

**INSURANCE MEMBERS:**

Medical Claims Paid	\$ 15,042,156
Medical Claims - IBNR	2,786,000
Dental Claims Paid	1,485,019
Dental Claims - IBNR	292,000

**CONTRACTED SERVICES:**

Administrative Fees	1,039,126
Other Insurance Premiums	96,695
Accounting	21,600
Actuarial	133,750
Audit	7,207

**GENERAL ADMINISTRATIVE EXPENSES:**

Bank Fees	19,733
Insurance-Bond, Liability, Assessment, Claims Audit, ACA Fees	179,629

TOTAL OPERATING EXPENSES	<u>\$ 21,102,915</u>
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## 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.

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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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>