



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Washington Rural Counties Insurance Pool

Grant County

For the period December 1, 2014 through November 30, 2015

Published July 28, 2016

Report No. 1017136





Washington State Auditor's Office

July 28, 2016

Board of Directors
Washington Rural Counties Insurance Pool
Ephrata, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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

**Washington Rural Counties Insurance Pool
Grant County
December 1, 2014 through November 30, 2015**

Board of Directors
Washington Rural Counties Insurance Pool
Ephrata, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington Rural Counties Insurance Pool, Grant County, Washington, as of and for the year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated July 7, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

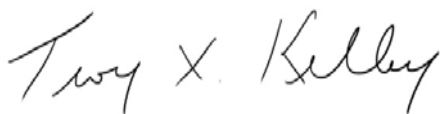
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 7, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Rural Counties Insurance Pool Grant County December 1, 2014 through November 30, 2015

Board of Directors
Washington Rural Counties Insurance Pool
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Rural Counties Insurance Pool, Grant County, Washington, as of and for the year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the Pool'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 Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Rural Counties Insurance Pool, as of November 30, 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 claims development information on pages 25 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

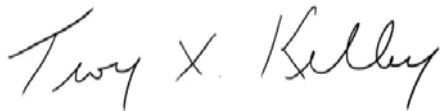
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The List of Participating Members and 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 7, 2016 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 7, 2016

FINANCIAL SECTION

Washington Rural Counties Insurance Pool Grant County December 1, 2014 through November 30, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2015

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

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – 2015

Notes to Ten Year Claims Development Information – 2015

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2015

DES Schedule of Expenses – 2015

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
Management's Discussion and Analysis
December 1, 2014 – November 30, 2015

The management of the Washington Rural Counties Insurance Program (WRCIP) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the WRCIP for the fiscal year ending November 30, 2015. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

Overview of the Financial Statements

The Balance Sheet presents information on the WRCIP's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the program is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position shows both operating and nonoperating revenues and expenses that occurred during the year. The difference between revenues and expenses is reported as a change to net position. Items are reported as the event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows provides information on how various activities of the program affect cash and cash equivalents during the fiscal year.

The Notes to the Financial Statements present additional information that is essential for a full understanding of the data provided in the accompanying financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the program's development of claims over the last ten years.

WRCIP - Condensed Financial Information

	2015	2014
Current Assets	<u>\$3,702,121</u>	<u>\$3,726,593</u>
Total Assets	\$3,702,121	\$3,726,593
Deferred Outflows	<u>\$0</u>	<u>\$0</u>
Total Deferred Outflows	\$0	\$0
Current Liabilities	\$167,965	\$264,021
Noncurrent Liabilities	<u>\$1,079,355</u>	<u>\$968,929</u>
Total Liabilities	\$1,247,320	\$1,232,950
Deferred Inflows	<u>\$0</u>	<u>\$0</u>
Total Deferred Inflows	\$0	\$0
Unrestricted	<u>\$2,454,801</u>	<u>\$2,493,643</u>
Total Net Position	\$3,702,121	\$3,726,593
Operating Revenues		
Member Contributions	\$4,113,354	\$4,975,819
Non Operating Revenues		
Interest Income	<u>\$65,119</u>	<u>\$73,281</u>
Total Revenues	\$4,178,474	\$5,049,100
Operating Expenses	<u>\$4,217,316</u>	<u>\$4,478,905</u>
Total Expenses	\$4,217,316	\$4,478,905
Change in Net Position	(\$38,842)	\$570,195
Beginning Net Position	\$2,493,643	\$1,923,448
Ending Net Position	\$2,454,801	\$2,493,643

Financial Statement Analysis

The Washington Rural Counties Insurance Program (WRCIP) is a property and liability risk and insurance pooling program for counties. The WRCIP was formed in 1998 with three founding member counties. Current membership in the program is eight counties. A board of directors that includes an appointed representative from each member county governs the program. The Board of Directors contracts with Clear Risk Solutions (formerly Canfield), a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, account education, and risk management services.

The WRCIP Board budgeted for a loss this year, as they decided to use some of their equity to offset the premium rate increase. The WRCIP's net loss of \$(38,842) decreased the total net position to \$2,454,801. The pool's current assets consist of cash and equivalents, investments and receivables from its members and its reinsurance/excess carriers. The pool invests any excess cash with the Grant County Investment Pool. These investments allow short-term liquidity with favorable interest rates. Current liabilities are payables and reserves set aside for unpaid claims liabilities as determined by the pool's actuary. In addition, the WRCIP purchases a stop loss policy as another layer of protection to its membership. The program funds its claims liabilities to the actuary ultimate loss pick and has assets to fund to the 80% confidence level. The WRCIP does not have any restrictions or commitments that affect the availability of pool resources for future use.

Requests for Information

This financial report is designed to provide a general overview of the Washington Rural Counties Insurance Program's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the WRCIP's third-party administrator, Clear Risk Solutions, 451 Diamond Drive, Ephrata, WA 98823.

Washington Rural Counties Insurance Program
Balance Sheet
As of November 30, 2015

<u>ASSETS</u>	<u>2015</u>
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$3,627,735
Receivables:	
Member Contributions & Deductibles	\$42,316
Other Receivables	\$31,969
Prepaid Expense	\$100
Total Current Assets	<u>\$3,702,121</u>
<u>Deferred Outflows</u>	<u>\$0</u>
TOTAL DEFERRED OUTFLOWS	\$0
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$3,702,121</u></u>
 <u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Claims Reserves:	
IBNR	\$108,186
Open Claims (Case Reserves)	\$52,185
Accounts Payable	\$7,594
TOTAL CURRENT LIABILITIES	<u>\$167,965</u>
 <u>Noncurrent Liabilities:</u>	
Claim Reserves:	
IBNR	\$728,134
Open Claims (Case Reserves)	\$351,221
TOTAL NONCURRENT LIABILITIES	<u>\$1,079,355</u>
 <u>Deferred Inflows</u>	<u>\$0</u>
TOTAL DEFERRED INFLOWS	\$0
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>\$1,247,320</u>
 <u>NET POSITION</u>	
Unrestricted	\$2,454,801
TOTAL NET POSITION	<u>\$2,454,801</u>
TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	<u><u>\$3,702,121</u></u>

See Accompanying Notes to Financial Statements

Washington Rural Counties Insurance Program
Statement of Revenues, Expenses, and Changes In Fund Net Position
For the Fiscal Year Ended November 30, 2015

	<u>2015</u>
Operating Revenues:	
Member Contributions	<u>\$4,113,354</u>
Total Operating Revenues	<u><u>\$4,113,354</u></u>
Operating Expenses:	
<i>Incurred Loss/Loss Adjustment Expenses:</i>	
Paid on Current Losses	\$111,511
Change in Loss Reserves	\$468,938
<i>Unallocated Loss Adjustment Expenses:</i>	
Paid Unallocated Loss Adjustment Expenses	\$357,225
Excess/Reinsurance Premiums	\$2,371,745
General and Administrative Expenses	\$907,897
Total Operating Expenses	<u>\$4,217,316</u>
OPERATING INCOME (LOSS)	(\$103,962)
NONOPERATING REVENUES (EXPENSES):	
Interest Income	<u>\$65,119</u>
Total Nonoperating Revenues (Expenses):	<u>\$65,119</u>
Income Before Contributions, Transfers, Special and Extraordinary Items	(\$38,842)
CHANGE IN NET POSITION	<u>(\$38,842)</u>
Total Net Position, September 1	\$2,493,643
Total Net Position, November 30	<u><u>\$2,454,801</u></u>

See Accompanying Notes to Financial Statements

Washington Rural Counties Insurance Program
Statement of Cash Flows
For the Fiscal Year Ended November 30, 2015

	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$4,049,074
Cash payments to suppliers for good and services	<u>(\$4,018,147)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$30,927</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	<u>\$65,119</u>
Net Cash Provided (Used) by Investing Activities	<u>\$65,119</u>
Increase (Dec) in Cash and Cash Equivalents	\$96,046
Cash and Equivalents, September 1	<u><u>\$3,531,689</u></u>
Cash and Equivalents, August 31	<u><u>\$3,627,735</u></u>

**Reconciliation of Operating Income to Net Cash
Provided (Used) By Operating Activities**

	<u>2015</u>
OPERATING INCOME	<u>(\$103,962)</u>
(Increase) Decrease in Accounts Receivable	(\$64,281)
(Increase) Decrease in Prepaid Insurance	\$184,899
(Increase) Decrease in Pre Paid Expense	(\$100)
Increase (Decrease) in Accounts Payable	(\$7,252)
Increase (Decrease) in Unearned Member Assessments	(\$34,217)
Increase (Decrease) in Unpaid Claims Liability	<u>\$55,838</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$30,927</u>

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
For the Period
December 1, 2014 through November 30, 2015

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Washington Rural Counties Insurance Program conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The following is a summary of the more significant policies:

a. Reporting Entity

The Washington Rural Counties Insurance Program (WRCIP) was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The WRCIP was formed on September 1, 1998 for purposes of the joint purchase of insurance and/or joint self-insuring and/or joint hiring or contracting for risk management purposes, claims administration and all other functions necessary to carry out provisions of the Interlocal Agreement. There were 8 member Counties as of November 30, 2015.

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile, professional and wrongful acts, which are included to fit members' various needs. Additional coverages available to members on an optional basis include earthquake, flood, uninsured/underinsured motorist, privacy/network liability and data breach.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 31 terminating participation the following December 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is governed by an eight-member Board of Directors appointed by each member. It is felt the individual Counties are best able to select their own representatives to manage their insurance association. The pool has no employees, but has contracted with a third-party administrator, Clear Risk Solutions, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

b. Basis of Accounting

The accounting records of the WRCIP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapters 39.34 and 43.09. The WRCIP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* as amended by the GASB Statement 30, *Risk Financing Omnibus* and the GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

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

Operating revenues are from member contributions and non-operating revenue is interest income. Operating expenses include payment of claims, general and administrative costs, and reinsurance costs.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the WRCIP considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Receivables

Receivables are from member counties or insurance carriers and are, therefore, deemed collectible. All uncollectable accounts receivable under \$500 can be written off without Board permission, but are reported to the fiscal officer monthly. All uncollectable accounts receivable over \$500 may only be written off with Board approval.

e. Investments - See Note 3.

f. 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 of 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 claim 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 coverages 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. Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risk reinsured. The WRCIP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

h. Member Assessments and Unearned Assessments

Member assessments are collected at the beginning of the fiscal year and recognized as revenue in the period for which insurance protection is provided. The program premium is calculated based on a percentage of the member's apportioned excess insurance cost. Unearned member premiums are premiums that are collected prior to the effective date of the policy.

i. 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 incurred but not reported (IBNR). These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

j. Reserve for Unallocated Loss Adjustment Expenses

Pursuant to the contract in place between WRCIP and its third-party administrator, the third-party administrator will administer in all matters related to the processing, supervision and resolution of all program and program membership claims or losses incurred during the term of the agreement.

k. Exemption from Federal and State Taxes

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Management is not aware of any violations of finance-related legal or contractual provisions.

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

As of November 30, 2015, the WRCIP had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Investment in Grant County Investment Pool	\$3,242,837	\$3,242,837
Total Investments	\$3,242,837	\$3,242,837

WRCIP values its investments at current market value.

NOTE 4 – RISK FINANCING LIMITS (SELF-INSURED RETENTION)

The following table reflects the risk financing limits on coverage policies issued and retained by WRCIP for the 2014-15 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 to \$10,000 (varies by member)	\$25,000	\$100,000,000 per occurrence
Flood	\$25,000 Each Member suffering Loss Per Occurrence except that Covered Property Located at the Time of Loss in any Flood Zone identified by FEMA as Zone “V”, “A”, or Special Flood Zone Hazard Area “SFHA” is subject to the following Flood Deductibles: \$500,000 Per Occurrence applying to Each Building Damaged, and \$500,000 Per Occurrence applying to Personal Property within a Building, and \$500,000 Per Occurrence applying to All Other Covered Property.	\$25,000	\$35,000,000 per occurrence and annual aggregate
Earthquake	The Greater of 2% of the Total Value of all Property at the Locations suffering loss or \$50,000 Each Name Insured suffering loss Per Occurrence. Total Value of all Property means the Total Values on file with the Company or it’s Representative at the time of loss. A Location means a Single Street Address or if no Street Address, Single Legal Description.	\$25,000	\$15,000,000 per occurrence and annual aggregate

Equipment Breakdown	\$2,500 per occur; Sewer Plants \$5,000	\$0	\$100,000,000
Employee Dishonesty	\$5,000	\$25,000	\$1,000,000
Auto Comp and Collision	\$1,000 Standard (some vehicles vary per schedule - \$1,000 - \$10,000)	\$25,000	\$100,000,000
Liability Loss:			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000 to \$10,000	\$50,000	\$15,000,000 per occurrence;
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000 to \$10,000	\$50,000	\$15,000,000 per occurrence; \$45,000,000 group annual aggregate
Wrongful Acts / Misc. Professional Liability	\$1,000 to \$10,000	\$50,000	\$15,000,000 per claim; \$45,000,000 group annual aggregate

NOTE 5 – REINSURANCE AND EXCESS INSURANCE CONTRACTS

The pool maintains reinsurance and excess insurance contracts with several carriers which provide various limits of coverage over the pools self-insured retention limits. All carriers are A rated. The aggregate limits provided by these contracts are as follows:

Excess/Re-Insurance Contracts **2014-15**

General Liability, Annual Aggregate	\$45,000,000
Automobile Liability, per Occurrence	\$15,000,000
Wrongful Acts Liability, Annual Aggregate	\$45,000,000
Property, per Occurrence	\$100,000,000 Replacement
Equipment Breakdown, per Occurrence	\$100,000,000 Replacement
Employee Dishonesty, per Occurrence	\$1,000,000

Per-occurrence coverage limits provided by the Pool, including the excess insurance limits combined with the Pool's self-insured retention limits are as follows:

Excess/Re-Insurance Contracts **2014-15**

General Liability, per Occurrence	\$15,000,000
Automobile Liability, per Occurrence	\$15,000,000
Wrongful Acts Liability, per Claim	\$15,000,000
Property, per Occurrence	\$100,000,000 Replacement
Equipment Breakdown, per Occurrence	\$100,000,000 Replacement
Employee Dishonesty, per Occurrence	\$1,000,000

There have been no settlements that exceeded insurance coverage in the past three years.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$2,371,745. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$0.

NOTE 6 – MEMBERS’ SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members in the event the pool lacks resources to pay claims. The WRCIP has never made a supplemental assessment.

NOTE 7 – RELATED PARTY TRANSACTIONS

The WRCIP’s third party administrator and insurance broker is Clear Risk Solutions. Clear Risk Solutions uses Apex and Peachtree Special Risk to place insurance coverage for the pool. Both Clear Risk Solutions, Apex and Peachtree Special Risk are owned by the same parent company, Brown and Brown, Inc

NOTE 8 – UNPAID CLAIMS LIABILITY

As discussed in Note 1, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following table represents changes in those aggregate liabilities for the pool during the current and previous years:

	<u>2015</u>	<u>2014</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$1,183,888	\$1,624,934
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$555,000	\$830,000
Increases (Decreases) in Provision for Insured Events of Prior Years	(\$86,062)	(\$855,876)
Total Incurred Claims and Claim Adjustment Expenses	<u>\$468,938</u>	<u>(\$25,876)</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Current Year	\$111,511	\$239,532
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Prior Years	\$301,589	\$175,638
Total Payments	<u>\$413,100</u>	<u>\$415,170</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$1,239,726</u>	<u>\$1,183,888</u>

NOTE 9 - FINANCIAL SOLVENCY/REQUIRED ASSETS (WAC) 200-100

Revised WAC 200-100 requires WRCIP to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 80% confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

		11/30/2015	11/30/2014
Primary Asset Test			
Primary Assets		\$3,620,141	\$3,492,562
Estimated Claims Liabilities at Expected Level		\$1,239,726	\$1,183,888
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		\$3,694,427	3,492,632
Estimated Claims at 70% Confidence Level			\$1,243,350
Estimated Claims at 80% Confidence Level		\$1,402,144	
	Results	Pass	Pass

Washington Rural Counties Insurance Pool

TEN YEAR CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended November 30, 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Net earned required contribution and investment revenues										
Earned	2,423,384	2,766,431	3,033,130	3,025,289	3,233,544	3,522,207	3,776,358	3,837,944	5,049,100	4,178,474
Ceded	1,445,143	1,566,629	1,675,908	1,668,642	1,756,344	1,853,782	1,651,428	1,800,205	2,659,002	2,371,745
Net earned	978,241	1,199,802	1,357,222	1,356,647	1,477,200	1,668,425	2,124,930	2,037,739	2,390,098	1,806,729
2. Unallocated expenses	252,584	249,293	294,673	777,978	735,336	857,056	1,266,592	1,316,726	1,606,247	1,265,122
3. Estimated incurred claims and expense, end of policy year										
Incurred				1,676,229	802,000	864,078	1,013,800	685,000	1,494,730	605,000
Ceded				891,026	12,000	154,078	208,800	0	664,730	50,000
Net incurred	775,310	836,681	944,763	785,203	790,000	710,000	805,000	685,000	830,000	555,000
4. Net Paid (cumulative) as of:										
End of Policy Year	389,325	319,681	319,892	142,587	208,370	182,255	144,507	132,799	239,532	111,511
One year later	467,250	409,436	450,832	222,338	312,927	403,295	232,329	169,337	423,120	
Two years later	627,753	494,476	382,018	415,149	383,490	434,429	369,225	268,321		
Three years later	656,226	344,427	413,225	535,249	445,082	521,609	380,825			
Four years later	474,299	411,845	457,393	601,722	490,561	624,331				
Five years later	480,242	426,344	457,393	664,205	477,107					
Six years later	480,169	466,082	462,955	669,321						
Seven years later	480,162	469,455	469,951							
Eight years later	480,109	469,455								
Nine years later	480,083									
5. Reestimated ceded claims and expenses	897,517	757,458	822,558	2,450,190	723,073	1,490,589	1,186,110	465,067	832,909	50,000
6. Reestimated incurred claims and expense:										
End of Policy Year	775,310	836,681	944,763	785,203	790,000	710,000	805,000	685,000	830,000	555,000
One year later	802,476	922,529	922,348	865,000	681,239	857,000	680,000	357,619	814,096	
Two years later	959,551	775,326	536,706	694,904	519,563	734,715	585,000	457,619		
Three years later	847,746	594,952	554,311	734,904	586,930	627,962	472,503			
Four years later	512,620	531,471	457,393	714,904	501,717	687,962				
Five years later	482,914	531,471	471,998	693,532	499,243					
Six years later	482,914	516,471	497,206	698,532						
Seven years later	484,914	472,926	469,951							
Eight years later	484,914	475,426								
Nine years later	483,419									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	(291,891)	(361,255)	(474,812)	(86,671)	(290,757)	(22,038)	(332,497)	(227,381)	(15,904)	0

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2014 through November 30, 2015

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

1. Ten-Year Claims Development Information

This table illustrates how the program'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 pool as of the end of each of the last ten years. The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, 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 pool including overhead and claims expenses not allocable to individual claims.
3. This section shows the pool'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 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 policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 2014 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates and management property estimates and aggregate stop losses. (These annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and 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.

LIST OF PARTICIPATING MEMBERS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM

Asotin County
Grant County
Ferry County
Klickitat County
Lincoln County
Stevens County
Wahkiakum County
Whitman County

DES SCHEDULE OF EXPENSES

Washington Rural Counties Insurance Program
For the Fiscal Year Ended November 30, 2015

Contracted Services:

Third Party Administrator Fees	\$51,899
Actuary	15,130
Audit Expenses	21,633
Other Consultant Fees (Lobbyist)	8,100
Risk Management	102,897
Group Legal & Accounting	109

General Administrative Expenses:

Miscellaneous & Supplies	13,179
Retreat/Board Meetings	6,345
Prelitigation Program	33,728
Account Education	48,115

Other:

Medicare Reporting	4,500
Marketing	4,866
Director's E&O	19,892
Underwriting Fees	331,605
Local Agents Commission	245,898
Total Operating Expenses	<u>\$907,897</u>

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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