Washington State Auditor's Office

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Financial Statements Audit Report

Washington Counties Insurance Fund

Thurston County

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

Published December 1, 2016

Report No. 1017912

Washington State Auditor's Office

December 1, 2016

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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Washington Counties Insurance Fund
Thurston County
January 1, 2015 through December 31, 2015

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 3, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Fund implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 Fund's financial statements are free from material misstatement, we performed tests of the Fund'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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 3, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Insurance Fund
Thurston County
January 1, 2015 through December 31, 2015

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Fund'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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Insurance Fund, 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.

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 and pension plan information on pages 33 through 34 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016 on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 3, 2016

FINANCIAL SECTION

Washington Counties Insurance Fund
Thurston County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Washington Counties Insurance Fund MCAG NO. 0775

Management Discussion and Analysis

For the Fiscal Year Ended December 31, 2015

The management of the Washington Counties Insurance Fund (WCIF or "Fund") offers the readers of the Fund's financial statements, this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2015. To more fully understand the financial position of the Fund, this narrative should be considered in conjunction with the information contained in the Fund's financial statements and accompanying notes.

The Fund was established in 1959 to provide medical, dental, vision, life, accidental death and dismemberment, disability and other benefits to the eligible employees of participating employers and the dependents of eligible employees. Operating Revenue for the Fund is generated through administrative fees and commissions on the premiums received from participating groups.

2015 was another year of relative stability for the Washington Counties Insurance Fund (WCIF). Enrollment numbers remained stable with Premium Revenue increasing due primarily to annual premium increases. Administrative Fees and Commissions are based on the gross premium resulting in the WCIF Administrative Fees and Commissions Revenue increasing relative to the premium renewal increases.

In January 2015 the Washington State Office of the Insurance Commissioner rejected the 2014 rates filed by Premera Blue Cross and Group Health Cooperative (and Options) on behalf of the Washington Counties Insurance Fund. Premera and the Fund appealed the OIC's action. On July 1, 2015 the Administrative Law Judge (ALJ) in charge of the appeal ruled in favor of the Fund. The Administrative Law Judge determined that the Fund's rating models were in full compliance with all State and Federal regulations. The OIC chose not to appeal this ruling, rendering the ALJ's decision final.

FINANCIAL HIGHLIGHTS:

The implementation of GASB 68 and the Change in Accounting Principles for the beginning Net Pension Liability of $494,193 reduced the Net Position of the Fund at the beginning of 2015. The operating and non-operating surplus for 2015 of $1,063,595 offset the reduction due to the GASB 68 implementation. This Change in Net Position increased the December 31, 2015 Net Position to $5.91 million from $5.34 million on December 31, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS:

Financial Statements

The *Statement of Net Position* presents information on all of the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets plus deferred outflows less liabilities and deferred inflows is reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the Fund is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how the Fund's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change actually 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 periods (e.g., earned but unused vacation leave).

Notes to the Financial Statements

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

FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of an organization's financial health. In the case of the Fund, Assets and Deferred Outflows of Resources exceeded Liabilities and Deferred Inflows of Resources by $5,909,812 at the close of the most recent fiscal year. $993,515 net position is invested in capital position; and $4,916,297 is unrestricted and may be used to meet the Fund's administrative requirements or to stabilize premium rates. In 2015, due to the implementation of GASB 68, the Net Position is reduced by $494,193 as a Change in Accounting Principles. 2015 was a relatively stable year for the Fund with only modest increases in membership or enrollment numbers. $977,622 of the Operating Revenues was a result of the refunds for the Standard Claims Fluctuation Reserve and the Delta Dental Rate Stabilization Reserves which are refunded to the Washington Counties Insurance Fund at the end of the contract periods. If these plans have performed well with premiums exceeding claims costs, the excess is refunded to the WCIF and held in reserve for the stabilization of premiums. 2015 expenses remained relatively stable in comparison to the prior year activity.

Washington Counties Insurance Fund's Net Position as of 12/31/15 & 12/31/14

	2015	2014
Current Assets	$7,344,632	$10,958,108
Noncurrent (Capital) Assets, Net	$993,515	$1,045,419
Total Assets	$8,338,147	$12,003,527
Deferred Outflows of Resources	$67,972	
Current Liabilities	$1,908,510	$6,637,777
Noncurrent Liabilities	$512,599	$25,340
Total Liabilities	$2,421,109	$6,663,117
Deferred Inflows of Resources	$75,198	
Invested in Capital Assets	$993,515	$1,045,419
Unrestricted Net Position	$4,916,297	$4,294,991
Total Net Position	$5,909,812	$5,340,410

Washington Counties Insurance Fund's Change in Net Position as of 12/31/15 & 12/31/14

	2015	2014
Operating Revenue	$64,940,596	$60,437,924
Non-operating Revenue	$12,840	$17,112
Total Revenue	$64,953,436	$60,455,036
Operating Expense	$63,889,655	$60,147,156
Non-operating Expense	$186	$198
Total Expense	$63,889,841	$60,147,354
Change in Net Position	$1,063,595	$307,682
Beginning Net Position	**$5,340,410**	**$5,032,728**
Change in Accounting Principles	**(494,193)**	
Ending Net Position	**$5,909,812**	**$5,340,410**

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Washington Counties Insurance Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Washington Counties Insurance Fund
P.O. Box 7786
Olympia, WA 98507-7786

WASHINGTON COUNTIES INSURANCE FUND | **MCAG NO. 0775**

STATEMENT OF NET POSITION

DECEMBER 31, 2015

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,948,244
Commissions & Administrative Fees Receivable	$	369,220
Premiums Receivable	$	225,055
CFR Receivable	$	958,062
Other Receivables	$	7,489
Prepaid Expenses	$	46,435
CFR (LTD) The Standard	$	1,198,313
WDS Stabilization Reserve	$	591,814
TOTAL CURRENT ASSETS	$	7,344,632
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	$	993,515
TOTAL NONCURRENT ASSETS	$	993,515
TOTAL ASSETS	**$**	**8,338,147**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	$	67,972
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**67,972**
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	408,535
Premiums Payable	$	1,196,158
Payroll Liabilities	$	1,092
Unearned Revenue Liability	$	302,725
TOTAL CURRENT LIABILITIES	$	1,908,510
Noncurrent Liabilities:		
Compensated Absences	$	24,959
Net Pension Liability	$	487,640
TOTAL NONCURRENT LIABILITIES	**$**	**512,599**
TOTAL LIABILITIES	**$**	**2,421,109**
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	$	75,198
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**75,198**
NET POSITION		
Net Investment in Capital Assets	$	993,515
Unrestricted	$	4,916,297
TOTAL NET POSITION	**$**	**5,909,812**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND **MCAG NO. 0775**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Fiscal Year Ended December 31, 2015

OPERATING REVENUES:		
Administrative Fees	$	1,491,728
Producer Fees	$	116,628
Commissions	$	475,928
Premiums Collected	$	61,875,993
Other	$	980,319
TOTAL OPERATING REVENUES	$	64,940,596
OPERATING EXPENSES:		
Third Party Administration	$	376,349
Vivacity Wellness Program	$	119,834
Wellness Grant Program	$	59,887
Wellness Program Expenses	$	5,311
Insurance Expense	$	45,052
Salaries and Wages	$	587,356
Personnel Benefits	$	194,977
Premium Expense	$	61,875,993
Publication and Printing	$	14,794
Incentive & Rewards Programs	$	7,430
Marketing & Promotional	$	30,283
Professional Services	$	262,188
Board Expenses	$	13,870
Staff Travel Expenses	$	51,005
General and Administrative Expenses	$	190,789
Depreciation	$	54,537
TOTAL OPERATING EXPENSES	$	63,889,655
OPERATING INCOME (LOSS)	$	1,050,941
NONOPERATING REVENUES (EXPENSES):		
Interest Income	$	12,840
Investment Fees	$	(186)
Gain/Loss on Sale/Disposal of Assets	$	-
TOTAL NONOPERATING REVENUES (EXPENSES)	$	12,654
CHANGE IN NET POSITION	$	1,063,595
TOTAL NET POSITION, Beginning of the Year	$	5,340,410
CHANGE IN ACCOUNTING PRINCIPLES - GASB 68	$	(494,193)
TOTAL NET POSITION, End of the Year	$	5,909,812

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND **MCAG NO. 0775**

STATEMENT OF CASH FLOW

For the Fiscal Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for premiums	$	61,994,771
Cash received for fees and commissions	$	2,103,128
Cash received from other income	$	12,209
Cash payments for premiums	$	(66,679,200)
Cash payments for insurance coverage	$	(43,746)
Cash payments for Third Party Administrators	$	(376,349)
Cash payments to suppliers for goods and services	$	(487,870)
Cash payments for other operating expenses	$	(543,789)
Cash payments to employees for services	$	(587,356)
Net Cash Provided (Used) by Operating Activities	$	(4,608,202)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
	$	-
Net Cash Provided (Used) by Non-Capital Financing Activities	$	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Purchases	$	(2,633)
Other Income	$	-
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(2,633)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	$	3,495
Investment Fees	$	(187)
Net Cash Provided (Used) by Investing Activities	$	3,308
Increase (Decrease) in Cash and Cash Equivalents	$	(4,607,527)
Cash and Cash Equivalents, Beginning of the Year	$	8,555,771
Cash and Cash Equivalents, End of the Year	$	3,948,244

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND **MCAG NO. 0775**

STATEMENT OF CASH FLOW

For the Fiscal Year Ended December 31, 2015

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

OPERATING INCOME	$	1,050,941
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	$	54,537
Deferred Outflow of Resources	$	(67,972)
Deferred Inflow of Resources	$	75,198
Change in Accounting Principles	$	(494,193)
	$	-
Changes in Assets and Liabilities:		
(Increase) decrease in Prepaid Expenses	$	(10,771)
(Increase) decrease in Receivables	$	(954,375)
(Increase) decrease in Stabilization Reserves	$	(19,560)
Increase (decrease) in Payables	$	(4,858,667)
Increase (decrease) in Compensated Absences	$	(380)
Increase (decrease) in Payroll Liabilities	$	(14,047)
Increase (decrease) in Other Current Liabilities	$	143,447
Increase (decrease) in Net Pension Liability	$	487,640
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	(4,608,202)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2015 Through December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Washington Counties Insurance Fund, (WCIF or "Fund"), was established for the payment of medical, dental, life, vision, disability, accidental death and dismemberment, and other benefits to the eligible employees of participating employers and, if so provided, the dependents of eligible employees. The plan benefits are funded by contributions from the participating employers and, if so provided, eligible employees. The trust was originally established January 1, 1959, restated on November 7, 1985, and further amended on August 13, 1987; January 1, 2003; January 1, 2006; January 1, 2012; January 1, 2014; and January 1, 2015.

The accounting policies of Washington Counties Insurance Fund conform to generally accepted accounting principles. The following is a summary of the more significant policies:

Basis of Accounting - The Fund uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for within the financial statements. Operating revenue for the Fund is derived from Administration Fees and Commissions. All expenses of the Fund, with the exception of Investment Fees, are classified as operating expenses.

Cash and Cash Equivalents - For the purposes of reporting cash flows, the trust considers all highly liquid deposits with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash Equivalents includes $302,095 Cash on Hand, which is monies that have been received by the Washington Counties Insurance Fund and have been credited to the Accounts Receivable, but have not been deposited into an account in a financial institution. The remaining $3,646,149 in Cash and Cash Equivalents are deposited into accounts (Note B).

Receivables - Receivables for the Washington Counties Insurance Fund consist of amounts owed for premiums by member groups and services which have been rendered by the trust for the period ended December 31, 2015, such as commissions and administration fees.

CFR Receivable – The Standard reported that the performance of the Fund's Long Term Disability (LTD) Program for the last contract period (two years) has resulted in a refund of $958,062 which will be deposited into the Claims Fluctuation Reserve (CFR) after the close of the contract period (December 31, 2015). When the refund is received the CFR balance will increase to $ 2,156,375

CFR (LTD) The Standard – The Claims Fluctuation Reserve (CFR) for the Fund's Long Term Disability (LTD) Program has a balance of $ 1,198,313. These funds are fully accessible to the Fund, however, by leaving them on deposit with The Standard the Fund receives a 30% reduction in the premium rates for the LTD insurance.

WDS Stabilization Reserve – The WDS Stabilization Reserve has a balance of $591,814. These funds are unrestricted and available to the Fund on request but are on deposit with Delta Dental [formerly Washington Dental Service (WDS)] for rate stabilization in future renewal years.

Other revenue - This account includes Interest Income, and amounts that have been collected by the Fund that are miscellaneous in nature.

Compensated Absences - The Fund records all accumulated unused vacation leave. Vacation pay, which may be accumulated up to 30 days maximum, is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. At termination, accrued sick leave will be paid not to exceed 25% of days accumulated, subject to a maximum accrual of 120 days. As of December 31, 2015 the value of Compensated Absences is $24,959.

Restricted Funds – In accordance with certain related agreements, separate restricted funds may be required to be established. The assets held in these funds are restricted for specific time periods and/or for specific uses. At the end of the fiscal period ended December 31, 2015, the Fund had no restricted funds.

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

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 Fund from insurance premium taxes and business and occupation taxes on the Premium Revenue collected imposed pursuant to Chapter 82.04 RCW. Business and occupation taxes are applicable to the revenue generated from administrative fees and commissions.

NOTE B – DEPOSITS

As required by state law and the Fund's investment policy, all deposits and investments of the Fund consist of deposits that are covered by federal depository insurance (FDIC) or by the Washington State Local Government Investment Pool (LGIP).

Deposits

The Fund's deposits and certificates of deposit are covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. It constitutes a multiple financial institution collateral pool that insures public deposits. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 10 percent of its public deposits. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositaries and optimizing collateralization requirements. The custodial risk for deposits is the risk that, in the event of a depository financial institution failure, the Fund's deposits with banks and savings and loan associations may not be recovered. Because of the PDPC, the Fund's deposits are not subject to this risk.

As of December 31, 2015, WCIF had the following deposit accounts:

Bank of America	$ 348,880
Umpqua Bank	$ 1,280,886

Investments

All investments are shown on the entity-wide Statement of Net Position at fair value as of December 31, 2015; however the Washington State Local Government Investment Pool (LGIP) is reported on the balance sheet as Cash and Cash Equivalents. The LGIP is an un-rated 2a-7 like pool, as defined by GASB 31, and not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Office of the State Treasurer manages the pool with the goals of the safety of principal and the assurance of sufficient liquidity to meet the cash flow demands of the participants, and strives to attain the highest possible yield within the constraints of those goals. Historically, the LGIP has had sufficient liquidity to meet the needs of the participants.

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

	Carrying Amount	Fair Value
Washington State Local Governments Investment Pool (LGIP)	$2,016,383	$2,016,383
Total Investments	$2,016,383	$2,016,383

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the WCIF would not be able to recover the value of the investment of collateral securities. Of the WCIF's total position in the LGIP, $0 are exposed to custodial credit risk. The WCIF had no derivatives at the end of the fiscal year, nor did it participate in any securities lending transactions.

NOTE C – CAPITAL ASSETS

All assets with a cost of $1,000 or more are capitalized and recorded at cost. Cost includes all ancillary charges necessary to place the asset in its intended location and condition for use. Maintenance and repairs are expensed as incurred. When equipment is retired or otherwise disposed of, cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as other income. Depreciation is computed on the straight-line method over the estimated useful lives of the equipment. The estimated useful life for each asset class is:

Computers and Equipment	5 Years
Vehicles	5 Years
Furniture & Fixtures	7 Years
Buildings	39 Years

Capital assets consist of the following at December 31, 2015:

Capital Asset	Beginning Balance 01/01/2015	Increases	Decreases	Ending Balance 12/31/2015
Building	$1,138,222			$1,138,222
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 49,862			$ 49,862
Computers, Software, and Office Equipment	$ 63,016	$ 2,633		$ 65,649
Total Capital Assets:	$1,349,991	$ 2,633		$1,352,624
Less Accumulated Depreciation For:	**Beginning Balance 01/01/2015**	**Increases**	**Decreases**	**Ending Balance 12/31/2015**
Building	$ 165,383	$ 29,185		$ 194,568
Furniture and Fixtures & Leasehold Improvements	$ 91,955	$ 6,936		$ 98,891
Vehicles	$ 11,074	$ 9,972		$ 21,046
Computers, Software, and Office Equipment	$ 36,160	$ 8,444		$ 44,604
Total Accumulated Depreciation:	$ 304,572	$ 54,537		$ 359,109
Total Capital Assets, Net	$ 1,045,419			$ 993,515

NOTE D – PENSION PLAN

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 487,640
Pension assets	$
Deferred outflows of resources	$ 67,972
Deferred inflows of resources	$ 75,198
Pension expense/expenditures	$ 59,513

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

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

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

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

The Washington Counties Insurance Fund's actual contributions to the plan were $ 0.00 for the year ended December 31, 2015.

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

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

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

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

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

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

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

The Washington Counties Insurance Fund's actual contributions to the plan were $ 59,897.52 for the year ended December 31, 2015.

Actuarial Assumptions

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

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

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

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

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 315,377	$ 259,036	$ 210,588
PERS 2/3	$ 668,450	$ 228,604	$ (108,170)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Washington Counties Insurance Fund reported a total pension liability of

$487,640 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 259,036
PERS 2/3	228,604

At June 30, 2015 the Washington Counties Insurance Fund's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.004706%	.004952%	.000246%
PERS 2/3	.006059%	.006398%	.000339%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30, 2015 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Non-employer Allocations* for all plans except LEOFF 1.

Pension Expense

For the year ended December 31, 2015, the Washington Counties Insurance Fund recognized pension expense as follows:

	Pension Expense
PERS 1	$ 29,258
PERS 2/3	$ 30,255
TOTAL	$ 59,513

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Washington Counties Insurance Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources :

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$
Net difference between projected and actual investment earnings on pension plan investments	$	$ 14,172
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 14,048	$
TOTAL	$ 14,048	$ 14,172
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,301	$
Net difference between projected and actual investment earnings on pension plan investments	$	$ 61,026
Changes of assumptions	$ 368	$

Changes in proportion and differences between contributions and proportionate share of contributions	$ 10,907	$
Contributions subsequent to the measurement date	$ 18,348	$
TOTAL	$ 53,924	$ 61,026

Deferred outflows of resources related to pensions resulting from the Washington Counties Insurance Fund's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2016	$ 3,221
2017	$ 3,221
2018	$ 3,221
2019	$ 3,221
2020	$ 1,288
Thereafter	$

Year ended December 31:	PERS 2/3
2016	$ 5,784
2017	$ 5,784
2018	$ 5,784
2019	$ 5,784
2020	$ 2,314
Thereafter	$

NOTE E – SUBSEQUENT EVENTS

Rejection of WCIF's 2014 Rates: In January of 2015, the Office of the Insurance Commissioner (OIC) rejected the 2014 rates filed by Premera Blue Cross and Group Health Cooperative (and Options) on behalf of the Washington Counties Insurance Fund. The unusual timing of the rejections resulted in the rejection of a rate filing that had expired and was no longer in use. Premera and the WCIF appealed the OIC actions through an administrative appeal process.

There was no immediate operational or financial impact to the WCIF from the OIC action as the 2014 rate filing were no longer in use. In addition, any formal enforcement action or penalties would have been assessed to the insurance carriers and not the WCIF. However, not knowing the outcome of the appeal at the time of the filing of the 2014 Annual Report, or the potential impact of the OIC action going forward, the action was noted as a subsequent event in the 2014 Annual Report Notes to Financial Statements.

On July 1, 2015. The Administrative Law Judge (AJL) in charge of the appeal ruled in favor of the Washington Counties Insurance Fund (and several other Association Health Plans). The ALJ determined that the WCIF rating models were in full compliance with all State and Federal regulations. The OIC chose not to appeal this ruling, rendering the ALJ's decision final.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

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

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.004952%									
Employer's proportionate share of the net pension liability		$ 259,036									
TOTAL											
Employer's covered employee payroll		$ -	$ -								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	N/A									
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%									

PERS 2
As of June 30, 2015
Last 10 Fiscal Years

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.006398%									
Employer's proportionate share of the net pension liability	$	228,604									
TOTAL	$										
Employer's covered employee payroll	$	292,840									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	78.06%									
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%									

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Washington Counties Insurance Fund
Schedule of Employer Contributions
PERS 2
As of December 31, 2015
Last 10 Fiscal Years

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily or contractually required contributions	$	59,898									
Contributions in relation to the statutorily or contractually required contributions	$	(59,898)									
Contribution deficiency (excess)	$	0									
Covered employer payroll	$	587,356									
Contributions as a percentage of covered employee payroll	%	10.20%									

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov