



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Water Sewer Insurance Pool
(Water and Sewer Risk Management
Pool)

King County

For the period November 1, 2014 through October 31, 2016

Published June 26, 2017

Report No. 1019381





Office of the Washington State Auditor
Pat McCarthy

June 26, 2017

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	42

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

**Water and Sewer Risk Management Pool
King County
November 1, 2014 through October 31, 2016**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Water and Sewer Risk Management Pool, King County, Washington, as of and for the years ended October 31, 2016 and 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 June 16, 2017. As discussed in Note 14 to the financial statements, the 2015 financial statements have been restated to correct account balance classifications and to implement new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Water and Sewer Risk Management Pool King County November 1, 2014 through October 31, 2016

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Water and Sewer Risk Management Pool, King County, Washington, as of and for the years ended October 31, 2016 and 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Risk Management Pool, as of October 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis – Correction of Prior Year

As discussed in Note 14 to the financial statements, the 2015 financial statements have been restated to correct account balance classifications and to implement 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 12, pension plan information on pages 32 through 33, and risk pools information on pages 34 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming and 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 the purposes of additional analysis and 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 June 16, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

FINANCIAL SECTION

Water and Sewer Risk Management Pool King County November 1, 2014 through October 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016 and 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016 and 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – 2016 and 2015

Statement of Cash Flows – 2016 and 2015

Notes to Financial Statements – 2016 and 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2016

Schedule of Employer Contributions – 2016

Schedule of Claims Development Information – 2016

Schedule of Claims Development Information – 2015

Reconciliation of Claims Liabilities by Type of Contract – 2016

Reconciliation of Claims Liabilities by Type of Contract – 2015

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2106

DES Schedule of Expenses – 2016 and 2015

**Water and Sewer Insurance Pool
DBA Water and Sewer Risk Management Pool
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

HIGHLIGHTS

Financial Highlights

Fiscal Year Ending October 31, 2016:

WSRMP's net position increased by \$189,344 compared to FY2015 increase of \$650,449. The Pool increased member assessments by \$270,891 in FY2016. In FY2016 the Pool's claims reserves increased \$490,683, along with increases in wages \$67,130, legal expense \$75,337, and claims adjusting \$21,911.

The Pool implemented GASB 68, *Accounting and Financial Reporting for Pensions*, during fiscal year 2016. The Pool restated fiscal year 2015 statements to reflect GASB 68 and reported a change in accounting principle of \$214,755 for GASB 68 expense related to fiscal year 2014 and earlier years pension accruals.

The Pool's actual financial results were comparable to its budgeted amounts.

Fiscal Year Ending October 31, 2015:

WSRMP's net position increased by \$650,449. The increase was due in part to an increase in additional premium assessments. The Pool also increased its member assessments for fiscal year 2014 and kept those increases in place for fiscal year 2015, which also resulted in increases to the Pool's net position.

The Pool's actual financial results were comparable to its budgeted amounts.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

Financial Statements

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

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

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

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

- Three-year comparative summary financial data:

DESCRIPTION	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Total Assets – Capital	\$6,968	\$9,915	\$8,526
Total Assets – Other	\$5,521,662	\$5,092,725	\$4,133,091
Total Assets	\$5,528,630	\$5,102,640	\$4,141,617
Total Deferred Outflows of Resources	\$40,488	\$16,358	-
Total Current Liabilities	\$3,517,761	\$3,379,495	\$3,012,061
Noncurrent Liabilities	\$552,194	\$404,333	\$267,987
Total Liabilities	\$4,069,955	\$3,783,828	\$3,280,048
Total Deferred Inflows of Resources	\$12,556	\$37,907	-
Total Net Position-Invested in Capital Assets	\$6,968	\$9,915	\$8,526
Total Net Position-Unrestricted	\$1,479,639	\$1,287,348	\$853,043
Total Net Position	\$1,486,607	\$1,297,263	\$861,569
OPERATING REVENUES			
Member Assessments	\$2,914,376	\$2,643,485	\$2,656,785
Other Revenues	\$117,749	\$194,081	\$27,880
TOTAL OPERATING REVENUES	\$3,032,125	\$2,837,566	\$2,684,665
NON-OPERATING REVENUES			
Investment Income	\$9,753	\$2,697	\$1,863
TOTAL REVENUES	\$3,041,878	\$2,840,263	\$2,686,528
OPERATING EXPENSES			
Insurance expense	\$1,232,510	\$1,197,107	\$1,096,179
Claims paid	\$575,770	\$323,087	\$379,900
Wages and benefits	\$328,283	\$261,153	\$305,400
Establish claims reserve	\$221,000	(\$17,000)	(\$100,000)
Other expense	\$494,971	\$425,467	\$338,156
TOTAL OPERATING EXPENSES	\$2,852,534	\$2,189,814	\$2,019,635
NON-OPERATING EXPENSE			
Interest Expense	-	-	-
TOTAL EXPENSES	\$2,852,534	\$2,189,467	\$2,019,635
NET INCOME (LOSS)	\$189,344	\$650,449	\$666,893
BEGINNING NET POSITION	\$1,297,263	\$861,569	\$194,676
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	(\$214,755)	-
ENDING NET POSITION	\$1,486,607	\$1,297,263	\$861,569

- The Pool has not entered into any financial contracts or agreements during fiscal year 2016 that would restrict its future use of financial resources as reported on the Statement of Net Position as of October 31, 2016.

Operations Highlights

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

SUMMARY

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

FINANCIAL CONTACT

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

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Net Position
As of October 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current Assets:		
Cash and Cash Equivalents	\$ 2,034,016	\$ 1,615,239
Member receivables	3,009,331	3,003,003
Other receivables, net of allowance	1,010	1,347
Prepaid expenses	<u>477,305</u>	<u>473,136</u>
TOTAL CURRENT ASSETS	<u>5,521,662</u>	<u>5,092,725</u>
Capital assets, net	<u>6,968</u>	<u>9,915</u>
TOTAL ASSETS	<u>\$ 5,528,630</u>	<u>\$ 5,102,640</u>
Deferred Outflows of Resources - Pension	\$ 40,488	\$ 16,358
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,569,118</u>	<u>\$ 5,118,998</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and other current liabilities	\$ 23,173	\$ 33,201
Compensated Absences	13,421	11,584
Claim Reserves:		
IBNR	169,000	167,000
Open Claims (Case Reserves)	279,000	154,000
Unallocated Loss Adjustment Expenses	25,000	21,000
Unearned member assessments	<u>3,008,167</u>	<u>2,992,710</u>
TOTAL CURRENT LIABILITIES	<u>3,517,761</u>	<u>3,379,495</u>
Noncurrent Liabilities:		
Claim Reserves:		
IBNR	115,000	110,000
Open Claims (Case Reserves)	191,000	103,000
Unallocated Loss Adjustment Expenses	14,000	17,000
Compensated Absences	9,156	6,995
Net Pension Liability	<u>223,038</u>	<u>167,338</u>
TOTAL NONCURRENT LIABILITIES	<u>552,194</u>	<u>404,333</u>
TOTAL LIABILITIES	<u>\$ 4,069,955</u>	<u>\$ 3,783,828</u>
Deferred Inflows of Resources - Pension	<u>\$ 12,556</u>	<u>\$ 37,907</u>
Net Position:		
Net Investment in Capital Assets	6,968	9,915
Unrestricted	<u>1,479,639</u>	<u>1,287,348</u>
TOTAL NET POSITION	<u>\$ 1,486,607</u>	<u>\$ 1,297,263</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 5,569,118</u>	<u>\$ 5,118,998</u>

The accompanying notes are an integral part of these financial statements

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Revenues, Expenses
And Changes in Fund Net Position
For the Fiscal Years Ended October 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Member assessments	\$ 2,914,376	\$ 2,643,485
Other	117,749	194,081
TOTAL OPERATING REVENUES	<u>\$ 3,032,125</u>	<u>\$ 2,837,566</u>
OPERATING EXPENSES		
Insurance expense	1,232,510	1,197,107
Establish claims reserve	221,000	(17,000)
Claims paid on current losses	575,770	323,087
Wages, employee benefits and payroll taxes	328,283	261,153
Legal	207,677	132,340
Office supplies and expense	25,884	42,568
Travel	16,154	17,265
Accounting and Auditing	21,400	25,541
Rent	36,328	35,196
Claims adjusting expense	67,905	45,994
Seminars	30,918	17,271
Actuarial Study	13,050	12,975
Telephone	8,028	7,448
Depreciation	2,947	4,048
Dues, subscriptions and meetings	8,504	9,236
Promotion	4,137	2,663
Executive Committee Compensation	3,995	5,194
Postage	2,239	2,470
State Risk Manager Assessment	11,734	11,734
Consultants	33,047	52,280
Miscellaneous	1,024	1,244
TOTAL OPERATING EXPENSES	<u>2,852,534</u>	<u>2,189,814</u>
OPERATING INCOME (LOSS)	179,591	647,752
NONOPERATING REVENUES (EXPENSES)		
Interest Income	<u>9,753</u>	<u>2,697</u>
CHANGE IN NET POSITION	189,344	650,449
NET POSITION, beginning of fiscal year	1,297,263	861,569
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>(214,755)</u>
NET POSITION, end of fiscal year	<u>\$ 1,486,607</u>	<u>\$ 1,297,263</u>

The accompanying notes are an integral part of these financial statements

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Statement of Cash Flows
For the Fiscal Years Ended October 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 3,041,591	\$ 2,831,033
Cash paid to suppliers and employees	(2,632,567)	(2,101,726)
Net Cash Flows Provided (Used) by Operating Activities	<u>409,024</u>	<u>729,307</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of equipment	-	(5,437)
GASB 68 - Pension Liability - net	-	(214,755)
Net Cash Provided (Used) by capital and related financing activities	<u>-</u>	<u>(220,192)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>9,753</u>	<u>2,697</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	418,777	511,812
CASH AND CASH EQUIVALENTS,		
Beginning of year	<u>1,615,239</u>	<u>1,103,427</u>
End of year	<u>\$ 2,034,016</u>	<u>\$ 1,615,239</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ 179,591</u>	<u>\$ 647,752</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	2,947	4,048
Changes in assets and liabilities		
Receivables	(5,991)	(355,758)
Prepaid expenses	(4,169)	(92,064)
Accounts payable	(10,028)	(1,375)
Accrued liabilities	2,161	5,592
Compensated absences	1,837	
Unearned member assessments	15,457	349,225
Claims reserves	221,000	(17,000)
Decrease (Increase) in deferred outflows of resources	(24,130)	(8,467)
Increase (Decrease) in deferred inflows of resources	(25,351)	25,808
Increase (Decrease) in net pension payable	55,700	167,338
	<u>229,433</u>	<u>77,347</u>
Net Cash Provided (Used) by Operating Activities	<u>409,024</u>	<u>725,099</u>

The accompanying notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Accounting

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

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Pool considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Funds invested with the Washington State Local Government Investment Pool are considered cash equivalents as they are readily accessible by the Pool.

Capital Assets

See Note 5

Member Receivables

Member receivables are comprised of invoices for fiscal year 2017 insurance premiums.

Other Receivables

Other receivables consist of subrogated claims recovery of \$1,010 and \$1,347 at October 31, 2016 and 2015, net of allowance for doubtful accounts of \$0, respectively.

Prepaid expenses

In fiscal year 2016 and 2015, prepaid expenses were \$477,305 and \$473,136, respectively. Included in the prepaid expenses were prepaid insurance premiums of \$471,605 and \$464,724 respectively, which are amortized over the insurance coverage period. The remaining \$5,700 and \$8,412 of prepaid expenses, for fiscal year 2016 and 2015, respectively, relate to vendor services and deposits.

Investments and Interest Income

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

Compensated Absences

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

Unpaid Claims Liabilities

The Pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Member Assessments And Unearned Member Assessments

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

Unpaid Claims

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

Reserve for Unallocated Loss Adjustment Expenses

The reserve for unallocated loss adjustment expenses represents a liability for the estimated cost to be incurred with respect to settlement of claims in process and claims incurred but not reported. The actuary estimates this liability each year and any change in the liability is reflected in current earnings.

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.

Deferred Outflows/Inflows of Resources-Pensions

Deferred outflows of resources for pensions are recorded when actual earnings on pension plan investments exceed projected earnings. Deferred inflows of resources for pensions are recorded when projected earnings on pension plan investments exceed actual earnings. These are amortized to pension expense using a systematic and rational method over a closed five-year period.

Deferred outflows and deferred inflows of resources for pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the Pool's proportionate share of net pension liability. These deferred outflows and deferred inflows are amortized over the average expected remaining service lives of all employees that are provided with pensions through the pension plan.

Pool contributions to pension plans made subsequent to the measurement date are deferred outflows of resources and reduce net pension liability in the subsequent year.

Exemption From Federal And State Taxes

Pursuant to revenue ruling number 90-74, the Pool's income 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 – DEPOSITS AND INVESTMENTS

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

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

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

NOTE 3 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by the Pool for fiscal year 2016.

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF INSURED RETENTION	EXCESS LIMITS
Property:			
Buildings and Contents	\$1,000 - \$25,000 and See C below	\$25,000	\$1,000,000,000
Flood	See A below	See A below	\$50,000,000
Earthquake	See B below	See B below	\$110,000,000 ((\$75,000,000 shared by all members and \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary Layer	\$100,000,000 Primary Layer
Boiler and Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto Physical Damage - Included	\$1,000 - \$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors & Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$25,000

- A) \$100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; \$250,000 member deductible, per occurrence, in Flood Zones A&V.
- B) Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C) Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

NOTE 4 – EXCESS/REINSURANCE INSURANCE CONTRACTS

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

Excess/Reinsurance Insurance Contracts

General Liability (GL, AL and POL)	\$10,000,000
Property (includes B&M, EDP, & Contractor Equip.)	\$1,000,000,000
Employee Dishonesty, Forgery, or Alteration	\$2,000,000
Computer Fraud, Theft, Disappearance & Destruction	\$250,000
Cyber Liability	\$2,000,000

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

NOTE 5 – CAPITAL ASSETS

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

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

Capital assets (equipment) consisted of the following at October 31, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
Office furnishings and equipment, at cost	\$82,921	-	(-)	\$82,921
Less accumulated depreciation	<u>(73,006)</u>	<u>(2,947)</u>	<u>(-)</u>	<u>(75,953)</u>
CAPITAL ASSETS, NET	<u>\$ 9,915</u>	<u>\$(2,947)</u>	<u>-</u>	<u>\$ 6,968</u>

Capital assets (equipment) consisted of the following at October 31, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Office furnishings and equipment, at cost	\$77,484	5,437	(-)	\$82,921
Less accumulated depreciation	<u>(68,958)</u>	<u>(4,048)</u>	<u>(-)</u>	<u>(73,006)</u>
CAPITAL ASSETS, NET	<u>\$8,526</u>	<u>\$1,389</u>	<u>-</u>	<u>\$ 9,915</u>

NOTE 6 – CLAIMS RESERVES (UNPAID CLAIMS LIABILITIES)

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

	2016	2015
Unpaid claims and claim adjustment expenses at the beginning of the year	\$572,000	\$589,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	1,092,000	438,000
Changes in provision for insured events of prior years	(93,000)	9,000
	<u>999,000</u>	<u>447,000</u>
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	558,000	176,000
Claims and claim adjustment expenses attributed to insured events of prior years	220,000	288,000
	<u>778,000</u>	<u>464,000</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$793,000</u>	<u>\$572,000</u>

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

NOTE 7 – LEASE COMMITMENT

The Pool has an agreement to lease office space. The lease for this space expires on July 31, 2019. The current monthly lease payment is **\$2,721**. Future minimum lease payments under this lease are as follows:

FY 2017	\$32,892
FY 2018	\$33,883
FY 2019	\$25,980

NOTE 8 – LONG-TERM LIABILITIES

During fiscal year ending October 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 11/1/2015	Additions	Reductions	Ending Balance 10/31/2016	Due Within One Year
Claims Reserves:					
IBNR	\$ 277,000	\$ 7,000	\$ -	\$ 284,000	\$ 169,000
Open Claims (Case Reserves)	257,000	213,000	-	470,000	279,000
Unallocated Loss Adjustment Exp	38,000	1,000	-	39,000	25,000
Total Claims Reserves	572,000	221,000	-	793,000	473,000
Compensated Absences	18,579	3,998	-	22,577	13,421
Total Long-Term Liabilities	\$ 590,579	\$ 224,998	\$ -	\$ 815,577	\$ 486,421

During fiscal year ending October 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 11/1/2014	Additions	Reductions	Ending Balance 10/31/2015	Due Within One Year
Claims Reserves:					
IBNR	\$ 283,365	\$ -	\$ 6,365	\$ 277,000	\$ 167,000
Open Claims (Case Reserves)	273,048	-	16,048	257,000	154,000
Unallocated Loss Adjustment Exp	32,587	5,413	-	38,000	21,000
Total Claims Reserves	589,000	5,413	22,413	572,000	342,000
Compensated Absences	12,987	5,592	-	18,579	11,584
Total Long-Term Liabilities	\$ 601,987	\$ 11,005	\$ 22,413	\$ 590,579	\$ 353,584

NOTE 9 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68, *Accounting and Financial Reporting for Pensions* for WSRMP for fiscal year 2016 and 2015:

Aggregate Pension Amounts – All Plans		
	<u>2016</u>	<u>2015</u>
Pension liabilities	\$223,038	\$167,338
Pension assets		
Deferred outflows of resources	\$40,488	\$16,358
Deferred inflows of resources	\$12,556	\$37,907
Pension expense/expenditures(benefit)	\$14,612	\$1,576

Pension Plans

The Pool established a 403(b) Plan on January 1, 2013, known as the Water and Sewer Insurance Pool 403(b) Retirement Plan. The Plan covers all Pool employees. The Plan is administered by Hunnex and Shoemaker, Inc. This is a defined contribution plan with a discretionary employer contribution. The Pool has been contributing an employer contribution percentage of 6.2% for each participant eligible to share in allocations as well as an employee elective deferral contribution provision. The Plan can be amended by the Pool at any time, pursuant to the Plan document.

Total Plan contributions (employee and employer) during the fiscal year ended October 31, 2016 were \$17,224 and \$14,631, respectively. Employee and employer contributions during the fiscal year ended October 31, 2015 were \$23,341 and \$12,878, respectively.

Substantially all of WSRMP's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and 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 2% 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 25 years of service, or at age 60 with at least 5 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 (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%. The employer rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18%. 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%

No current WSRMP employees are covered by PERS Plan 1.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of services for Plan 2 and 1 percent of AFC for Plan 3. The AFC is 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 5 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 1 or 2 provisions:

- With a benefit that is reduced by 3 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 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor benefit option. Other PERS 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by Department of Labor and Industries. PERS 2 members vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% 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 OSA 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%. 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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total PERS
2016	\$ -0-	\$7,494	\$16,624	\$24,118
2015	\$ -0-	\$5,402	\$15,006	\$20,408
2014	\$ -0-	\$2,683	\$18,258	\$20,941

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 *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. The OSA applied offsets to the based table and recognized future improvements in mortality by projecting the mortality rates using 100 percent 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.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basis Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry ages 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, the 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.
- The 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 the rate, an assets 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 the plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS2, SER 2/3, and TRS 2/3 employers, whose rates include a component for the PRS 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 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. The 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 the 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 NPL

The table below presents WSRMP's proportionate share of the net pension liability, as of June 30, 2016, calculated using the discount rate of 7.5%, as well as what WSRMP'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.

June 30, 2016	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$122,272	\$101,394	\$83,428
PERS 2/3	\$223,968	\$121,644	(\$63,323)
June 30, 2015			
PERS 1	\$120,241	\$98,760	\$80,289
PERS 2/3	\$252,419	\$86,325	(\$40,847)

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, 2016, WSRMP reported a total pension liability of \$223,038 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$101,394
PERS 2/3	\$121,644

At June 30, 2015, WSRMP reported a total pension liability of \$167,338 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$88,874
PERS 2/3	\$78,464

At June 30, WSRMP's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2015	Proportionate Share 6/30/16	Change In Proportion
PERS 1	.001699%	.001888%	.000189%
PERS 2/3	.002196%	.002416%	.000220%

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

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For fiscal year ending October 31, 2016, WSRMP recognized pension expense was as follows:

	Pension Expense (Benefit)
PERS 1	\$8,547
PERS 2/3	\$6,065
TOTAL	\$14,612

Deferred Outflows of Resources and Deferred Inflows of Resources

At October 31, 2016, WSRMP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 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	\$2,553	\$
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$3,631	\$
TOTAL	\$6,184	\$ -0-

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$6,477	\$4,016
Net difference between projected and actual investment earnings on pension plan investments	\$14,886	\$
Changes of assumptions	\$1,257	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$6,942	\$8,540
Contributions subsequent to the measurement date	\$4,742	\$
TOTAL	\$34,304	\$12,556

Deferred outflows of resources related to pensions resulting from WSRMP's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
2017	(\$629)	(\$1,305)
2018	(\$629)	(\$1,305)
2019	\$2,345	\$12,128
2020	\$1,466	\$7,489
Thereafter		

NOTE 10 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The interlocal governmental agreement for WSRMP provides for supplemental assessments to members based on actual claim experience. During Fiscal Year 2016 and 2015, the Pool did not make a supplemental assessment.

NOTE 11 – SOLVENCY

Washington Administrative Code (WAC) 200-100 requires the Pool 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 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 80 percent 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.

Solvency test for program, fiscal years ending October 31,**2016****2015****Primary Asset Test**

Cash and cash equivalents	\$ 2,034,016	\$ 1,615,239
Less: Non-Claim liabilities		
Accounts payable & compensated absences	45,750	51,780
Less: Unearned member contributions in excess of member contribution receivables	1,164	(10,293)
Total Primary Assets	\$ 1,987,102	\$ 1,573,752

Compared to:

Claims liabilities at expected level per actuary

793,000 572,000

Difference

\$ 1,194,102	\$ 1,001,752
TEST MET	TEST MET

Secondary Asset Test

Cash and cash equivalents	\$ 2,034,016	\$ 1,615,239
Receivables, member contributions	3,009,331	3,004,350
Prepaid Expenses	477,305	473,136
Less: Non-Claim liabilities		
Accounts payable & compensated absences	45,750	51,780
Less: Unearned member contributions	3,008,167	2,992,710
Total Secondary Assets	\$ 2,466,735	\$ 2,048,235

Compared to:

Claims liabilities at 80 percent confidence level per actuary (from actuarial study)

1,056,000 790,000

Difference

\$ 1,410,735	\$ 1,258,235
TEST MET	TEST MET

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

NOTE 12 – CONTINGENT LIABILITIES

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

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLES

In fiscal year 2016 WSRMP's Statement of Net Position reflects a change in accounting principles of \$214,755 which resulted from the implementation of GASB 68.

NOTE 14 – RECLASSIFICATION - RESTATED

The 2015 financial statements have been reclassified/restated to conform to the current year's presentation. 2015 financial statements originally reported some legal fees under claims paid on current losses when they should have been reported under legal expense. Additional changes (restatements) were to reflect implementation of GASB 68.

**WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Proportionate Share of the Net Pension Liability
As of October 31, 2016
Last 10 Years**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
PERS 1										
Employer's proportion of the net pension liability (asset)	0.001998%	0.001699%								
Employer's proportionate share of the net pension liability	88,874	101,394								
TOTAL	88,874	101,394								
Employer's covered employee payroll	-	-								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-	-								
Plan fiduciary net position as a percentage of the total pension liability	-	-								
PERS 2/3										
Employer's proportion of the net pension liability (asset)	0.002572%	0.002196%								
Employer's proportionate share of the net pension liability	78,464	121,644								
TOTAL	78,464	121,644								
Employer's covered employee payroll	209,443	240,940								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	37.46%	50.49%								
Plan fiduciary net position as a percentage of the total pension liability	62.54%	49.51%								

**WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Employer Contributions
As of October 31, 2016
Last 10 Years**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
PERS 1										
Statutorily or contractually required contributions	3,422	3,631								
Contributions in relation to the statutorily or contractually required contributions	3,422	3,631								
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Employer's covered employee payroll	-	-								
Contribution as a percentage of covered employee payroll	-	-								
PERS 2/3										
Statutorily or contractually required contributions	4,469	4,742								
Contributions in relation to the statutorily or contractually required contributions	4,469	4,742								
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Employer's covered employee payroll	209,443	240,940								
Contribution as a percentage of covered employee payroll	2.13%	1.97%								

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Required Supplementary Information
November 1, 2016 Through October 31, 2016

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

1. Ten-Year Claims Development Information

The table below illustrates how the Pool's earned revenues and investment income compare to related costs of loss and other expenses assumed by WSRMP of the end of each of the last ten (10) fiscal years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
2. This line shows each year's other operating cost of WSRMP including overhead and claims expense not allocable to individual claims.
3. This line shows WSRMP's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first fiscal year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of ten (10) rows shows the cumulative amounts paid as of the end of successive fiscal years for each policy year.
5. This section of ten (10) rows shows how each policy year's incurred claims increased or decreased as of the end of successive fiscal years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
6. 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 fiscal years.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Schedule of Claims Development Information (In thousands of dollars)
For The Ten Fiscal Years Ended October 31, 2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Net earned required contribution and investment revenues	\$1,811	\$1,927	\$1,916	\$1,880	\$1,830	\$2,184	\$2,394	\$2,659	\$2,646	\$2,924
Ceded	\$883	\$755	\$764	\$851	\$865	\$918	\$1,072	\$1,096	\$1,197	\$1,233
Net Earned	\$928	\$1,172	\$1,152	\$1,029	\$965	\$1,266	\$1,322	\$1,563	\$1,449	\$1,691
2. Unallocated expenses	513	576	557	710	701	631	710	644	682	810
3. Estimated incurred claims and expense, end of policy year (paid claims and open claims)	509	639	621	585	1,069	418	913	642	548	558
4. Paid (cumulative) as of:										
End of policy year	196	221	300	390	707	106	406	254	176	1,092
One year later	378	501	370	419	1,025	237	593	412	495	
Two years later	411	714	442	423	1,090	252	628	478		
Three years later	411	723	442	423	1,102	256	688			
Four years later	411	723	442	424	1,110	256				
Five years later	411	742	442	424	1,108					
Six years later	411	741	442	424						
Seven years later	411	741	445							
Eight years later	411	742								
Nine years later	411									
5. Re-estimated incurred claims and expense:										
End of policy year	509	639	621	585	1,069	418	913	642	548	558
One year later	457	730	447	520	1,142	327	719	519	324	
Two years later	440	773	502	471	1,125	285	685	440		
Three years later	412	739	454	432	1,111	257	672			
Four years later	416	723	442	424	1,111	256				
Five years later	411	742	442	424	1,108					
Six years later	411	741	442	424						
Seven years later	411	741	445							
Eight years later	411	742								
Nine years later	411									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(98)	103	(176)	(161)	39	(162)	(241)	(202)	(224)	-

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

Supplemental Information Required By The Governmental Accounting Standards Board.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Required Supplementary Information
November 1, 2015 Through October 31, 2015

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

1. Ten-Year Claims Development Information

The table below illustrates how the Pool's earned revenues and investment income compare to related costs of loss and other expenses assumed by WSRMP of the end of each of the last ten (10) fiscal years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
2. This line shows each year's other operating cost of WSRMP including overhead and claims expense not allocable to individual claims.
3. This line shows WSRMP's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first fiscal year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of ten (10) rows shows the cumulative amounts paid as of the end of successive fiscal years for each policy year.
5. This section of ten (10) rows shows how each policy year's incurred claims increased or decreased as of the end of successive fiscal years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
6. 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 fiscal years.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
Schedule of Claims Development Information (In thousands of dollars)
For The Ten Fiscal Years Ended October 31, 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Net earned required contribution and investment revenues	\$1,652	\$1,811	\$1,927	\$1,916	\$1,880	\$1,830	\$2,184	\$2,394	\$2,659	\$2,646
Ceded	\$813	\$883	\$755	\$764	\$851	\$865	\$918	\$1,072	\$1,096	\$1,197
Net Earned	\$839	\$928	\$1,172	\$1,152	\$1,029	\$965	\$1,266	\$1,322	\$1,563	\$1,449
2. Unallocated expenses	489	513	576	557	710	701	631	710	644	682
3. Estimated incurred claims and expense, end of policy year (paid claims and open claims)	548	509	639	621	585	1,069	418	913	642	548
4. Paid (cumulative) as of:										
End of policy year	153	196	221	300	390	707	106	406	254	176
One year later	322	378	501	370	419	1,025	237	593	412	
Two years later	546	411	714	442	423	1,090	252	628		
Three years later	585	411	723	442	423	1,102	256			
Four years later	585	411	723	442	424	1,110				
Five years later	604	411	742	442	424					
Six years later	604	411	741	442						
Seven years later	604	411	741							
Eight years later	604	411								
Nine years later	620									
5. Re-estimated incurred claims and expense:										
End of policy year	548	509	639	621	585	1,069	418	913	642	548
One year later	588	457	730	447	520	1,142	327	719	519	
Two years later	588	440	773	502	471	1,125	285	685		
Three years later	592	412	739	454	432	1,111	257			
Four years later	610	416	723	442	424	1,111				
Five years later	604	411	742	442	424					
Six years later	604	411	741	442						
Seven years later	604	411	741							
Eight years later	604	411								
Nine years later	620									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	72	(98)	102	(179)	(161)	42	(161)	(228)	(123)	-

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

Supplemental Information Required By The Governmental Accounting Standards Board.

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
REQUIRED SUPPLEMENTAL INFORMATION
Reconciliation of Claims Liabilities by Type of Contract
For the Fiscal Year Ended October 31, 2016

	Property	Liability
Unpaid claims and claim adjustment expenses at the beginning of the year	\$ 102,000	\$ 470,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	126,000	966,000
Changes in provision for insured events of prior years	(18,000)	(75,000)
	<u>108,000</u>	<u>891,000</u>
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	77,000	481,000
Claims and claim adjustment expenses attributed to insured events of prior years	72,000	148,000
	<u>149,000</u>	<u>629,000</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 61,000</u>	<u>\$ 732,000</u>

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
REQUIRED SUPPLEMENTAL INFORMATION
Reconciliation of Claims Liabilities by Type of Contract
For the Fiscal Year Ended October 31, 2015

	Property	Liability
Unpaid claims and claim adjustment expenses at the beginning of the year	\$ 135,000	\$ 454,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	110,000	438,000
Changes in provision for insured events of prior years	(34,000)	(67,000)
	<u>76,000</u>	<u>371,000</u>
Payment, net of recoveries:		
Claims and claim adjustment expenses attributed to insured events of the current year	32,000	144,000
Claims and claim adjustment expenses attributed to insured events of prior years	77,000	211,000
	<u>109,000</u>	<u>355,000</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 102,000</u>	<u>\$ 470,000</u>

The board of directors is the governing body of the pool. Each district that is a signatory to the interlocal agreement is entitled to one representative to the board of directors. The member districts at October 31, 2016, were:

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

WATER AND SEWER INSURANCE POOL
DBA WATER AND SEWER RISK MANAGEMENT POOL
SUPPLEMENTARY AND OTHER SCHEDULES
DES Schedule of Expenses
For the Fiscal Years Ended October 31, 2016 and 2015

	2016	2015
Insurance	\$ 1,232,510	\$ 1,197,107
Contracted Services:		
Third Party Administrator Fees	67,905	45,994
Actuarial	13,050	12,975
Audit Expenses	21,400	25,541
Legal Fees	207,677	132,340
Other Consultant Fees	44,781	64,014
General Administrative Expenses:		
Communication	8,028	7,448
Supplies	25,884	42,568
Dues and Conferences	8,504	9,236
Retreat/Board Meetings	3,995	5,194
Training	30,918	17,271
Depreciation	2,947	4,048
Miscellaneous	1,024	1,244
Other	<u>1,183,911</u>	<u>624,834</u>
 Total Operating Expenses	 <u>\$ 2,852,534</u>	 <u>\$ 2,189,814</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 Pool.

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