

Washington State Auditor's Office
Financial Statements Audit Report

Washington Counties Insurance Pool
Thurston County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002468

Issue Date
November 9, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 9, 2009

Board of Directors
Washington Counties Insurance Pool
Tumwater, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**Washington Counties Insurance Pool
Thurston County
January 1, 2008 through December 31, 2008**

Schedule of Audit Findings and Responses	1
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor's Report on Financial Statements.....	8
Financial Section.....	10

Schedule of Audit Findings and Responses

Washington Counties Insurance Pool Thurston County January 1, 2008 through December 31, 2008

1. The Washington Counties Insurance Pool's internal controls over financial reporting are inadequate.

Background

To take advantage of cost savings of self-insurance, the Washington Counties Insurance Fund created the Washington Counties Insurance Pool (WCIP). The Fund performs all administrative functions of the Pool and can impose its will on the Pool, which makes the Pool a component unit of the Fund. In 2008, the Fund had approximately \$69 million in expenses and \$67.7 million in revenue; the Pool had approximately \$34.2 million in expenses and \$33.8 million in revenue.

Pool management, members, beneficiaries, insurance companies, the state Legislature, state agencies and others rely on information in financial statements and reports to make decisions. It is the responsibility of Pool management to design and follow effective internal controls to provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that adversely affects the Pool's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified internal control deficiencies that represent a material weakness over the preparation of accurate, timely, and complete financial statements.

The Pool is subject to unique accounting and reporting requirements. However, Pool management is not fully aware of and has limited experience with the accounting and reporting requirements specific to risk pools. This led to the Pool's failure to comply with state law and governmental accounting standards. Specifically, the Pool did not comply with state law requiring an actuarial evaluation of its Incurred But Not Reported (IBNR) liability, a measure of future insurance claims against the Pool. Also, the Pool did not have a process to ensure it complies with Governmental Accounting Standards Board Statements 10 and 30 relating to the reporting of premium deficiency liabilities.

Cause of Condition

Management did not pursue receiving or following proper accounting guidance for the accurate reporting of the Pool's financial activities.

Effect of Condition

During our financial statement audit we found:

- The Pool did not comply with WAC 82-60-031 in relation to an actuarial evaluation of its IBNR liability. Therefore, we could not determine whether the reported IBNR liability amount of \$4,425,000 is fairly stated. Total liabilities for the Pool are \$4,987,952.
- The Pool's 2008 financial statements do not report and disclose an estimated liability of \$594,059 for the estimated 2009 premium deficiency as required by governmental accounting standards. Without knowing this liability, management cannot set premiums that will ensure the Pool's revenues are sufficient to pay claims, fund the liabilities, build up sufficient reserves, and continue to operate without need for financial contribution from the parent organization. In 2008, the Fund transferred \$1,750,000 to the Pool as its claim-related expenditures continued to exceed its revenue.
- The Pool's Required Supplemental Information, Ten-Year Claims Development, was not prepared using an actuarial study.
- The Pool's financial statements contained other errors, such as not including adequate comparative information in its Management Discussion and Analysis and the Statement of Cash Flows not containing all required information. The Pool subsequently corrected these errors.

Recommendation

We recommend the Pool seek and follow technical guidance through training or professional services in order to ensure it obtains an actuarial study of its IBNR liability, adequately reports premium deficiencies, and accurately reports its financial statements per state law and government auditing standards.

Pool's Response

Pool: Findings (1) and (2) above are the same for both the Fund and the Pool so the answers given for the Fund would apply equally to the Pool.

Answer to (1): The Office of Financial Management, specifically the State Risk Manager, has oversight over the operation of both the Fund and the Pool. We have been consistently informed that if we dedicate eight weeks of claims to an IBNR liability it is not necessary to have an actuarial study done. This approach is very reasonable since most of our claims are paid within a sixty day period and the Fund and Pool are no longer responsible for any claims that are not submitted within one year. WAC 82-60-031 states that an actuarial study is required to determine the proper level of IBNR liability, but we relied on the advice of the Office of the State Risk Manager and the State Auditor disagrees with that advice.

Answer to (2): GASB 10 and 30 require that a premium deficiency liability be shown on the Pool's financial statements and the State Auditor wants the Pool shown as a component of the Fund so this part of the finding is also listed for the Fund. Since the

Pool had never experienced a loss prior to plan year 2008 we were not familiar with this requirement under GASB.

In addition to these two parts of the finding a ten year claims development was not prepared using an actuarial study. In the putting together the ten year claims development document one very important aspect is the IBNR liability. As previously explained, we relied on the advice of the State Risk Manager in determining our IBNR without an actuarial study, which according to the State Auditor's Office, then calls into question the accuracy of our ten year claims development document.

Auditor's Remarks

We will follow-up on these conditions during the Pool's next audit.

Applicable Laws and Regulations

WAC 82-60-031 Program financing:

(1) All self-insurance programs shall provide for program financing to pay claims, claims adjustment expenses and the liability for unpaid claims and claims adjustment expenses as they become payable.

(2) All self-insurance programs shall provide a method by which the program financing will be adjusted when it has been determined to be actuarially insufficient, or when the program is unable to meet debts as they become payable. Any increases shall be large enough to make the program actuarially sufficient.

(3) The claim financing levels and liabilities for unpaid claims and claims adjustment expenses for all individual and joint health and welfare medical self-insurance programs and all joint property and liability self-insurance programs shall be determined annually by an actuary. Such programs that purchase annual aggregate stop loss insurance and fund the self-insured portion to the stop loss insurance attachment point are exempt from the actuarial report requirement. The state risk manager may require a joint self-insurance program to perform an actuarial study when determined necessary to analyze the program's soundness and financial safety.

GASB Statement 30, *Risk Financing Omnibus*:

Premium Deficiency

4. Paragraph 35 of Statement 10 is superseded by the following:

A premium deficiency should be recognized if the sum of expected claims costs (including IBNR) and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, and unamortized acquisition costs exceeds related unearned premiums.

GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*:

49. Public entity risk pools should make these disclosures:

- e. Whether the pool considers anticipated investment income in determining if a premium deficiency exists.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, January 2007 Revision - Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than

remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected . . .

b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Washington Counties Insurance Pool Thurston County January 1, 2008 through December 31, 2008

Board of Directors
Washington Counties Insurance Pool
Tumwater, Washington

We have audited the basic financial statements of the Washington Counties Insurance Pool, a component unit of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2008, and have issued our report thereon on October 19, 2009. Our report was modified to reflect a qualified opinion on the Pool's financial statements.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Pool's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be

prevented or detected by the Pool's internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Audit Findings and Responses to be a significant deficiency in internal control over financial reporting, and is reported as Finding 1.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of 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*.

The Pool's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the Pool's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Board of Directors. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 19, 2009

Independent Auditor's Report on Financial Statements

Washington Counties Insurance Pool Thurston County January 1, 2008 through December 31, 2008

Board of Directors
Washington Counties Insurance Pool
Tumwater, Washington

We have audited the accompanying basic financial statements of the Washington Counties Insurance Pool, Thurston County, Washington, as of and for the year ended December 31, 2008, as listed on page 10. These financial statements are the responsibility of the Pool's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Pool did not comply with Washington Administrative Code Section 82-60-031, which requires an actuarial evaluation be performed to determine the Incurred But Not Reported (IBNR) liability on the Statement of Net Assets for the year ended December 31, 2008. This evaluation would have resulted in an estimate of the Pool's liability for future insurance claims. Since an actuarial study of the Pool's liability was not performed as required by State law, we were unable to substantiate the amount of the liability. The amount by which this departure would affect the liabilities, net assets and expenses of the Pool is not reasonably determinable.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Insurance Pool, as of December 31, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 13 and ten year claims development information on pages 20 through 25 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 19, 2009

Financial Section

**Washington Counties Insurance Pool
Thurston County
January 1, 2008 through December 31, 2008**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2008

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2008

Statement of Revenues, Expenses and Changes in Fund Net Assets – 2008

Statement of Cash Flows – 2008

Notes to Financial Statements – 2008

REQUIRED SUPPLEMENTAL INFORMATION

Ten-Year Claims Development Information – 2008

**Washington Counties Insurance Pool
Management Discussion and Analysis
For the Fiscal Year Ended December 31, 2008**

The management of the Washington Counties Insurance Pool ("Pool") offers the readers of the Pool's financial statements, this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2008. To more fully understand the financial position of the Pool, this narrative should be considered in conjunction with the information contained in the Pool's financial statements and accompanying notes.

The Pool was established to provide self-insured medical plans to the eligible employees of participating employers and the dependents of eligible employees. The major Pool expense is payment of medical, vision, and prescription drug claims.

FINANCIAL HIGHLIGHT

It is our opinion that the Pool experienced a difficult claims year in 2008. Our claims year mirrors the calendar year and groups which are brought on mid year are converted to a January 1 renewal. To illustrate the difference between 2007 and 2008, when claims including both medical and prescription are compared as a percentage of premiums the difference is an increase of 2.5%. The trend began in late 2007, continued through the first half on 2008 and then leveled off in the last half of 2008.

2008 was a year of significant growth for the Pool with PPO claims increasing by \$9.25 million. The State Risk Manager provides requirements for the funding of IBNR which consists of eight weeks of claims experience. During 2008, the Pool transferred \$1,025,000 into the IBNR account to properly fund the account based on current claims and to cover the inadequate reserves stated on the year end 2007 financials. Given the loss incurred during 2008 and the requirements to fund IBNR, the Board of Directors authorized the transfer of \$1,750,000 from the equity of the Washington Counties Insurance Fund to the Pool. The end result was a reduction in the net asset position for the Pool of \$450,000.

Due to the lowering of interest rates the interest earnings for the Pool was down \$100,000 in 2008, compared to 2007.

At the end of 2008 the Pool moved 65% of the retirees over the age of 65 into a fully insured plan through Sterling and will complete the transfer of the remaining retirees during 2009. This population had a significant negative impact on claims compared with the premiums received. In addition, we have instituted an aggressive new wellness program for our clients and while the results of this program will not be immediate, in the years to come it will play a major role in controlling claims expense.

Beginning January 1, 2009 Gallagher Benefit Services assumed the consulting role for the Pool. The expertise and analysis offered by Gallagher is more thorough than the Pool has experienced in the past and will enable the Board to more accurately assess rates for coming years based upon historical experience.

OVERVIEW OF THE FINANCIAL STATEMENTS:

Financial Statements

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

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Pool's net assets changed during the fiscal year. All changes in net assets 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., reserves).

Notes to the Financial Statements

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

FINANCIAL ANALYSIS:

As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. In the case of the Pool, assets exceeded liabilities by \$6,058,412 at the close of the most recent fiscal year. These assets are unrestricted and may be used to meet the Pool's administrative requirements or to stabilize premium rates.

The Pool has also set aside \$4,425,000 to pay for Incurred But Not Reported (IBNR) claims. This was increased in 2008 from \$3,000,000 in 2007.

Washington Counties Insurance Pool's Net Assets as of 12/31/08 & 12/31/07

	2008	2007
Current Assets	\$11,046,364	\$9,903,767
Noncurrent (Capital) Assets, Net	-	-
Total Assets	\$11,046,364	\$9,903,767
Current Liabilities	\$562,952	\$393,396
Noncurrent Liabilities	\$4,425,000	\$3,000,000
Total Liabilities	\$4,987,952	\$3,393,396
Net Assets (Equity)	\$6,058,412	\$6,510,371
Total Liabilities and Net Assets	\$11,046,364	\$9,903,767

Washington Counties Insurance Pool's Change in Net Assets as of 12/31/08 & 12/31/07

<i>Income</i>	2008	2007
Premiums	\$31,629,323	\$21,930,838
Stop Loss Reimbursement		\$781,863
Zenith Refunds		\$189,435
Formulary Rebates		\$227,101
Other Income		\$97,597
<i>Total Income</i>	\$31,629,323	\$23,226,834
<i>Expenses</i>		
Medical Claims Expense	\$22,720,462	\$14,955,263
Prescription Claims Expense	\$4,760,796	\$3,506,831
Vision Claims Expense	\$1,267,003	\$1,134,876
Third Party Administration Expenses	\$1,856,644	\$1,413,381
Bank Fees	\$24,733	
Claims Reserve Expense	\$1,425,000	
Insurance Expense	\$1,788,071	\$1,273,025
Board Expenses	\$3,339	
General Overhead Expenses	\$402,901	\$837,157
<i>Total Expenses</i>	\$34,248,949	\$23,120,533
OPERATING INCOME (LOSS)	\$(2,619,626)	\$106,301
<i>Non-Operating Revenues (Expenses)</i>		
Interest Income	\$350,579	\$448,795
Change in Investment Value	\$67,090	\$129,389
Subsidy from WCIF	\$1,750,000	
<i>Total Non-Operating Revenues (Expenses)</i>	\$2,167,669	\$578,184
CHANGE IN NET ASSETS	\$(451,957)	\$684,485
Beginning Net Assets (January 1, 2008)	\$6,510,369	\$5,825,884
Ending Net Assets (December 31, 2008)	\$6,058,412	\$6,510,369

CAPITAL ASSET AND DEBT ADMINISTRATION:

The Pool's investment in capital assets and long term debt as of December 31, 2008 was \$0. The Pool pays the Washington Counties Insurance Fund for its staff, equipment and services.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Washington Counties Insurance Pool'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 Pool
P.O. Box 7786
Olympia, WA 98507-7786

WASHINGTON COUNTIES INSURANCE POOL MCAG NO. 2780
STATEMENT OF NET ASSETS

For the Fiscal Year Ended December 31, 2008

	<u>2008</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents - Note B	8,150,752
Accounts Receivable	2,765,110
Prepaid Insurance	<u>130,502</u>
TOTAL CURRENT ASSETS	11,046,364
 TOTAL ASSETS	 \$ 11,046,364
 LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	<u>562,952</u>
TOTAL CURRENT LIABILITIES	562,952
Non Current Liabilities:	
IBNR Liability	<u>4,425,000</u>
TOTAL NONCURRENT LIABILITIES	4,425,000
 TOTAL LIABILITIES	 4,987,952
 NET ASSETS	
Unrestricted	<u>6,058,412</u>
TOTAL NET ASSETS	6,058,412
 TOTAL LIABILITES AND NET ASSETS	 <u>11,046,364</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE POOL
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended December 31, 2008

MCAG NO. 2780

	2008
OPERATING REVENUES	
Premiums Collected	\$ 31,629,323
Other	
Total Operating Revenue	\$ 31,629,323
OPERATING EXPENSES	
Medical Claims Expense	\$ 22,720,462
Prescription Claims Expense	4,760,796
Vision Claims Expense	1,267,003
Third Party Administration Expenses	1,856,644
Bank Fees	24,733
Claims Reserve Expense	1,425,000
Insurance Expense	1,788,071
Board Expenses	3,339
General Overhead Expenses	402,901
Total Operating Expenses	\$ 34,248,949
OPERATING INCOME (LOSS)	\$ (2,619,626)
NON OPERATING REVENUES (EXPENSES)	
Interest Income	350,579
Change in Investment Values	67,090
Other Income - Subsidy from Washington Counties Insurance Fund	1,750,000
Total Non Operating Revenues (Expenses)	2,167,669
CHANGE IN NET ASSETS	\$ (451,957)
TOTAL NET ASSETS, Beginning of the Year	\$ 6,510,369
TOTAL NET ASSETS, End of the Year	\$ 6,058,412

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**WASHINGTON COUNTIES INSURANCE
POOL STATEMENT OF CASH FLOW
For the Fiscal Year Ended December 31, 2008**

	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for premiums	29,668,461
Cash received from reimbursement and refunds	
Cash received from other operating revenues	
Cash payments for claims	(28,633,097)
Cash payments for payables	
Cash (received) payments for premium receivable	
Cash (received) payments for premium payable	
Cash (received) payment for prepaid insurance	
Other operating expenses	<u>(4,151,937)</u>
Net Cash Provided (Used) by Operating Activities	(3,116,573)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash received from Subsidy from Washington Counties Insurance Fund	<u>1,750,000</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	\$1,750,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	\$ -
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	350,579
Change in Investment Values	<u>67,089</u>
Net Cash Provided (Used) by Investing Activities	417,668
Increase (Decrease) in Cash and Cash Equivalents	(948,905)
Cash and Cash Equivalents, Beginning of the Year	<u>9,099,657</u>
Cash and Cash Equivalents, End of the Year	<u>8,150,752</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
OPERATING INCOME	(2,619,626)
Adjustment to reconcile operating income to net cash:	
Cash provided by operating activities:	
(Increase) decrease in prepaid insurance	(130,502)
(Increase) decrease in receivables	(1,961,000)
Increase (decrease) in accounts payable	551,052
Increase (decrease) in claims payable	115,164
Increase (decrease) in IBNR liability	<u>1,425,000</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,116,573)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

NOTE A — GENERAL

Organization - The Washington Counties Insurance Pool, the "Pool", was established to provide self-insured indemnity medical coverage for the payment of medical 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.

In response to rapidly escalating costs with Regence Blue Shield and Regence Northwest Health, the Washington Counties Insurance Fund voted to self-insure the indemnity medical. With the assistance of the Washington State Risk Manager and Fund Consultant Marsh, USA the Pool was formed. The formation of the Pool took place during the first quarter of 2001 with indemnity medical coverage effective April 1, 2001.

The Pool is governed by County Commissioners from member counties and appointees from participating Local Government participating entities. The Pool has no staff but has administrative services provided by the Washington Counties Insurance Fund.

The Pool implemented GASB 34 for 2003 Financial Statements. The presented financial statements (including notes) reflect this and consecutive statements.

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting - The Pool uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. The operating revenue of the Pool is earnings on IBNR liability, contingency reserve, and income from operations. Operating expenses include medical, prescription, and vision claims expenses, administrative fees and consulting fees.

Cash and Cash Equivalents - For the purposes of reporting cash flows, the Pool considers all highly liquid deposits with a maturity of three months or less when purchased to be cash equivalents.

Receivables - Premiums receivable from participating employers consists of amounts owed from participating employers for premiums due for 2008.

Unearned revenue - This account includes amounts that have been collected by the Pool for a premium due in the subsequent year. There was no unearned revenue for the period ended December 31, 2008.

Other income — This account includes the amount of money transferred to the Pool by Washington Counties Insurance Fund for the funding of IBNR.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

Reinsurance — The Pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Pool as direct insurer of the risks insured. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claims liabilities as of December 31, 2008 for reinsurance was \$1,182,576. Premiums ceded to reinsurers during 2008 were \$1,480,347.

Investments – See Note C

Exemption from Federal and State Taxes – Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). Chapter 48.62 RCW exempts the Pool from insurance premium taxes and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

NOTE C — DEPOSITS

As required by state law, all deposits and investments of the Pool's funds are in obligations of the U.S. Treasury Reserves and Washington State banks. The WCIP deposits 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 Pool investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the Pool or its agent in the Pool's name. All of the Pool's investments are Category 1.

For financial statement purposes Bank of America and the Local Government Investment Pool investments are reported as Cash Equivalents due to their liquidity.

The Pool accounts are for the collection and investment of contributions and for the payment of benefits and expenses of such plans. The Pool accounts are not subject to any set aside amount according to the DEFRA Act 12C 512(9) (3) (E) (iii) so long as "substantially all the contributions to such organization are made by employers who are exempt from tax throughout the taxable year period ending with the taxable year in which the contributions are made." For year ending December 31, 2008, the plan is exempt from any DEFRA limits.

As of December 31, 2008, the Washington Counties Insurance Pool had the following investments:

<u>Investment</u>	<u>Value</u>
Washington State LGIP	\$ 6,683,251

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

NOTE D — REINSURANCE CONTRACTS

The Pool maintains reinsurance contracts with Symetra Life Insurance Company, which provides various limits of coverage over the Pool's self-insured retention limits. The limits provided by Symetra contracts are as follows:

Excess Insurance Contracts

Aggregate Excess Loss	125%
Individual Excess Loss	\$200,000

NOTE E — OTHER

IBNR — The IBNR is a statement of the program liability for claims and related expenses incurred but not paid during the program fiscal year resulting from the time lag between when those expenses are incurred and when they are paid. The State of Washington Health and Welfare Advisory Board to the State Risk Manager's Office has determined that IBNR for a self-insured medical program should typically range from six to eight weeks of program claims and related expenses.

In 2002, the Washington Counties Insurance Pool Board of Directors transferred \$1,000,000 from the Washington Counties Insurance Fund Reserves to aid in funding the IBNR. The transfer from the Washington Counties Insurance Fund is derived from premiums and interest refunds from previous medical indemnity programs. During 2006, the IBNR continued to be excess funded at \$2,600,000. Washington State recommends self-insured pools to set aside IBNR reserves equivalent to two months of claims activity. In 2006, management directed that the IBNR reserves be increased to \$3,000,000. In 2007 the IBNR reserves were increased as management had directed. Given the loss incurred during 2008 and the requirements to fund IBNR, the Board of Directors authorized the transfer of \$1,750,000 from the equity of the Washington Counties Insurance Fund to the Pool. With that transfer the IBNR reserves were increased to \$4,425,000.

NOTE F — SUBSEQUENT EVENTS

As the Washington Counties Insurance Pool worked through its infancy years there were a few employers that withdrew from the Pool at the end of Plan Years 2002 and 2003. In accordance with the provisions of the Washington Counties Insurance Pool's Interlocal Agreement, a participating employer must give a six-month written notice of its intent to withdraw.

This requirement to notify the Washington Counties Insurance Pool has provided stability with its participating employers. Prior to formation of the Washington Counties Insurance Pool, participating employers of the Washington Counties Insurance Fund would frequently shop the market place for coverage that would better meet their needs. The Washington Counties Insurance Fund was not made aware of such activity because there was no requirement to notify in advance.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

NOTE G — REQUIRED SUPPLEMENTARY INFORMATION

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

Ten-Year Claims Development Information

With the Washington Counties Insurance Pool being established on April 1, 2001 this report is building toward a ten-year report. The following table illustrates how the Pool's earned revenues and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the pool as of the end of each of the last ten years.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year gross earned contribution revenue and investment revenue, contribution revenue ceded to re-insurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Pool including overhead and claims expense allocable to individual claims.
3. This line shows the Pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for the accident year.
6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (the annual reestimation results from new information received on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated new incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show dates for successive policy years.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements January 1, 2008 Through December 31, 2008

Washington Counties Insurance Pool Fiscal and Policy Year Ended (In Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008
1. Required Contribution and Investment Revenue								
Earned	\$10,683	\$15,919	\$13,744	\$11,688	\$11,555	\$15,661	\$23,137	\$33,379
Ceded	\$ 403	\$ 587	\$ 527	\$ 505	\$ 622	\$ 810	\$ 1,273	\$ 1,480
Net Earned	\$10,280	\$15,332	\$13,217	\$11,183	\$10,993	\$14,851	\$21,864	\$31,899
2. Unallocated Expenses	\$ 59	\$ 102	\$ 124	\$ 184	\$ 115	\$ 135	\$ 161	\$ 169
3. Estimated Claims and expenses end of policy year								
Incurred	\$11,109	\$12,551	\$10,752	\$ 8,801	\$ 8,691	\$13,019	\$25,012	\$37,023
Ceded	\$ 429	\$ 423	\$ 158	\$ 560	\$ 152	\$ 1,194	\$ 971	\$ 1,183
Net Incurred	\$10,680	\$12,128	\$10,594	\$ 8,241	\$ 8,539	\$11,825	\$24,041	\$35,840
4. Net paid (cumulative) as of:								
End of Policy	\$ 9,621	\$14,209	\$11,966	\$10,120	\$9,759	\$12,207	\$21,714	\$32,608
One year later	\$ 3,730	\$ 5,525	\$ 5,043	\$ 3,288	\$2,578	\$ 4,520	\$24,484	
5. Re-estimated ceded claims and expenses	\$ 429	\$ 423	\$ 158	\$ 560	\$ 152	\$ 1,194	\$ 971	\$ 1,183
6. Re-estimated net incurred claims and expenses								
End of Policy	\$ 9,621	\$14,209	\$11,966	\$10,120	\$9,759	\$12,207	\$24,041	\$35,840
One year later	\$ 3,730	\$ 5,525	\$ 5,043	\$ 3,288	\$2,578	\$ 4,520	\$24,484	
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(5,891)	(8,684)	(6,923)	(6,832)	(7,181)	(7,687)	443	

OPEB Obligations

GASB reporting standards are required for Postemployment Benefit Plans Other than Pension Plans, or OPEB (Statement No. 43). The Pool is classified as an agent multiple employer plan and does not have any reporting obligations under GASB Statement No. 43. GASB Statement No. 45 does require that the employers participating in the Washington Counties Insurance Pool report their portion of the liability, if it is material. To assist our participating groups, the Pool had an actuarial valuation prepared to determine the OPEB liability for the year ending December 31, 2007.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

Eligibility

Washington Counties Insurance Pool members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 of the PERS.

- Age 65 with 5 years of service
- Age 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are not eligible for medical benefits.

Medical and Dental Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for Medical coverage:

Budget PPO	Employee	Spouse
Retiree < 65	\$541.18	\$541.18
Retiree > 65	\$361.65	\$361.65
Affordable PPO		
Retiree < 65	\$384.33	\$384.33
Retiree > 65	\$260.89	\$260.89

The rates above are for calendar year 2008. The rates are assumed to increase annually with Health Cost Trend Rates, which are defined in Appendix A of the GASB 43 Actuarial Valuation of OPEB report for Washington Counties Insurance Pool.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements January 1, 2008 Through December 31, 2008

A summary of medical, drug, and dental benefits:

MEDICAL BENEFITS:

	BUDGET	AFFORDABLE
Annual Deductible	None	\$ 500 per person, \$1,000 per family
Lifetime Maximum	\$2,000,000	\$2,000,000
Annual Out-of-Pocket Max	\$1,500 per person, \$3,000 per family	\$ 5,000 per person, \$10,000 per family 80%
Coinsurance	80%	
	BUDGET	AFFORDABLE
ER Copay	\$75	\$100
Office Visit Copay	\$20	\$20 first 4 visits per calendar year; then 80% after \$20 copay

DRUG BENEFITS:

		Copays (Both Plans)
Up to 30-Day Supply	Generic	\$ 5
	Name-brand	\$20
	Non-Formulary	50%
Mail Order up to 90-Day Supply	Generic	\$15
	Name-brand	\$45
	Non-Formulary	50%

Funding Policy

The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The Pool's annual other postemployment benefit (OPEB) cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of December 31, 2007. The following table shows the components of the Pool's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Pool's net OPEB.

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements January 1, 2008 Through December 31, 2008

Determination of Annual Required Contribution	<u>December 31, 2007</u>
Normal cost at year end Amortization of	\$ 606,602
UAAL Annual Required Contribution (ARC)	<u>411,268</u>
	\$ 1,017,870
 Determination of Net OPEB Obligation Annual Required Contribution	 \$ 1,017,870
Interest on prior year Net OPEB Obligation Adjustment to ARC	
Annual OPEB Cost	\$ 1,017,870
Contribution made	<u>245,256</u>
Increase in Net OPEB Obligation	\$ 772,614
 Net OPEB Obligation — beginning of year Net	 \$ -
OPEB Obligation — end of year	\$ 772,614

The Pool's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2007 were as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2007	\$1,017,870	24.10%	\$ 772,614

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$11.5 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$11.5 million.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include types of benefits

WASHINGTON COUNTIES INSURANCE POOL

Notes to Financial Statements

January 1, 2008 Through December 31, 2008

provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculation.

In the December 31, 2007 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 5.00% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at December 31, 2007 was 30 years.

The Pool did not have an actuarial valuation at the end of the 2008 fiscal year. With the beginning of the 2009 fiscal year, 65% of the retirees over 65 years of age were moved to a fully insured Medicare supplemental insurance program. It is anticipated that by the end of the 2009 fiscal year there will be no coverage provided by the Pool for retirees over 65 years of age and all that are currently in the Pool will have been successfully moved to the fully insured plan.



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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site
Subscription Service

www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>