

Washington State Auditor's Office
Financial Statements Audit Report

Washington Counties Insurance Pool
Thurston County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010813

Issue Date
December 9, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 9, 2013

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,

TROY KELLEY
STATE AUDITOR

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Thurston County
January 1, 2012 through December 31, 2012**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Washington Counties Insurance Pool Thurston County January 1, 2012 through December 31, 2012

Board of Directors
Washington Counties Insurance Pool
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington Counties Insurance Pool, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated November 12, 2013. As discussed in Note D of the notes to the financial statements, the Pool dissolved, with all remaining assets and liabilities transferring to the Washington Counties Insurance Fund, effective September 30, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the Pool in a separate letter dated November 12, 2013.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

November 12, 2013

Independent Auditor's Report on Financial Statements

Washington Counties Insurance Pool Thurston County January 1, 2012 through December 31, 2012

Board of Directors
Washington Counties Insurance Pool
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Counties Insurance Pool, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Insurance Pool, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Pool Discontinuing Operations

As discussed in Note D of the notes to the financial statements, the Pool has dissolved, with all remaining assets and liabilities transferring to the Washington Counties Insurance Fund, effective September 30, 2013. The financial statements do not include any adjustments that might result from the outcome of this dissolution and transfer. 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 7 through 9 and ten year claims development information on pages 18 through 19 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The Schedule T-1 List of Participating Members and Schedule T-2 OFM Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

November 12, 2013

Financial Section

Washington Counties Insurance Pool Thurston County January 1, 2012 through December 31, 2012

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Washington Counties Insurance Pool
Management Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

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, 2012. 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 and vision 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 HIGHLIGHTS:

At the November, 2010 Board meeting the Washington Counties Insurance Pool (WCIP) Board of Directors decided to cease the operations of the self- insured medical program on December 31, 2010. Premera agreed to accept all the PPO plans, previously offered by WCIP, with minimal changes on a fully insured basis effective January 1, 2011.

In fiscal year 2011 and at the beginning of 2012, and the Pool continued to offer a self-insured Vision program.

The Board held a special meeting on June 29, 2012 and unanimously approved authorizing the Executive Director to transfer the Washington Counties Insurance Pool’s vision care plan from the self-insured program to a fully insured program administered by the Washington Counties Insurance Fund, and to accomplish that transfer at a time that is most conducive to efficient operations, but no later than the end of the 2012 plan year, and that transfer shall provide for the administration of all run-out claims of the self-insured vision plan. The self-insured vision plan was terminated on August 31 and all members were transferred to the fully-insured plan September 1, 2012.

During this same meeting, the Board unanimously approved authorizing the Executive Director to request that current participating employers of the Washington Counties Insurance Pool adopt a resolution of their governing bodies which consent to the termination of the Washington Counties Insurance Pool on the Board’s motion no sooner than the completion of payment of all run-out claims of the former self-insured medical plan and the self-insured vision plan.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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 health 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 position may serve over time as a useful indicator of an organization's financial health. In the case of the Pool, assets exceeded liabilities by \$256,958 at the close of the 2012 fiscal year. These assets are unrestricted.

Washington Counties Insurance Pool's Net Position as of 12/31/12 & 12/31/11

	2012	2011
Current Assets	\$209,984	\$285,548
Noncurrent (Capital) Assets, Net	-	-
Total Assets	\$209,984	\$285,548
Current Liabilities	\$27,038	\$190,856
Noncurrent Liabilities	-	-
Total Liabilities	\$27,038	\$190,856
Net Position (Equity)	\$182,946	\$94,692
Total Liabilities and Net Position	\$209,984	\$285,548

Washington Counties Insurance Pool's Change in Net Assets as of 12/31/12 & 12/31/11

	2012	2011
Operating Revenues	\$837,091	\$ 1,330,195
Non-Operating Revenues	\$334	\$1,492,725
Total Revenues	\$837,425	\$2,822,920
 <i>Total Operating Expenses</i>	 \$749,171	 \$2,642,906
 CHANGE IN NET POSITION	 \$88,254	 \$180,014
 Beginning Net Position	 \$94,692	 \$(85,322)
Ending Net Position	\$182,946	\$ 94,692

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
STATEMENT OF NET POSITION
December 31, 2012

	2012
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 133,933
Accounts Receivable	112
Other Receivables	39,939
Uncollected Premium Assessments	<u>36,000</u>
TOTAL CURRENT ASSETS	209,984
 TOTAL ASSETS	 <u>\$ 209,984</u>
 LIABILITIES	
Current Liabilities:	
Payables	1,282
IBNR Liability	<u>\$ 25,756</u>
TOTAL CURRENT LIABILITIES	27,038
 TOTAL LIABILITIES	 <u>\$ 27,038</u>
 NET POSITION	
Unrestricted	<u>\$ 182,946</u>
TOTAL NET POSITION	<u>\$ 182,946</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE POOL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended December 31, 2012

	2012
OPERATING REVENUES	
Premiums Collected	\$ 829,432
Other (Subrogation)	7,659
Member Uncollected Premium Assessment	-
Total Operating Revenue	<u>\$ 837,091</u>
OPERATING EXPENSES	
Vision Claims Expense	622,546
Medical and Rx Claims in Excess of IBNR	(73,795)
Uncollectible Accounts Expense	74,012
Third Party Administration Expenses	112,182
Professional Services	11,674
Bank Fees	2,541
General Overhead Expenses	11
Total Operating Expenses	<u>\$ 749,171</u>
OPERATING INCOME (LOSS)	\$ 87,920
NON OPERATING REVENUES (EXPENSES)	
Interest Income	<u>334</u>
Total Non Operating Revenues (Expenses)	334
CHANGE IN NET POSITION	\$ 88,254
TOTAL NET POSITION, Beginning of the Year	<u>\$ 94,692</u>
TOTAL NET POSITION, End of the Year	<u>\$ 182,946</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE POOL
STATEMENT OF CASH FLOW
For the Fiscal Year Ended December 31, 2012

	2012
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for premiums	\$ 944,702
Cash received from reimbursement, refunds, and subrogation	13,910
Cash received from Uncollected 2010 Premiums	6,893
Cash payments for claims	(751,553)
Cash payments for Third Party Administrators	(115,653)
Cash payments for disease and utilization management	-
Cash payment for stop loss insurance	-
Other operating expenses	(14,226)
Net Cash Provided (Used) by Operating Activities	<u>\$ 84,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	\$ 334
Investment Fees	-
Other Income	-
Net Cash Provided (Used) by Investing Activities	<u>\$ 334</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Subsidy - WCIF - WCIP	\$ -
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ -</u>
 Increase (Decrease) in Cash and Cash Equivalents	 \$ 84,407
Cash and Cash Equivalents, Beginning of the Year	<u>\$ 49,526</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 133,933</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
OPERATING INCOME	\$ 87,920
Adjustment to reconcile operating income to net cash provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) decrease in prepaid insurance	
(Increase) decrease in receivables	159,971
Increase (decrease) in accounts payable	(3,471)
Increase (decrease) in claims payable	(117,950)
Increase (decrease) in IBNR liability	(42,397)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 84,073</u>
 SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS	

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 Through December 31, 2012

NOTE A – GENERAL INFORMATION & SIGNIFICANT ACCOUNTING POLICIES

Organization - The Washington Counties Insurance Pool, (“Pool”) was established to provide self-insured indemnity medical and vision coverage for the payment of medical and vision benefits to the eligible employees of participating employers and, if so provided, the dependents of eligible employees. The plan benefits are funded by contributions from the participating employers and, if so provided, eligible employees. The responsibility of member groups according to the inter-local agreement, and Washington State law, is to ensure that WCIP has adequate funding to pay all debts. The individual responsibility of each group is determined by dividing the individual group annual premium by the total annual premium received from all WCIP member groups to determine the percentage responsibility for each individual group.

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.

The Pool is a component unit of the Washington Counties Insurance Fund. The Pool is discretely presented as a separate column on the Fund’s financial statements, which are separately audited.

After poor financial performances in fiscal years 2008 and 2009, the Board of Directors adopted an overall 18.4% rate increase for fiscal and plan year 2010 believing, based upon actuarial estimates, that 2010 would show a positive margin. In plan year 2010, medical claims exceeded the actuarial estimate and the negative margin created a negative equity by the end of the third quarter. At the November 2010 Board meeting, the Board voted to discontinue the self- insured medical program effective 12/31/10 and to transfer the groups insured to a fully insured program through Premera.

In fiscal year 2011 and at the beginning of 2012, the Pool continued to offer a self-insured Vision program. The Board held a special meeting on June 29, 2012 and unanimously approved authorizing the Executive Director to transfer the Washington Counties Insurance Pool’s vision care plan from the self-insured program to a fully insured program administered by the

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 Through December 31, 2012

Washington Counties Insurance Fund, and to accomplish that transfer at a time that is most conducive to efficient operations, but no later than the end of the 2012 plan year, and that transfer shall provide for the administration of all run-out claims of the self-insured vision plan. The self-insured vision plan was terminated on August 31 and all members were transferred to the fully-insured plan September 1, 2012.

During this same meeting, the Board unanimously approved authorizing the Executive Director to request that current participating employers of the Washington Counties Insurance Pool adopt a resolution of their governing bodies which consent to the termination of the Washington Counties Insurance Pool on the Board's motion no sooner than the completion of payment of all run-out claims of the former self-insured medical plan and the self-insured vision plan.

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 accounting records of the Pool are maintained in accordance with 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*, and GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In 1999 the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The presented financial statements (including notes) reflect this.

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

The principal operating revenues of the Pool are premiums from participating members.

Operating expenses include vision claims, third party administrative fees, consulting fees, medical and prescription claims in excess of IBNR, and general administrative expenses.

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.

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 Through December 31, 2012

Receivables – Receivables are premiums due from members. No allowance has been established for uncollectible accounts.

Other Receivables – Other receivables consists of refunds from providers.

Uncollected 2010 Additional Premiums – Both the Washington Counties Insurance Pool (WCIP) inter-local agreement and Washington State law require that, if a self-insured pool ceases operations and does not have adequate reserves to pay the incurred but not reported (IBNR) claims, the Pool will collect additional premium from member groups in an amount sufficient to pay all claims. The amount reflected on December 31, 2012 represents outstanding additional premiums still due WCIP.

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 pursuant to Chapter 82.04 RCW.

NOTE B – DEPOSITS

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

Deposits

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

Investments

All investments are shown on the entity-wide Statement of Net Assets at fair market values as of December 31, 2012; however the Washington State Local Government Investment Pool (LGIP)

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 Through December 31, 2012

is reported on the balance sheet as Cash and Cash Equivalents. The LGIP is an un-rated 2a-7 like pool, as defined by GASB31, and not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Office of the State Treasurer manages the pool with the goals of the safety of principal and the assurance of sufficient liquidity to meet the cash flow demands of the participants, and strives to attain the highest possible yield within the constraints of those goals. Historically, the LGIP has had sufficient liquidity to meet the needs of the participants.

As of December 31, 2012, WCIP had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Washington State Local Governments Investment Pool (LGIP)	\$ 841	841
 Total Investments	 \$ 841	 841

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

NOTE C – OTHER

IBNR – The IBNR is a statement of the program liability for vision 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, unless the amount of IBNR is determined by an actuarial study. For December 31, 2012, the Pool had an actuary determine the appropriate amount for IBNR.

NOTE D – SUBSEQUENT EVENTS

The asset Uncollected Premium Assessments represents additional premium assessed to Lincoln County and Skamania County to address the actuarial insufficiency of the self-insured medical program under WCIP. This program was terminated December 31, 2010 and an additional premium assessment was required in order to satisfy outstanding run out claims. Lincoln and

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 Through December 31, 2012

Skamania counties refused to pay their portion of the additional premium. The balance was originally valued at \$110,012 at year-end, but it was reduced to \$36,000 as the result of litigation taking place in early 2013.

WCIP instituted legal action against both counties with the Lincoln County case moving forward first. On January 8, 2013 in Spokane County, the court found in favor of the Defendant which resulted in the Plaintiff and Defendant agreeing to a Stipulation and Order of Dismissal which in effect, was a negotiated settlement of \$12,500 paid by WCIP for the Defendant's legal expenses in addition to the elimination of Lincoln County's debt in the amount of \$36,477.99.

In light of the Court's decision in WCIP v. Lincoln County, settlement negotiations were commenced with Skamania County regarding their debt of \$73,534.19. A CR-2A Stipulation was signed on March 26, 2013, effectively settling the case. The settlement with Skamania County required both parties to assume their own legal expenses and required the County to remit \$36,000 to WCIP at \$1,000 per month for 36 months commencing June 1, 2013. It was also agreed that no interest would accrue on the outstanding balance.

Effective September 30, 2013 the Pool was dissolved with all assets and liabilities transferring to the Washington Counties Insurance Fund.

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
REQUIRED SUPPLEMENTARY INFORMATION
January 1, 2012 Through December 31, 2012

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.)

WASHINGTON COUNTIES INSURANCE POOL
MCAG NO. 2780
REQUIRED SUPPLEMENTARY INFORMATION
January 1, 2012 Through December 31, 2012

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
Fiscal and Policy Year Ended
(In Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Required Contribution and Investment Revenue										
Earned	\$13,744	\$11,688	\$11,555	\$15,661	\$23,137	\$33,379	\$42,063	\$46,089	\$1,332	\$ 837
Ceded	\$ 527	\$ 505	\$ 622	\$ 810	\$ 1,273	\$ 1,480	\$ 1,311	\$ 857		
Net Earned	\$13,217	\$11,183	\$10,993	\$14,851	\$21,864	\$31,899	\$40,752	\$45,232	\$1,332	\$ 837
2. Unallocated Expenses	\$ 124	\$ 184	\$ 115	\$ 135	\$ 161	\$ 169	\$ 324	\$ 362	\$ 502	\$ 14
3. Estimated Claims and expenses end of policy year										
Incurred	\$10,752	\$ 8,801	\$ 8,691	\$13,019	\$25,012	\$37,023	\$41,458	\$35,925	\$1,660	\$ 736
Ceded	\$ 158	\$ 560	\$ 152	\$ 1,194	\$ 971	\$ 1,183	\$ 515	\$ 1,577		
Net Incurred	\$10,594	\$ 8,241	\$ 8,539	\$11,825	\$24,041	\$35,840	\$40,943	\$34,348	\$1,660	\$ 736
4. Net paid (cumulative) as of:										
End of Policy year	\$11,966	\$10,120	\$ 9,759	\$12,207	\$21,714	\$32,608	\$44,683	\$43,855	\$1,660	
One year later	\$ 5,043	\$ 3,288	\$ 2,578	\$ 4,520	\$24,484	\$35,890	\$45,658	\$44,335	\$1,660	
5. Reestimated ceded claims and expenses	\$ 158	\$ 560	\$ 152	\$ 1,194	\$ 971	\$ 1,183	\$ 515	\$ 1,577	\$ 0	
6. Reestimated net incurred claims and expenses										
End of Policy year	\$11,966	\$10,120	\$ 9,759	\$12,207	\$24,041	\$35,840	\$40,943	\$34,348	\$1,660	
One year later	\$ 5,043	\$ 3,288	\$ 2,578	\$ 4,520	\$24,484	\$35,890	\$45,658	\$44,335	\$1,660	
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(6,923)	(6,832)	(7,181)	(7,687)	443	50	\$ 4,715	\$ 9,987	\$ 0	

SCHEDULE T-1
LIST OF PARTICIPATING MEMBERS AS OF DECEMBER 31, 2012

No participating members on December 31, 2012 – All self-insured programs have been terminated.

Schedule T-2: DES SCHEDULE OF EXPENSES
For the Fiscal Year Ended December 31, 2012

Schedule T-2, which was a requested addition to the Financial Reporting by the State Risk Manager in an effort to reduce the redundancy of information requested by the Office of Financial Management and the State Auditor's Office. This schedule provides further detail to the Operating Expenses of the Pool.

Insurance Members	
Medical and Prescription Claims In Excess of IBNR	\$ (73,795)
Vision Claims Expense	622,546
Uncollectible Accounts Expense	74,102
Contracted Services:	
Third Party Administrator Fees	112,182
Actuarial	2,500
Audit Expenses	7,524
Accounting	1,400
Risk Manager	250
General Administrative Expenses:	
Bank Fees	2,541
Supplies	11
TOTAL OPERATING EXPENSES	\$ 749,171



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

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