Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Counties Insurance Fund

Thurston County

For the period January 1, 2016 through December 31, 2016

Published December 4, 2017

Report No. 1020251

Office of the Washington State Auditor
Pat McCarthy

December 4, 2017

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Washington Counties Insurance Fund
Thurston County
January 1, 2016 through December 31, 2016

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated November 17, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

November 17, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Insurance Fund
Thurston County
January 1, 2016 through December 31, 2016

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Insurance Fund, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017 on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

November 17, 2017

FINANCIAL SECTION

Washington Counties Insurance Fund
Thurston County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016
Statement of Revenues, Expenses and Changes in Net Position – 2016
Statement of Cash Flows – 2016
Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2016
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2016

Washington Counties Insurance Fund MCAG NO. 0775

Management Discussion and Analysis

For the Fiscal Year Ended December 31, 2016

The management of the Washington Counties Insurance Fund (WCIF or "Fund") offers the readers of the Fund's financial statements, this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2016. To more fully understand the financial position of the Fund, this narrative should be considered in conjunction with the information contained in the Fund's financial statements and accompanying notes.

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

2016 was another year of relative stability for the Washington Counties Insurance Fund (WCIF). Enrollment numbers remained stable with Premium Revenue increasing due primarily to annual premium increases. Administrative Fees and Commissions are based on the gross premium resulting in the WCIF Administrative Fees and Commissions Revenue increasing relative to the premium renewal increases.

FINANCIAL HIGHLIGHTS:

The operating and non-operating surplus for 2016 of $146,885, was reduced by $19,457 due to a prior period adjustment to accumulated depreciation, resulting in an increase in Net Position. The December 31, 2016 Net Position of $6,037,240 was an increase over the December 31, 2015 Net Position of $5,909,812. In 2016 the Fund transferred $1,601,003 from the Claims Fluctuation Reserve (CFR) with The Standard into the LGIP account, resulting in a significant increase in Cash and Cash Equivalents.

OVERVIEW OF THE FINANCIAL STATEMENTS:

Financial Statements

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

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how the Fund's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave – Compensated Absences).

Notes to the Financial Statements

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

FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of an organization's financial health. In the case of the Fund, Assets and Deferred Outflows of Resources exceeded Liabilities and Deferred Inflows of Resources by $6,037,240 at the close of the most recent fiscal year. $929,905 of the net position is invested in capital position; and $5,107,335 is unrestricted and may be used to meet the Fund's administrative requirements or to stabilize premium rates. 2016 was a relatively stable year for the Fund in membership and enrollment numbers. 2016 expenses remained relatively stable, as well.

Washington Counties Insurance Fund's Net Position as of 12/31/16 & 12/31/15

	2016	**2015**
Current Assets	$7,053,544	$7,344,632
Noncurrent (Capital) Assets, Net	$929,905	$993,515
Total Assets	$7,983,449	$8,338,147
Deferred Outflows of Resources	$110,846	$67,972
Current Liabilities	$1,420,131	$1,908,510
Noncurrent Liabilities	$626,178	$512,599
Total Liabilities	$2,046,309	$2,421,109
Deferred Inflows of Resources	$10,746	$75,198
Invested in Capital Assets	$929,905	$993,515
Unrestricted Net Position	$5,107,335	$4,916,297
Total Net Position	$6,037,240	$5,909,812

Washington Counties Insurance Fund's Change in Net Position as of 12/31/16 & 12/31/15

	2016	2015
Operating Revenue	$65,067,194	$64,940,596
Non-operating Revenue	$25,334	$12,840
Total Revenue	$65,092,528	$64,953,436
Operating Expense	$64,945,391	$63,889,655
Non-operating Expense	$252	$186
Total Expense	$64,945,643	$63,889,841
Change in Net Position	$146,885	$1,063,595
Beginning Net Position	**$5,909,812**	**$5,340,410**
Change in Accounting Principles		**(494,193)**
Prior Period Adjustment	**(19,457)**	
Ending Net Position	**$6,037,240**	**$5,909,812**

REQUESTS FOR INFORMATION:

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

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

WASHINGTON COUNTIES INSURANCE FUND **MCAG NO. 0775**
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	5,309,155
Commissions & Administrative Fees Receivable	$	95,198
Premiums Receivable	$	408,919
Prepaid Expenses	$	39,590
CFR (LTD) The Standard	$	565,563
Delta Dental Stabilization Reserve	$	635,119
TOTAL CURRENT ASSETS	$	7,053,544
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	$	929,905
TOTAL NONCURRENT ASSETS	$	929,905
TOTAL ASSETS	**$**	**7,983,449**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	$	110,846
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**110,846**
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	171,808
Premiums Payable	$	922,326
Payroll Liabilities	$	1,494
Unearned Revenue Liability	$	324,503
TOTAL CURRENT LIABILITIES	$	1,420,131
Noncurrent Liabilities:		
Compensated Absences	$	30,052
Net Pension Liability	$	596,126
TOTAL NONCURRENT LIABILITIES	$	626,178
TOTAL LIABILITIES	**$**	**2,046,309**
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	$	10,746
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**10,746**
NET POSITION		
Net Investment in Capital Assets	$	929,905
Unrestricted	$	5,107,335
TOTAL NET POSITION	**$**	**6,037,240**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

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

For the Fiscal Year Ended December 31, 2016

OPERATING REVENUES:		
Administrative Fees	$	1,633,240
Producer Fees	$	120,777
Commissions	$	486,430
Premiums Collected	$	62,782,867
Other	$	43,880
TOTAL OPERATING REVENUES	$	65,067,194
OPERATING EXPENSES:		
Third Party Administration	$	403,456
Vivacity Wellness Program	$	161,692
Wellness Grant Program	$	70,864
Wellness Incentive Expenses	$	101,771
Wellness Program Expenses	$	8,532
Insurance Expense	$	44,121
Salaries and Wages	$	613,783
Personnel Benefits	$	219,127
Premium Expense	$	62,782,867
Publication and Printing	$	13,554
Incentive & Rewards Programs	$	10,108
Marketing & Promotional	$	18,657
Professional Services	$	176,407
Board Expenses	$	19,337
Staff Travel Expenses	$	53,369
General and Administrative Expenses	$	199,546
Depreciation	$	48,200
TOTAL OPERATING EXPENSES	$	64,945,391
OPERATING INCOME (LOSS)	$	121,803
NONOPERATING REVENUES (EXPENSES):		
Interest Income	$	25,334
Investment Fees	$	(252)
TOTAL NONOPERATING REVENUES (EXPENSES)	$	25,082
CHANGE IN NET POSITION	$	146,885
TOTAL NET POSITION, Beginning of the Year	$	5,909,812
PRIOR PERIOD ADJUSTMENT	$	(19,457)
TOTAL NET POSITION, End of the Year	$	6,037,240

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOW

For the Fiscal Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for premiums	$	62,620,781
Cash received for fees and commissions	$	2,514,469
Cash received from other income	$	8,063
Cash payments for premiums	$	(63,056,699)
Cash payments for insurance coverage	$	(44,398)
Cash payments for Third Party Administrators	$	(403,456)
Cash payments to suppliers for goods and services	$	(661,413)
Cash payments for other operating expenses	$	(614,499)
Cash payments to employees for services	$	(613,783)
Net Cash Provided (Used) by Operating Activities	$	(250,935)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer of Funds from CFR (LTD) The Standard to LGIP	$	1,601,003
Net Cash Provided (Used) by Non-Capital Financing Activities	$	1,601,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Purchases	$	(4,048)
Other Income	$	-
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(4,048)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	$	15,143
Investment Fees	$	(252)
Net Cash Provided (Used) by Investing Activities	$	14,891
Increase (Decrease) in Cash and Cash Equivalents	$	1,360,911
Cash and Cash Equivalents, Beginning of the Year	**$**	**3,948,244**
Cash and Cash Equivalents, End of the Year	$	5,309,155

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

OPERATING INCOME	$	121,803
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	$	48,200
Transfer of Funds from CFR (LTD) The Standard to LGIP	$	(1,601,003)
Interest Income Included in CFR Year-End Balance	$	10,192
Changes in Assets and Liabilities:		
(Increase) decrease in prepaid expenses	$	6,846
(Increase) decrease in receivables	$	1,055,708
(Increase) decrease in CFR (LTD) The Standard	$	632,750
(Increase) decrease in Delta Dental Stabilization Reserves	$	(43,305)
(Increase) decrease in Deferred Outlow of Resources	$	(42,874)
Increase (decrease) in payables	$	(510,559)
Increase (decrease) in Compensated Absences	$	5,093
Increase (decrease) in payroll liabilities	$	402
Increase (decrease) in Deferred Inflow of Resources	$	(64,452)
Increase (decrease) in Other Current Liabilites	$	21,778
Increase (decrease) in Net Pension Liability	$	108,486
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	(250,935)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2016 Through December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash and Cash Equivalents - For the purposes of reporting cash flows, the trust considers all highly liquid deposits with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash Equivalents includes $242,808 Cash on Hand, which are monies that have been received by the Washington Counties Insurance Fund and have been credited to the Accounts Receivable, but have not been deposited into an account in a financial institution. The remaining $5,066,347 in Cash and Cash Equivalents are deposited into accounts (Note B).

Receivables - Receivables for the Washington Counties Insurance Fund consist of amounts owed for premiums by member groups and services which have been rendered by the trust for the period ended December 31, 2016, such as commissions and administration fees.

CFR (LTD) The Standard – The Claims Fluctuation Reserve (CFR) for the Fund's Long Term Disability (LTD) Program had a balance of $ 565,563 on December 31, 2016. The performance of the LTD program during the previous contract term resulted in an additional $958,062 being deposited into the reserve fund, leaving a balance in excess of two million dollars. This amount far exceeded the amount necessary for the premium rate reduction, which is why WCIF transferred $1,601,003.00 to the LGIP account in April 2016. The remaining funds are fully accessible to the Fund, however, by leaving them on deposit with The Standard the Fund receives a 30% reduction in the premium rates for the LTD insurance.

Delta Dental Stabilization Reserve – The Delta Dental Stabilization Reserve has a balance of $635,119. The reserves increased $43,304.85 in 2016 due to the performance of the Delta Dental plans in 2016. These funds are unrestricted and available to the Fund on request but are on deposit with Delta Dental [formerly Washington Dental Service (WDS)] for rate stabilization in future renewal years.

Other revenue - This account includes the reserve refunding from Delta Dental, and amounts that have been collected by the Fund that are miscellaneous in nature.

Compensated Absences - The Fund records all accumulated unused vacation leave. Vacation pay, which may be accumulated up to 30 days maximum, is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. At termination, accrued sick leave will be paid not to exceed 25% of days accumulated, subject to a maximum accrual of 120 days. As of December 31, 2016 the value of Compensated Absences is $30,052.

Restricted Funds – In accordance with certain related agreements, separate restricted funds may be required to be established. The assets held in these funds are restricted for specific time periods and/or for specific uses. At the end of the fiscal period ended December 31, 2016, the Fund had no restricted funds.

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

Prior Period Adjustment – In 2013 an adjustment was made to accumulated depreciation. A portion of that prior adjustment was incorrect. The correction was made resulting in a prior period adjustment of $19,457.00, which also increased the 12/01/2016 beginning balance on accumulated depreciation for the building.

Exemption from Federal and State Taxes – Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). Chapter 48.62 RCW exempts the Fund from insurance premium taxes and business and occupation taxes on the Premium Revenue collected imposed pursuant to Chapter 82.04 RCW. Business and occupation taxes are applicable to the revenue generated from administrative fees and commissions.

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2016 Through December 31, 2016

NOTE B – DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction WCIF would not be able to recover the value of the investment or collateral securities. The WCIF 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).

As of December 31, 2016, WCIF had the following deposit accounts:

Umpqua Bank	$ 1,434,071

Investments

Investments Measured at Amortized Cost

As of December 31, 2016, WCIF held the following investments at amortized cost:

Washington State Local Governments Investment Pool (LGIP)	$3,632,276

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

NOTE C – CAPITAL ASSETS

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

The estimated useful life for each asset class is:

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

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

Capital Asset	**Beginning Balance 01/01/2016**	**Increases**	**Decreases**	**Ending Balance 12/31/2016**
Building	$1,138,222			$1,138,222
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 49,862			$ 49,862
Computers, Software, and Office Equipment	$ 65,649	$ 4,048	$ 18,369	$ 51,328
Total Capital Assets:	$1,352,624	$ 4,048	$ 18,369	$1,338,303
Less Accumulated Depreciation For:	**Beginning Balance 01/01/2016**	**Increases**	**Decreases**	**Ending Balance 12/31/2016**
Building	$ 214,025	$ 29,185		$ 243,210
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 21,046	$ 9,972		$ 31,018
Computers, Software, and Office Equipment	$ 44,604	$ 9,043	$ 18,368	$ 35,279
Total Accumulated Depreciation:	$ 378,566	$ 48,200	$ 18,368	$ 408,398
Total Capital Assets, Net	$ 974,058			$ 929,905

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2016 Through December 31, 2016

NOTE D – PENSION PLAN

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (596,126)
Pension assets	$
Deferred outflows of resources	$ 110,847
Deferred inflows of resources	$ (10,746)
Pension expense/expenditures	$ 68,346

State Sponsored Pension Plans

Substantially all the Washington Counties Insurance Fund'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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

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

The Washington Counties Insurance Fund's actual PERS plan contributions were $29,134.71 to PERS Plan 1 and $38,051.73 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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 base 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.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent 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 percent 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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent 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 of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
PERS 1	$326,338	$270,618	$222,667
PERS 2/3	$599,318	$325,508	($169,446)

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, the Washington Counties Insurance Fund reported a total pension liability of $596,126 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$270,618
PERS 2/3	$325,508

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

	Proportionate Share 6/30/15	**Proportionate Share 6/30/16**	**Change in Proportion**
PERS 1	0.004952%	0.005039%	0.000087%
PERS 2/3	0.006398%	0.006465%	0.000067%

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, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the Washington Counties Insurance Fund recognized pension expense as follows:

	Pension Expense
PERS 1	$19,171
PERS 2/3	$49,175
TOTAL	$68,346

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the Washington Counties Insurance Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$
Net difference between projected and actual investment earnings on pension plan investments	$ 6,814	$
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 14,609	$
TOTAL	$ 21,423	$ 0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,333	$ (10,746)
Net difference between projected and actual investment earnings on pension plan investments	$ 39,833	$
Changes of assumptions	$ 3,364	$
Changes in proportion and differences between contributions and proportionate share of contributions	$ 9,814	$
Contributions subsequent to the measurement date	$ 19,080	$
TOTAL	$ 89,424	$ (10,746)

Deferred outflows of resources related to pensions resulting from the (city/county/district's) contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	$ (1,678)
2018	$ (1,678)
2019	$ 6,258
2020	$ 3,911
2021	$
TOTAL	$ 6,814

Year ended December 31:	PERS 2/3
2017	$ 4,093
2018	$ 4,093
2019	$ 32,401
2020	$ 19,010
2021	$
TOTAL	$ 59,599

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

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

		2016	2015
Employer's proportion of the net pension liability (asset)	%	0.005039%	0.004952%
Employer's proportionate share of the net pension liability	$	$ 270,618	$ 259,036
TOTAL			
Employer's covered employee payroll	$	$ 602,032	$ 292,840
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	44.95%	88.46%
Plan fiduciary net position as a percentage of the total pension liability	%	57.03%	59.10%

PERS 2/3
As of June 30
Last 10 Fiscal Years

		2016	2015
Employer's proportion of the net pension liability (asset)	%	0.006465%	0.006398%
Employer's proportionate share of the net pension liability	$	$ 325,508	$ 228,604
TOTAL	$		
Employer's covered employee payroll	$	$ 602,032	$ 292,840
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	54.07%	78.06%
Plan fiduciary net position as a percentage of the total pension liability	%	85.82%	89.20%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Washington Counties Insurance Fund
Schedule of Employer Contributions
PERS 1
As of December 31
Last 10 Fiscal Years

		2016	2015
Statutorily or contractually required contributions	$	$ 29,135	$ 25,762
Contributions in relation to the statutorily or contractually required contributions	$	$ (29,135)	$ (25,762)
Contribution deficiency (excess)	$	$ -	$ -
Covered employer payroll	$	$ 613,783	$ 587,356
Contributions as a percentage of covered employee payroll	%	4.75%	4.39%

PERS 2/3
As of December 31
Last 10 Fiscal Years

		2016	2015
Statutorily or contractually required contributions	$	$ 38,052	$ 33,078
Contributions in relation to the statutorily or contractually required contributions	$	$ (38,052)	$ (33,078)
Contribution deficiency (excess)	$	$ (0)	$ 0
Covered employer payroll	$	$ 613,783	$ 587,356
Contributions as a percentage of covered employee payroll	%	6.20%	5.63%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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