Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Counties Insurance Fund

For the period January 1, 2019 through December 31, 2019

Published April 22, 2021

Report No. 1028111

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Office of the Washington State Auditor
Pat McCarthy

April 22, 2021

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
January 1, 2019 through December 31, 2019

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, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 7, 2021.

As discussed in Note F to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Fund is unknown.

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.

In addition, we noted certain matters that we have reported to the management of the Fund in a separate letter dated April 7, 2021.

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

April 7, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Washington Counties Insurance Fund
January 1, 2019 through December 31, 2019

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, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed on page 10.

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, 2019, 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.

Matter of Emphasis

As discussed in Note F to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Fund is unknown. 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 and required supplementary information listed on page 10 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 April 7, 2021 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

April 7, 2021

FINANCIAL SECTION

Washington Counties Insurance Fund
January 1, 2019 through December 31, 2019

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Washington Counties Insurance Fund MCAG NO. 0775

Management Discussion and Analysis
For the Fiscal Year Ended December 31, 2019

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, 2019. 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.

FINANCIAL HIGHLIGHTS:

In 2019 WCIF saw an increase in revenues which was mainly due to increased enrollment. The major expense classifications for WCIF are directly related to revenue generation and proportionately increased in 2019. There was a 32.32% reduction in the Net Pension Liability. The Net Pension Liability reduction and interest income were the significant factors to increase the Net Position 3.04%.

The December 31, 2019 Net Position of $7,125,268 was an increase of $210,120 over the December 31, 2018 Net Position of $6,915,148.

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 $7,125,268 at the close of the most recent fiscal year. $863,099 of the net position is invested in capital assets; and $6,262,169 is unrestricted and may be used to meet the Fund's administrative requirements or to stabilize premium rates.

Washington Counties Insurance Fund's Net Position as of 12/31/19 & 12/31/18

	2019	**2018**
Current Assets	$8,204,930	$8,201,229
Noncurrent (Capital) Assets, Net	$863,099	$878,197
Total Assets	$9,068,029	$9,079,426
Deferred Outflows of Resources	$58,628	$52,495
Current Liabilities	$1,605,198	$1,722,022
Noncurrent Liabilities	$246,688	$364,956
Total Liabilities	$1,851,886	$2,086,978
Deferred Inflows of Resources	$149,503	$129,795
Investment in Capital Assets	$863,099	$878,197
Unrestricted Net Position	$6,262,169	$6,036,951
Total Net Position	$7,125,268	$6,915,148

Washington Counties Insurance Fund's Change in Net Position as of 12/31/19 & 12/31/18

	2019	**2018**
Operating Revenue	$2,205,758	$2,081,921
Non-operating Revenue	$140,921	$103,788
Total Revenue	$2,346,679	$2,185,709
Operating Expense	$2,136,212	$2,024,406
Non-operating Expense	$347	$314
Total Expense	$2,136,559	$2,024,720
Change in Net Position	$210,120	$160,989
Beginning Net Position	**$6,915,148**	**$6,754,159**
Ending Net Position	**$7,125,268**	**$6,915,148**

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, 2019

<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	$	6,840,718
Commissions & Administrative Fees Receivable	$	240,042
Premiums Receivable	$	444,185
CFR Receivable	$	49,651
Prepaid Expenses	$	52,219
CFR (LTD) The Standard	$	578,115
TOTAL CURRENT ASSETS	$	8,204,930
<u>Noncurrent Assets:</u>		
Capital Assets (Net of Accumulated Depreciation)	$	863,099
TOTAL NONCURRENT ASSETS	$	863,099
TOTAL ASSETS	**$**	**9,068,029**
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	$	58,628
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**58,628**
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	$	372,409
Premiums Payable	$	850,535
Payroll Liabilities	$	1,194
Unearned Revenue Liability	$	365,263
Current Portion of Compensated Absences	$	15,797
TOTAL CURRENT LIABILITIES	$	1,605,198
<u>Noncurrent Liabilities:</u>		
Compensated Absences	$	26,687
Net Pension Liability	$	220,001
TOTAL NONCURRENT LIABILITIES	$	246,688
TOTAL LIABILITIES	**$**	**1,851,886**
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	$	149,503
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**149,503**
<u>NET POSITION</u>		
Investment in Capital Assets	$	863,099
Unrestricted	$	6,262,169
TOTAL NET POSITION	**$**	**7,125,268**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND

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

For the Fiscal Period Ended December 31, 2019

OPERATING REVENUES:		
Administrative Fees	$	1,510,494
Producer Fees	$	94,029
Commissions	$	550,943
Other	$	50,292
TOTAL OPERATING REVENUES	$	2,205,758
OPERATING EXPENSES:		
Third Party Administration	$	441,835
Vivacity Wellness Program	$	168,420
Wellness Grant Program	$	79,757
Wellness Incentive Expenses	$	64,275
Wellness Program Expenses	$	6,383
Insurance Expense	$	45,955
Salaries and Wages	$	651,564
Personnel Benefits	$	87,011
Publication and Printing	$	16,847
Incentive & Rewards Programs	$	7,770
Marketing & Promotional	$	27,091
Professional Services	$	195,490
Board Expenses	$	16,793
Staff Travel Expenses	$	35,178
General and Administrative Expenses	$	245,511
Depreciation	$	46,332
TOTAL OPERATING EXPENSES	$	2,136,212
OPERATING INCOME (LOSS)	$	69,546
NONOPERATING REVENUES (EXPENSES):		
Interest Income	$	134,945
Investment Fees	$	(347)
Gain/(Loss) on Sale/Disposal of Assets	$	5,976
TOTAL NONOPERATING REVENUES (EXPENSES)	$	140,574
CHANGE IN NET POSITION	$	210,120
TOTAL NET POSITION, Beginning of the Period	$	6,915,148
TOTAL NET POSITION, End of the Period	$	7,125,268

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for premiums	$	57,519,789
Cash received for fees and commissions	$	2,123,317
Cash received from other income	$	180,954
Cash payments for premiums	$	(57,604,406)
Cash payments for insurance coverage	$	(46,662)
Cash payments for Third Party Administrators	$	(441,835)
Cash payments to suppliers for goods and services	$	(407,233)
Cash payments for other operating expenses	$	(524,536)
Cash payments to employees for services	$	(651,564)
Net Cash Provided (Used) by Operating Activities	$	147,824
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Non-Capital Financing Activities	$	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Purchases	$	(25,259)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(25,259)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	$	120,155
Investment Fees	$	(347)
Net Cash Provided (Used) by Investing Activities	$	119,808
Increase (Decrease) in Cash and Cash Equivalents	$	242,373
Cash and Cash Equivalents, Beginning of the Year	**$**	**6,598,345**
Cash and Cash Equivalents, End of the Year	$	6,840,718

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

OPERATING INCOME	$	69,546
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	$	46,333
Interest Earned on CFR (LTD) The Standard	$	14,790
Changes in Assets and Liabilities:		
(Increase) decrease in prepaid expenses	$	(4,838)
(Increase) decrease in receivables	$	258,300
(Increase) decrease CFR (LTD) The Standard	$	(14,790)
(Increase) decrease in Deferred Outlow of Resources	$	(6,133)
Increase (decrease) in payables	$	(108,593)
Increase (decrease) in Compensated Absences	$	2,609
Increase (decrease) in payroll liabilities	$	507
Increase (decrease) in Deferred Inflow of Resources	$	19,708
Increase (decrease) in Other Current Liabilites	$	(24,535)
Increase (decrease) in Net Pension Liability	$	(105,080)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	147,824

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2019 Through December 31, 2019

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 $536,520 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 $6,304,198 in Cash and Cash Equivalents are deposited into accounts (Note B).

Premiums Receivable - Premiums Receivable for the Washington Counties Insurance Fund consist of amounts owed for premiums by member groups.

Commissions & Administrative Fees Receivable - Amounts owed for services which have been rendered by the trust for the period ended December 31, 2019, 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 $578,115 on December 31, 2019. These funds are fully accessible to the Fund, however, by leaving them on deposit with The Standard the Fund receives a reduction in the premium rates for the LTD insurance.

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, 2019 the value of Compensated Absences is $42,484. $15,797 of the value of Compensated Absences is reflected as a current liability (Current Portion of Compensated Absences) as it is anticipated that these funds will be disbursed in the 2020 fiscal period due to retirement. The remaining $26,687 is considered to be a long term liability, or non-current.

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, 2019 the Fund had no restricted funds.

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

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

NOTE B – DEPOSITS 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, 2019, WCIF had the following deposit accounts:

Umpqua Bank	$ 1,043,685

Investments in Local Government Investment Pool (LGIP)
The Washington Counties Insurance Fund is a participant in the Local Government Investment Pool, which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

As of December 31, 2019, WCIF held the following investments at amortized cost:

Washington State Local Governments Investment Pool (LGIP)	$5,260,513

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, 2019:

Capital Asset	Beginning Balance 01/01/2019	Increases	Decreases	Ending Balance 12/31/2019
Building	$1,138,222			$1,138,222
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 56,820	$ 29,495	$ 27,910	$ 58,405
Computers, Software, and Office Equipment	$ 63,503	$ 4,763	$ 21,394	$ 46,872
Total Capital Assets:	$1,357,436	$ 34,258	$ 49,304	$1,342,390
Less Accumulated Depreciation For:	**Beginning Balance 01/01/2019**	**Increases**	**Decreases**	**Ending Balance 12/31/2019**
Building	$ 301,580	$ 29,185		$ 330,765
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 29,056	$ 11,562	$ 24,887	$ 15,731
Computers, Software, and Office Equipment	$ 49,712	$ 5,585	$ 21,393	$ 33,904
Total Accumulated Depreciation:	$ 479,239	$ 46,332	$ 46,280	$ 479,291
Total Capital Assets, Net	$ 878,197			$ 863,099

NOTE D – PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (220,001)
Pension assets	$
Deferred outflows of resources	$ 58,628
Deferred inflows of resources	$(149,503)
Pension expense/expenditures	$ (9,481)

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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**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.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.83%**	**7.41%**
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.86%**	**7.90%**

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The Washington Counties Insurance Fund's actual PERS plan contributions were $32,009.24 to PERS Plan 1 and $50,015.23 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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 changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

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, 2019, 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$207,794	$165,927	$ 129,602
PERS 2/3	$414,730	$ 54,074	($241,867)

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, 2019, the Washington Counties Insurance Fund reported a total pension liability of $220,001 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$165,927
PERS 2/3	$ 54,074

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.004875%	0.004815%	(0.000560)%
PERS 2/3	0.006288%	0.005567%	(0.000721)%

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, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the Washington Counties Insurance Fund recognized pension expense as follows:

	Pension Expense
PERS 1	($ 18,418)
PERS 2/3	$ 8,937
TOTAL	($ 9,480)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, 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	$	$ (11,085)
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 15,624	$
TOTAL	$ 15,624	$ (11,085)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,492	$ (11,626)
Net difference between projected and actual investment earnings on pension plan investments	$	$ (78,710)
Changes of assumptions	$ 1,385	$ (22,688)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 132	$ (25,395)
Contributions subsequent to the measurement date	$ 25,997	
TOTAL	$ 43,006	$ (138,419)
TOTAL OF ALL PLANS:	$ 58,630	$ (149,504)

Deferred outflows of resources related to pensions resulting from the Washington Counties

Insurance Fund's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. 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
2020	$ (2,446)
2021	$ (5,797)
2022	$ (2,069)
2023	$ (773)
2024	$
TOTAL	$ (11,085)

Year ended December 31:	PERS 2/3
2020	$ (28,399)
2021	$ (44,787)
2022	$ (22,305)
2023	$ (13,978)
2024	$ (8,499)
Thereafter	$ (3,442)
TOTAL	$ (121,409)

NOTE E – RISK MANAGEMENT

WCIF generally provides only "fully-insured" benefit plans to member groups and as such, retains no "self-funded" exposure or risk for the benefit plans provided. One minor exception to that statement would be the agreement with The Standard Insurance Company as it relates to the WCIF long-term disability (LTD) benefit program.

The agreement with The Standard allows WCIF to deposit funds into a claims fluctuation reserve (CFR) account that is "held" by The Standard. Funds in this account reduce the carrier's risk and thereby generate lower premiums for WCIF members. In short, if claims exceed projections, The Standard can withdraw funds from the CFR to mitigate those additional costs. If claims are lower than expected, The Standard will deposit the excess funds into the CFR.

All funds in the CFR remain the property of WCIF until reconciliation and collect interest on WCIF's behalf. The account is reconciled on a two-year benefit plan cycle and funds are withdrawn or deposited by The Standard based on the experience (or claims) over the two-year period as defined in the CFR agreement. It is important to note that WCIF's risk in this agreement is strictly limited to the funds in the CFR even if the claims are such that the withdrawal would exceed the amount within the account.

The initial deposit from WCIF to the CFR was in 2006. Since that date, WCIF has not been required to deposit any additional funds and The Standard has not withdrawn any funds due to insufficient premiums to settle claims.

NOTE F – SUBSEQUENT EVENTS – COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus (Covid-19). In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, canceling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

All WCIF staff members have been working remotely from their homes since the governor's declaration, with the exception of the Executive Director and the Finance Director. Due to the fact that certain job functions would be very difficult if they were working remotely, they have continued to work in the office while maintaining social distancing.

WCIF does not expect any short term negative financial impacts from this event. Staff has continued to work effectively and WCIF has been able to provide the necessary on-going services to our member groups. Future economic impacts that could result in reduction in work forces for our member groups, would reduce our premium revenue with lowered enrollment numbers, however, these current events are unprecedented and what future economic impacts could be are unknown at this time.

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**

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.004315%	0.004875%	0.004961%	0.005039%	0.004952%
Employer's proportionate share of the net pension liability	$ 165,927	$ 217,719	$ 235,403	$ 270,618	$ 259,036
TOTAL					
Covered payroll *	$ 606,742	$ 661,646	$ 625,649	$ 602,032	$ 292,840
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	27.35%	32.91%	37.63%	44.95%	88.46%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	61.24%	61.24%	57.03%	59.10%

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

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.005567%	0.006288%	0.006382%	0.006465%	0.006398%
Employer's proportionate share of the net pension liability	$ 54,074	$ 107,362	$ 221,744	$ 325,508	$ 228,604
TOTAL					
Covered payroll *	$ 606,742	$ 661,646	$ 625,649	$ 602,032	$ 292,840
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	8.91%	16.23%	35.44%	54.07%	78.06%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	90.97%	90.97%	85.82%	89.20%

Notes to Schedule:

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)
** Until a full 10-year trend is compiled, only information for those years available is presented

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Washington Counties Insurance Fund
Schedule of Employer Contributions
PERS 1
For the Year Ended December 31
Last 10 Fiscal Years**

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 32,009	$ 31,074	$ 31,299	$ 29,135	$ 25,762
Contributions in relation to the statutorily or contractually required contributions*	$ (32,009)	$ (31,074)	$ (31,299)	$ (29,135)	$ (25,762)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll*	$ 649,388	$ 641,664	$ 638,763	$ 613,783	$ 587,356
Contributions as a percentage of covered employee payroll	4.93%	4.84%	4.90%	4.75%	4.39%

PERS 2/3
For The Year Ended December 31
Last 10 Fiscal Years**

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 50,015	$ 46,044	$ 43,819	$ 38,052	$ 33,078
Contributions in relation to the statutorily or contractually required contributions*	$ (50,015)	$ (46,044)	$ (43,819)	$ (38,052)	$ (33,078)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll*	$ 649,388	$ 641,664	$ 638,763	$ 613,783	$ 587,356
Contributions as a percentage of covered employee payroll	7.70%	7.18%	6.86%	6.20%	5.63%

Notes to Schedule:

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par.5)
* Contritbutions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 contributions that fund the PERS 1 UAAL. Contribtutions do not include employer-paid member contributions (GASB 82, Par.8)

** Until a full 10-year trend is compiled, only information for those years available is presented

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As a Fund, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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