

Washington State Auditor's Office
Financial Statements Audit Report

Washington Governmental Entity Pool
Spokane County

Audit Period
September 1, 2006 through August 31, 2007

Report No. 73976

Issue Date
February 19, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

February 19, 2008

Board of Directors
Washington Governmental Entity Pool
Spokane, Washington

Report on Financial Statements

Please find attached our report on the Washington Governmental Entity Pool's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Spokane County
September 1, 2006 through August 31, 2007**

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

Washington Governmental Entity Pool Spokane County September 1, 2006 through August 31, 2007

Board of Directors
Washington Governmental Entity Pool
Spokane, Washington

We have audited the basic financial statements of the Washington Governmental Entity Pool, Spokane County, Washington, as of and for the years ended August 31, 2007 and 2006, and have issued our report thereon dated January 15, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 15, 2008

Independent Auditor's Report on Financial Statements

Washington Governmental Entity Pool Spokane County September 1, 2006 through August 31, 2007

Board of Directors
Washington Governmental Entity Pool
Spokane, Washington

We have audited the accompanying basic financial statements of the Washington Governmental Entity Pool, Spokane County, Washington, as of and for the years ended August 31, 2007 and 2006, as listed on page 5. These financial statements are the responsibility of the Pool's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Governmental Entity Pool, as of August 31, 2007 and 2006, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 10 and risk pool information on pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Supplemental Schedule of Expenses and list of participating members are not a required part of the basic financial statements but are supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 15, 2008

Financial Section

Washington Governmental Entity Pool Spokane County September 1, 2006 through August 31, 2007

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Comparative Balance Sheet – 2007 and 2006

Comparative Statement of Revenues, Expenses and Changes in Members' Net Assets – 2007 and 2006

Comparative Statement of Cash Flows – 2007 and 2006

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities – 2007 and 2006

Notes to Financial Statements – 2007 and 2006

REQUIRED SUPPLEMENTAL INFORMATION

Ten-Year Claim Development Information Notes – 2007

Comparative Schedule of Claim Development, Earned Contributions and Unallocated Expenses – 2007

Reconciliation of Claims Liabilities by Type of Contract – 2007 and 2006

SUPPLEMENTAL INFORMATION

Supplemental Schedule of Expenses – 2007 and 2006

WGEP Membership – 2007

**WASHINGTON GOVERNMENTAL ENTITY POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2007**

The management of the Washington Governmental Entity Pool (the Pool) presents this MD&A, a narrative overview and analysis of the financial activities of the Pool for the fiscal year ended August 31, 2007. We encourage the use of this Discussion and Analysis report in conjunction with the Pool's financial statements, notes to the financial statements, and required supplementary information included with this report.

HIGHLIGHTS

- The Pool's overall financial position improved from 2006 to 2007. Net assets increased by \$791,504 during 2007 to \$6,081,599. This change represents a 15% increase from prior year. The Pool has not entered into any agreements that would limit the Pool's use of the financial resources as reported on the balance sheet.
- The Pool outperformed as compared to budget. Total revenues were 4.5% over budget and expenses were 2.2% under budget. As a result, the Pool was able to contribute 11.6% of revenue to net assets, also known as member equity. It is the position of the Board of Directors of the Pool to allocate at least 5% of revenue to net assets annually. By increasing the net assets of the Pool, it is anticipated that the Pool will be able to position itself to lessen its reliance on the excess insurance market. With less reliance on the excess market, the Pool will not be as vulnerable to fluctuations in the excess markets as has been evident in prior years.
- Interest income was \$591,155 for the year. Interest rates continued upward during the year ending at 5.272%

FINANCIAL STATEMENT OVERVIEW

The Pool reports its activities as an enterprise fund. An enterprise fund is a proprietary fund and uses full accrual accounting for its activities. Revenues are recognized when earned, and expenses are recognized when incurred. The Pool is not legally required to formally adopt a budget; however, it does in order to monitor revenues and expenses, and for rate setting purposes.

This MD&A is presented with the Pool's three financial statements: comparative balance sheet, comparative statement of revenues, expenses and changes in net assets, and comparative statement of cash flows. The comparative balance sheet presents information on the assets, liabilities and net assets of the Pool on August 31, the fiscal year end. Net assets are equal to assets minus liabilities. The increases or decreases in net assets over time may be a useful indicator in determining if the financial position of the Pool is improving or deteriorating. The comparative statement of revenues, expenses and changes in net assets presents information on the change in net assets (revenues minus expenses) for the fiscal year. Whereas, the balance sheet is a snap shot of the financial position of the Pool on August 31, the statement of revenues, expenses, and changes in net assets presents the activities of the Pool for the entire fiscal year September 1 through August 31. The change in net assets presented on the statement of revenues, expenses and changes in net assets is on an accrual basis, and does not necessarily coincide with cash flow. The statement of cash flows presents the actual cash flow from activities during the fiscal year.

FINANCIAL ANALYSIS

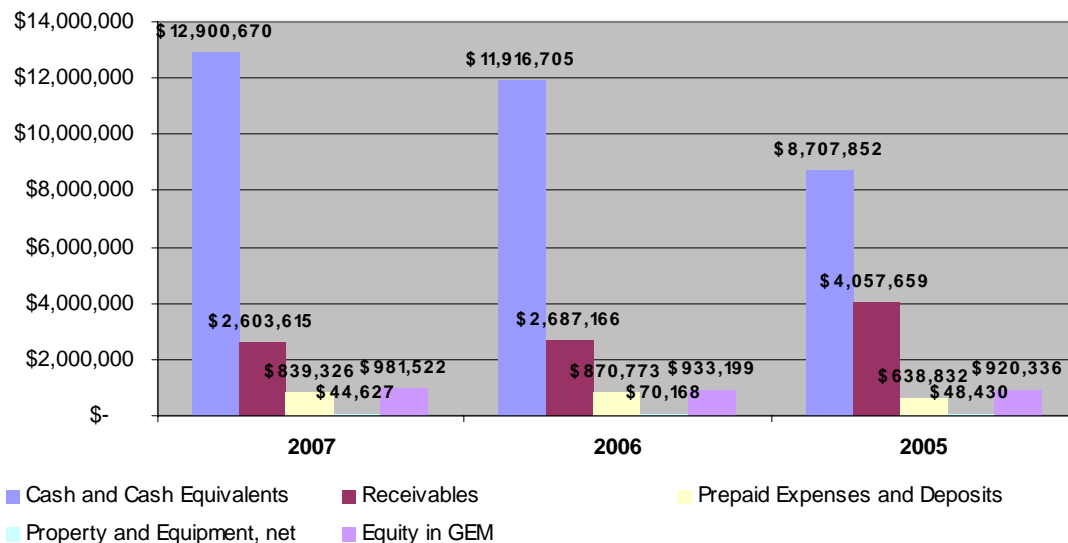
Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 16,343,611	\$ 15,474,644	\$ 13,404,343
Non Current Assets	1,026,149	1,003,367	968,766
Total Assets	\$ 17,369,760	\$ 16,478,011	\$ 14,373,109
Current Liabilities	\$ 11,282,996	\$ 11,183,127	\$ 10,460,262
Non Current Liabilities	5,165	4,789	8,293
Total Liabilities	\$ 11,288,161	\$ 11,187,916	\$ 10,468,555
Net Assets, invested			
in Capital Assets	\$ 44,627	\$ 70,168	\$ 48,430
Unrestricted Net Assets	6,036,972	5,219,927	3,856,124
Total Net Assets	\$ 6,081,599	\$ 5,290,095	\$ 3,904,554

Assets –

Assets of the Pool increased 5.4% from 2006. The Pool's primary asset is cash. Cash and cash equivalents increased by \$984,000 over the prior year. The majority of this increase in cash is attributed to interest income. Significantly, all receivables are due from members for 2008 renewal billings.

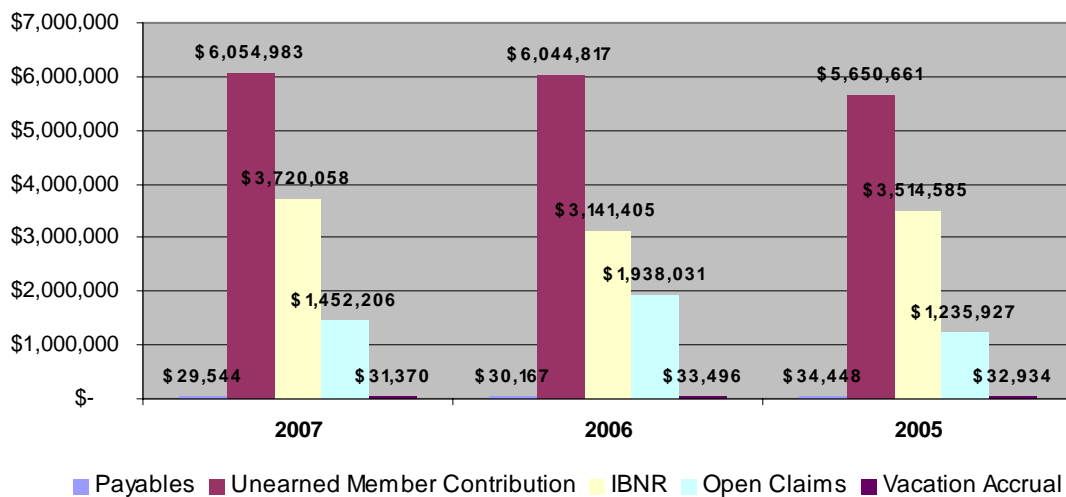
Asset Mix



Liabilities –

Liabilities of the Pool remained stable for 2007. The primary liabilities of the Pool are claim reserves (open claims and IBNR) and unearned member contributions. Claim reserves increased 1.8% over prior year. Unearned member contributions are 2008 renewal billings that will be earned and recognized in 2008. The Pool has no long term debt.

Liability Mix



Net Assets –

Assets of the Pool exceeded liabilities by \$6,081,599; \$6,036,972 is unrestricted and \$44,627 is invested in capital assets, such as office furniture, vehicles, and computer equipment.

Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues:			
Member Contributions	\$ 6,203,077	\$ 5,895,191	\$ 5,360,986
Total Operating Revenue	6,203,077	5,895,191	5,360,986
Non Operating Revenues (Expenses):			
Interest Income	591,155	411,008	214,302
Change in Equity in GEM	48,324	12,863	(92,191)
Loss on Disposal of Equipment		(646)	(858)
Total Non Operating Revenue	639,479	423,225	121,253
Total Revenue	\$ 6,842,556	\$ 6,318,416	\$ 5,482,239
Operating Expenses:			
Claims-			
Claims Paid	\$ 2,618,186	\$ 1,620,635	\$ 1,862,844
Change in Open Reserve	(485,825)	702,104	(281,990)
Change in IBNR	578,653	(373,180)	245,679
Excess Insurance Premiums	1,716,970	1,428,118	1,438,142
Insurance Services-			
Brokerage Fee	50,000	50,000	50,000
Other Insurance Services	28,000	28,000	29,119
General & Administrative	405,382	388,314	385,917
Contracted Services	254,292	251,861	242,431
Payroll	859,853	815,492	729,255
Depreciation	25,541	21,531	11,673
Total Operating Expenses	6,051,052	4,932,875	4,713,070
Total Expenses	\$ 6,051,052	\$ 4,932,875	\$ 4,713,070
Change in Net Assets	\$ 791,504	\$ 1,385,541	\$ 769,169
Ending Net Assets	\$ 6,081,599	\$ 5,290,095	\$ 3,904,554

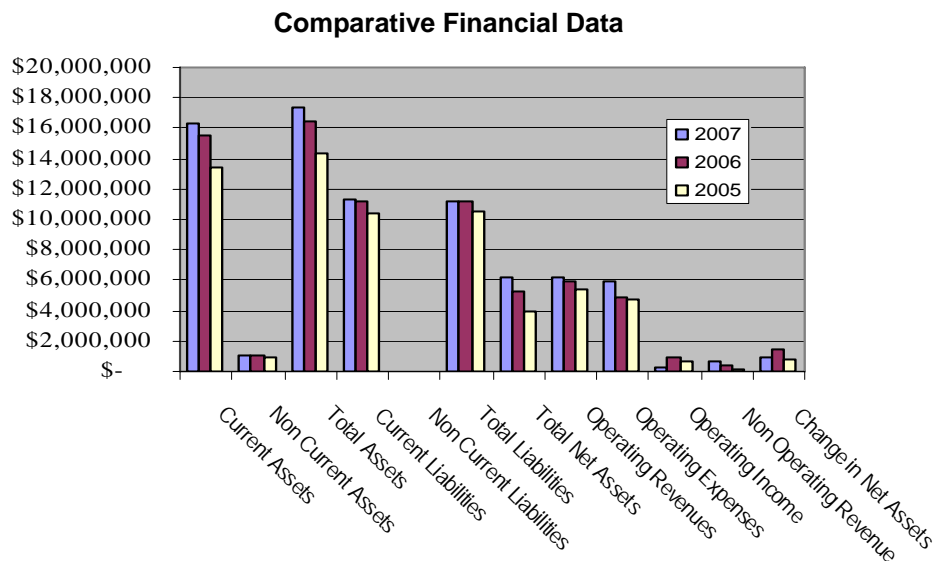
Revenues –

Operating revenue generated from member contributions increased 5.2% from 2006 to 2007. Property rates remained stable, and overall liability rates were adjusted for inflation. Pool membership increased by 11 members.

Non operating revenue increased by \$216,000. Excess cash invested with the Spokane County Investment Pool continues to experience increases in interest earned. As of August 31, 2007 and 2006 respectively, the interest rate was 5.272% and 4.84%. Additionally, the Pool experienced an increase in their equity in GEM - \$48,324 for 2007 as compared to \$12,863 for 2006.

Expenses –

Operating expenses increased 22.7% over prior year. This increase is due to claim expense and excess coverage premiums. Adverse loss history affected both claim expense and excess liability insurance premiums during 2007. Additionally, claim expense increased due to actuarial adjustment to estimated claim costs for the 2006 and 2004 policy years. In providing insurance coverage, the cost of a claim may not be known for sometime; therefore, an estimate of the open claims (claims reported but not finalized), as well as claims incurred but not reported (IBNR), is made. Utilizing actuarial techniques, the claim reserves are evaluated by the actuary, PricewaterhouseCoopers. The estimate for claim reserves is evaluated twice a year, and any adjustments are charged or credited to expense in the current year. Professional health excess liability coverage is becoming difficult to obtain, and the cost affected the excess liability coverage premium in 2007. Property excess insurance premiums increased due to an increase in total insured values (TIV). Additionally, the Marshall/Swift inflation projections for replacement costs are approaching 10%. Other operating expenses remained stable for 2007.



FINANCIAL CONTACT

Questions concerning the information provided in this Discussion and Analysis report and the Pool's financial statements, or requests for additional information, should be addressed to:

Washington Governmental Entity Pool
Mark A. Kammers, Executive Director
P. O. Box 19330
Spokane WA 99219-9330
509-838-0910
800-462-8418

**WASHINGTON GOVERNMENTAL ENTITY POOL
COMPARATIVE BALANCE SHEET
August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 1d, 4)	\$ 12,900,670	\$ 11,916,705
Contribution Receivable	2,428,098	2,608,240
Accrued Recoverables	175,517	78,926
Prepaid Expenses and Deposits	839,326	870,773
Total Current Assets	<u>\$ 16,343,611</u>	<u>\$ 15,474,644</u>
Non Current Assets		
Property and Equipment, net (Note 5)	\$ 44,627	\$ 70,168
Equity in GEM (Note 11)	981,522	933,199
Total Non Current Assets	<u>\$ 1,026,149</u>	<u>\$ 1,003,367</u>
TOTAL ASSETS	<u><u>\$ 17,369,760</u></u>	<u><u>\$ 16,478,011</u></u>
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 28,764	\$ 29,125
Payroll/Payroll Taxes Payable	780	1,042
Accrued Vacation Payable (Note 11, 14, 15)	26,205	28,707
Unearned Member Contributions	6,054,983	6,044,817
Claim Reserves: (Note 2 & 9)		
IBNR	3,720,058	3,141,405
Open Claims	1,452,206	1,938,031
Total Current Liabilities	<u>\$ 11,282,996</u>	<u>\$ 11,183,127</u>
Non Current Liabilities		
Accrued Vacation Payable (Note 11, 14, 15)	\$ 5,165	\$ 4,789
Total Non Current Liabilities	<u>\$ 5,165</u>	<u>\$ 4,789</u>
Total Liabilities	<u>\$ 11,288,161</u>	<u>\$ 11,187,916</u>
Net Assets		
Invested in Capital Assets	\$ 44,627	\$ 70,168
Unrestricted	6,036,972	5,219,927
Total Net Assets	<u>\$ 6,081,599</u>	<u>\$ 5,290,095</u>
TOTAL NET ASSETS & LIABILITIES	<u><u>\$ 17,369,760</u></u>	<u><u>\$ 16,478,011</u></u>

The accompanying notes are an integral part of this statement

**WASHINGTON GOVERNMENTAL ENTITY POOL
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN MEMBERS' NET ASSETS
For the Fiscal Years Ended August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES:		
Member Contributions	\$ 6,203,077	\$ 5,895,191
TOTAL OPERATING REVENUES	<u>\$ 6,203,077</u>	<u>\$ 5,895,191</u>
OPERATING EXPENSES:		
Claims		
Claims Paid	\$ 2,618,186	\$ 1,620,635
Change in Open Reserve	(485,825)	702,104
Change in IBNR	578,653	(373,180)
Excess Insurance Premiums	1,716,970	1,428,118
Insurance Services		
Brokerage Fee	50,000	50,000
Other Insurance Services	28,000	28,000
General and Administrative	405,382	388,314
Contracted Services	254,292	251,861
Payroll Expense	859,853	815,492
Depreciation (Note 5)	25,541	21,531
TOTAL OPERATING EXPENSES	<u>\$ 6,051,052</u>	<u>\$ 4,932,875</u>
OPERATING INCOME (LOSS)	<u>\$ 152,025</u>	<u>\$ 962,316</u>
NON OPERATING REVENUES (EXPENSES):		
Interest and Investment Income	\$ 591,155	\$ 411,008
Change in Equity in GEM	48,324	12,863
Gain (Loss) on Disposal of Equipment		(646)
TOTAL NON OPERATING REVENUES and EXPENSES	<u>\$ 639,479</u>	<u>\$ 423,225</u>
CHANGE IN NET ASSETS	<u>\$ 791,504</u>	<u>\$ 1,385,541</u>
NET ASSETS, beginning of year September 1	<u>\$ 5,290,095</u>	<u>\$ 3,904,554</u>
NET ASSETS, end of year August 31	<u><u>\$ 6,081,599</u></u>	<u><u>\$ 5,290,095</u></u>

The accompanying notes are an integral part of this statement

**WASHINGTON GOVERNMENTAL ENTITY POOL
COMPARATIVE STATEMENT OF CASH FLOW
For the Fiscal Years Ended August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$ 6,393,385	\$ 7,572,264
Cash payments on claims	(2,714,777)	(1,533,059)
Payments made for contract services	(254,292)	(251,861)
Payments made for excess coverage insurance	(1,685,524)	(1,660,058)
Payments made for general and administrative expenses	(405,740)	(392,730)
Payments made for payroll expenses	(862,242)	(814,795)
Payments made for insurance services	(78,000)	(78,000)
Contribution to GEM		
Net cash provided (used) by operating activities	<u>\$ 392,810</u>	<u>\$ 2,841,761</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Equipment		(43,916)
Net cash used for capital and related financing activities	<u>\$ -</u>	<u>(43,916)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$ 591,155	\$ 411,008
Net cash provided by investing activities	<u>\$ 591,155</u>	<u>\$ 411,008</u>
Net increase (decrease) in cash and cash equivalents	\$ 983,965	\$ 3,208,853
Cash and Cash Equivalents, beginning of year	<u>\$ 11,916,705</u>	<u>\$ 8,707,852</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 12,900,670</u></u>	<u><u>\$ 11,916,705</u></u>

The accompanying notes are an integral part of this statement

**WASHINGTON GOVERNMENTAL ENTITY POOL
RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES
For the Fiscal Years Ended August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
OPERATING INCOME	\$ 152,025	\$ 962,316
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,541	21,531
Increase (decrease) in unearned member contributions	10,166	394,156
Increase (decrease) in reserve for IBNR	578,653	(373,180)
Increase (decrease) in reserve for open claims	(485,825)	702,104
(Increase) decrease in contributions receivable	180,142	1,282,917
Increase (decrease) in accounts payable	(359)	(4,416)
(Increase) decrease in prepaid expenses	31,446	(231,940)
(Increase) decrease in accrued recoverables	(96,591)	87,576
(Increase) decrease in contributions in GEM		
Increase (decrease) in accrued vacation liability	(2,125)	561
Increase (decrease) in payroll/payroll taxes payable	(263)	136
Increase (decrease) in pension payable		
Total Adjustments	<u>\$ 240,785</u>	<u>1,879,445</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 392,810</u></u>	<u><u>\$ 2,841,761</u></u>

The accompanying notes are an integral part of this statement

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Washington Governmental Entity Pool, the Pool, is an unincorporated, not-for-profit, local government risk sharing pool. The members are various governmental entities throughout the State of Washington. The Pool was originally organized in 1987, and reorganized in 1990 pursuant to **RCW 48.62.031, 36.16.138 and 39.34**. The Pool was formed under an Intergovernmental Contract approved by the Pool's Board and the governing bodies of the Pool's members.

The Pool was established to provide risk financing to its member governmental entities for general liability, automotive liability and property damage, inland marine, fidelity and other such property coverage common to public entities. The Pool's general objective is to formulate, develop and administer, on behalf of the member governmental entities, a program of insurance at the lowest possible cost. The Pool transfers their risk by buying excess insurance and reinsurance over the Pool's self-insured retention (See Note 2 & 3).

Membership in the Pool requires a commitment of at least one full policy year, and notification of 60 days prior to renewal for withdrawal from the Pool. The Pool pays the cost of administration, risk management services, and other such costs as approved by the Board of Directors. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. Pool members currently special purpose districts such as Public Health Districts, Water Districts, Irrigation Districts, Weed Districts, Park and Recreation Districts, Libraries, Fire Districts, Air Pollution Districts, Mosquito Control Districts, Port Districts, Mental Support Network Districts, Conservation/Soil/Reclamation Districts, Cemetery Districts, Seaport Authorities, Public Facility Districts, Diking/Drainage Districts, Water Conservancy Boards, and various consortiums. The Pool currently has 422 members.

b. Basis of Accounting

The accounting records of the Pool are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of **RCW chapter 43.09**. The Pool also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB Statement 30, *Risk Financing Omnibus* and the GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*. In 1999 the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The presented financial statements (including notes) reflect this and consecutive statements.

The Pool has elected not to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

The Pool 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 in the fund.

The principal operating revenues of the Pool are member contributions. Operating expenses include: claim expense, excess insurance/reinsurance premiums, expenses incurred to administer the membership claims and general and administrative expenses. Administrative expenses include: payroll, board and staff expense, broker fees, contracted services, office rent and expenses, marketing, general office expenses.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

c. Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

RCW 48.62 exempts the Pool from insurance premium taxes and business and occupation taxes imposed pursuant to **RCW 82.04**.

d. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and short term investments with an original maturity of three months or less. State statutes authorize the government to invest according to **RCW 48.62**. At August 31, 2007 and 2006, the Pool has invested its excess cash in the Spokane County Investment Pool (SCIP) managed by the Treasurer of Spokane County. The investment in the SCIP can be withdrawn upon demand and accordingly is classified as a cash equivalent (see Note 4).

e. Receivables

Receivables are from members or excess insurance carriers and are, therefore, deemed collectible. No allowance has been established for uncollectible accounts. If necessary, management would determine if an account was uncollectible. If deemed uncollectible, the account would be charged to expense in the period in which the account is deemed uncollectible.

f. Capital Assets

See note 5.

g. Unpaid Claims Liabilities

The Pool establishes reserves for future claim liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation, deductible and reinsurance recoverable on unpaid claims are deducted from liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

h. Unearned Member Contributions

Member contributions are collected in advance and recognized as revenue in the period for which insurance protection is provided. Overall, liability rate contributions are based on the funding requirements of the program. Individual member rates are based on the member type and loss history. Contributions for property coverage are based on insured value, loss history, deductible selected by the member and reinsurance rates charged by the reinsurer.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

i. Reinsurance

The Pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the Pool as direct insurer of the risk reinsured. The Pool does not report reinsured risks as liabilities unless it is probable that the excess insurer will be unable to perform its contractual obligations (see Note 2 and 3).

j. Claims Reserves

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

k. Reserve for Unallocated Loss Adjustment Expenses

A reserve for unallocated loss adjustment expenses represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not reported. Claim reserves as calculated by the Pool's actuary are undiscounted. Therefore, unallocated loss adjustment expenses are implicit in the loss reserve liabilities.

l. Compensated Absences

Compensated absences are absences for which employees will be paid such as vacation and sick leave. These absences are recorded as an expense and liability of the Pool. Vacation pay, which may be accumulated as follows:

One year service – 19 days
5 – 10 years service – 22 days
Over 10 years of service – 27 days

is payable upon termination, retirement or death and therefore has been accrued in the financial statements, see note 14. Sick leave does not vest until death or retirement thus no liability is recognized.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 2 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on insurance policies issued and retained by the Pool at August 31, 2007.

<u>TYPE OF COVERAGE</u>	<u>MEMBER ⁽⁵⁾ DEDUCTIBLES</u>	<u>SELF INSURED RETENTION</u>	<u>EXCESS LIMITS</u>
Property Loss ⁽¹⁾			
Buildings and Contents ⁽²⁾	\$1,000	\$100,000	\$350,000,000
Flood ⁽⁷⁾	100,000-250,000		25,000,000 (shared)
Earthquake	100,000		10,000,000 (shared)
Terrorism	1,000	100,000	100,000,000 (shared)
Comprehensive General Liability Including Professional Malpractice	1,000	500,000	10,000,000
Auto Liability	1,000	500,000	10,000,000
Public Officials Errors and Omissions ⁽³⁾	1,000	500,000	10,000,000
Employment Practice Liability ⁽⁴⁾	10,000	500,000	10,000,000
Blanket Employee Dishonesty ⁽⁶⁾ , Named Position	1,000	250,000	0
Boiler and Machinery	1,000	5,000	100,000,000
Auto Physical Damage	Varies	100,000	350,000,000

- (1) The minimum deductible for property damage and bodily injury is \$1,000. The minimum deductible for auto physical damage can be as low as \$250 for comprehensive or specified perils and \$250 for collision.
- (2) Buildings and contents are covered to the extent of the cost of repair or replacement pursuant to the excess insurance policy terms.
- (3) The minimum deductible for public officials' errors and omissions is \$1,000.
- (4) The minimum deductible for Employment Practice Liability is \$10,000, plus 20% copay. By meeting established guidelines, the deductible and/or copay may be waived.
- (5) Members may request a higher deductible than the standard \$1,000. Additional deductible options offered by the Board to the members include \$5,000, \$10,000, \$25,000 or \$100,000 deductible for liability and property.
- (6) The members named position bond and blanket bond is optional and provides a maximum limit of \$250,000
- (7) Deductible for flood zones A & V, \$250,000. Flood zones excluding A & V, \$100,000.

All of the above limits are subject to change by the Pool and are subject to specific limitations as specified in the memorandum of coverage provided to each member entity.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 3 – EXCESS/REINSURANCE CONTRACTS

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

August 31, 2007:

	Per Occurrence	Member Aggregate	Pool Aggregate
General Liability	10,000,000	None	None
Public E & O	10,000,000	10,000,000	None
Employment Practice	10,000,000	10,000,000	None
Property	100% replacement cost per location	100% replacement cost per location	100% replacement cost per location
Flood			25,000,000 (shared)
Earthquake			10,000,000 (shared)
Terrorism (Property)			10,000,000 (shared)
Terrorism (Liability)			1,000,000 (shared)

August 31, 2006:

	Per Occurrence	Member Aggregate	Pool Aggregate
General Liability	10,000,000	30,000,000	None
Public E & O	10,000,000	20,000,000	None
Employment Practice	5,000,000	10,000,000	None
Property	100% replacement cost per location	100% replacement cost per location	100% replacement cost per location
Flood			50,000,000 (shared)
Earthquake			10,000,000 (shared)
Terrorism (Property)			10,000,000 (shared)
Terrorism (Liability)			1,000,000 (shared)

The policy year for Pool membership is September 1 through August 31. Excess liability insurance policies are effective January 1 through December 31. Excess property insurance policies are effective July 1 through June 30. At the renewal of the excess policies, limits are subject to change. When a change occurs in the excess limits, the Pool maybe responsible for differences between the coverage provided to the membership at the beginning of the policy year and excess limits purchased at renewal. As of August 31, 2007, the Pool management opines there are no claims against Pool members that would result in an additional liability to the Pool above the self insured retention. Exposures regarding changes in excess insurance are minimal.

In the past three years (2007, 2006, and 2005), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 4 –DEPOSITS AND INVESTMENTS

Deposits and short term investments are carried at cost, plus interest, which approximates market value. For fiscal year end deposits and investments are as follows:

	2007	2006
Funds held by Spokane County Treasurer:		
Spokane County Investment Pool	\$12,705,914	\$11,807,353
Cash in Bank - Claims	134,627	87,032
Cash in Bank - Payroll	59,979	22,170
Petty Cash	150	150
Total	<u>\$12,900,670</u>	<u>\$11,916,705</u>

It is the policy of the Pool to invest cash in excess immediate needs in the Spokane County Investment Pool (SCIP), managed by the Treasurer of Spokane County. As required by state law, all investments by SCIP are obligations of the US Government, US agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificate of deposit with Washington State banks and savings and loan institutions. SCIP deposits and certificate of deposit are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC (Washington Public Deposit Protection Commission). The State Auditor's Office and the Finance Committee of Spokane County provide regulatory oversight of the SCIP. Due to the liquidity of the funds invested in the SCIP, the funds are reported as cash and cash equivalents.

The Pool's claim and payroll accounts are 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).

Cash held in the claim bank account is for payment of claims on insurable risks retained by the Pool of up to \$500,000 on general liability, up to \$250,000 on criminal losses, up to \$100,000 on property, and any covered auto physical damage loss. The Pool may pay the total claim, and be reimbursed by excess/reinsurance carrier for the amount exceeding the self insured retention.

Cash held in the bank payroll fund is for payment of payroll, payroll taxes and employee benefits.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2007 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Non Depreciable Capital Assets	0			0
Depreciable Capital Assets:				
Office Furniture and Equipment	\$ 93,182		\$ (431)	\$ 92,751
Vehicles	48,466			48,466
Total Depreciable Capital Assets	141,648	0	(431)	141,217
Accumulated Depreciation:				
Office Furniture and Equipment	(44,164)	(19,498)	431	(63,231)
Vehicles	(27,316)	(6,043)		(33,359)
Total Accumulated Depreciation	(71,480)	(25,541)	431	(96,590)
Total Capital Assets, Net	\$ 70,168	\$ (25,541)	\$ -	\$ 44,627

Capital asset activity for the year ended August 31, 2006 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Non Depreciable Capital Assets	0			0
Depreciable Capital Assets:				
Office Furniture and Equipment	\$ 53,339	\$ 43,916	\$ (4,073)	\$ 93,182
Vehicles	48,466			48,466
Total Depreciable Capital Assets	101,805	43,916	(4,073)	141,648
Accumulated Depreciation:				
Office Furniture and Equipment	(32,102)	(15,488)	3,427	(44,164)
Vehicles	(21,273)	(6,043)		(27,316)
Total Accumulated Depreciation	(53,375)	(21,531)	3,427	(71,480)
Total Capital Assets, Net	\$ 48,430	\$ 22,385	\$ (646)	\$ 70,168

Capital assets are stated at historical cost. The Pool's current policy is to capitalize items with a cost of over \$5,000. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from three to seven years.

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

Interest income was \$591,155 during fiscal 2007 and \$411,008 during fiscal 2006.

**WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007**

NOTE 7 – PENSION PLANS

Qualifying full-time and part-time employees of the Pool 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 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, PO Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined portion of their plan after ten years of

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirement prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost of living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	<u>51,004</u>
TOTAL	246,754

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of August 31, 2007 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.12% **	6.12%	6.12%****
Employee	6.00% ***	4.15%	*****

*The employer rates include the employer administrative expense fee currently set at .18%

**The employer rate for state elected officials is 5.44%.

***The employee rate for state elected officials is 7.50%.

****Plan 3 defined benefit portion only.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Pool and the employees made the required contributions. The Washington Governmental Entity Pool's required contributions for the years ended August 31, 2007, 2006 and 2005 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	0	\$26,949	1,081
2006	0	\$14,816	1,188
2005	0	\$7,745	585

WASHINGTON GOVERNMENTAL ENTITY POOL
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One employee is ineligible to participate in PERS and contributions in lieu of PERS are being made to the Deferred Compensation Program administered by the State of Washington Department of Retirement Systems. These contributions utilize the same withholding and employer contribution percentages as PERS Plan 2. The amount contributed in lieu of PERS was \$6,943, \$3,519, and \$1,989 for the years ended August 31, 2007, 2006 and 2005 respectively.

NOTE 8 – BENEFIT ALLOWANCE

Regular employees of the Pool receive a taxable medical benefit allowance. The allowance may be used to purchase medical coverage for the employee and eligible dependents or directed to a deferred compensation plan (457). The deferred compensation plan is administered by the State of Washington Department of Retirement Systems. As of August 31, 2007 and August 31, 2006 the allowance per employee was \$1,346 per month.

NOTE 9 – CLAIM RESERVES (UNPAID CLAIMS LIABILITIES)

The Pool establishes claim reserves for both reported and unreported insured events, which include estimates of the undiscounted future cash payments of losses and related claim adjustment expenses. The following table presents the changes in the Pool's aggregate claim reserves during each of the years ended August 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Unpaid claims and claim expenses		
at beginning of year:	\$ 5,079,436	\$ 4,750,512
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	2,370,716	2,383,833
Change in provision for insured events of prior year	<u>340,298</u>	<u>(434,274)</u>
Total incurred claims and claim adjustment expenses	<u>2,711,014</u>	<u>1,949,559</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	759,779	465,859
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>1,858,407</u>	<u>1,154,776</u>
Total Payments	<u>2,618,186</u>	<u>1,620,635</u>
Total unpaid claims and claim expenses at end of year	5,172,264	5,079,436
Less reserve for losses incurred but not reported	<u>3,720,058</u>	<u>3,141,405</u>
Reserve for open claims	<u><u>\$ 1,452,206</u></u>	<u><u>\$ 1,938,031</u></u>

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 10 – LEASE COMMITMENTS

The Pool is committed under a lease with Metropolitan Investments for lease of office space. This lease is considered an operating lease for accounting purposes. Lease expense for the year ended August 31, 2007 was \$ 97,638. Future commitments for the Metropolitan Investment lease are:

Fiscal Year	
2008	98,865
2009	100,101
2010	<u>75,771</u>
Total	\$274,737

NOTE 11 –GEM

The Pool is a founding member of GEM, Government Entities Mutual, Inc., a captive insurance program. A captive is an insurance company owned and operated by its insured. The intent of the membership in GEM is to access the reinsurance market available through GEM. On becoming a member of GEM, the Pool made a five year commitment of membership. As a member of GEM, the Pool participates in the profits and/or losses of GEM. The Pool's share of GEM profit and loss is reflected in the Equity in GEM account (a non current asset) using the equity method.

NOTE 12 – 401(a) RETIREMENT PLAN

The Pool does not participate in social security and therefore, the Board of Directors of the Pool elected to participate in a 401(a) retirement plan for the benefit of the Pool employees. The 401(a) plan is administered by ICMA Retirement Corporation. The Pool makes contributions in the amount of 6.2% of an employee's gross wages, in lieu of a contribution to social security. Employees are required to make a matching contribution of 6.2% and the employees have the option to contribute in excess of the 6.2%.

NOTE 13 – INSURANCE

Article 8 of the Intergovernmental Contract states that the funds of the Pool shall be used to hold harmless and defend any director, officer, Executive Director or its employees (including its officers) for any act or omission taken or omitted in good faith by the Board, the Executive Director, or its employees (including its officers) relating to or arising out of the conduct of Pool business. This obligation shall be considered an expense of the Pool. The Pool may purchase, subject to availability and cost, insurance providing coverage for directors, officers and the Executive Director.

As of August 31, 2007 the Pool had the following coverages:

Property	Same as Pool members, see notes 2 and 3
Auto/General Liability	Same as Pool members, see notes 2 and 3
Errors & Omissions	Same as Pool members, see notes 2 and 3
Auto Physical Damage	Self Insured

As of August 31, 2007, no claims have been filed against the Pool, nor is the Pool aware of any pending claims.

WASHINGTON GOVERNMENTAL ENTITY POOL
NOTES TO FINANCIAL STATEMENTS
September 1, 2006 through August 31, 2007

NOTE 14 – COMPENSATED ABSENCES

During fiscal year 2007 compensated absences of the Pool decreased by \$2,126.

	8/31/2005	Additions	Reductions	8/31/2006	Additions	Reductions	8/31/2007
Current	\$ 24,641	\$ 40,412	\$ (36,347)	\$ 28,707	\$ 40,377	\$ (42,879)	\$ 26,205
Non Current	8,293	82	(3,586)	4,789	376		5,165
Total	\$ 32,934	\$ 40,494	\$ (39,933)	\$ 33,496	\$ 40,753	\$ (42,879)	\$ 31,370

NOTE 15 – RECLASSIFICATION OF LIABILITIES

The current portion of fiscal year 2006 accrued vacation payable was reclassified to current liabilities from non current liabilities.

WASHINGTON GOVERNMENTAL ENTITY POOL
REQUIRED SUPPLEMENTARY INFORMATION
September 1, 2006 through August 31, 2007

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

1. Ten-Year Claim Development Information

The table on the following page illustrates how the Pool's earned revenues and interest income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last ten years. The rows of the table are defined as follows:

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

COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT, EARNED CONTRIBUTIONS AND UNALLOCATED EXPENSES
For the Years Ended August 31, 2007, 2006, 2005, 2004, 2003, 2002, 2001, 2000, 1999, 1998

Fiscal and Policy Year Ended:	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
1 Gross Earned Member Contributions and Investment Revenue										
Ceded	6,794,232	6,306,199	5,575,288	4,663,960	4,662,503	4,031,882	3,606,321	3,401,252	3,299,665	3,893,433
Net Earned	1,716,970	1,428,118	1,438,142	1,560,110	1,669,771	1,424,729	730,198	575,696	598,658	782,034
	5,077,262	4,878,081	4,137,146	3,103,850	2,992,732	2,607,153	2,876,123	2,825,556	2,701,007	3,111,399
2 Unallocated Operating Expenses	1,623,068	1,555,198	1,448,395	1,398,616	936,283	755,431	779,628	733,329	732,203	974,541
3 Estimated Losses and Expenses end of accident year:										
Net Incurred	2,370,717	2,383,833	1,771,772	1,807,701	1,814,474	1,505,000	1,490,000	1,525,000	1,250,000	1,580,000
4 Cumulative paid as of:										
End of policy year	759,776	465,859	446,733	675,517	313,584	357,895	292,909	347,969	199,129	481,130
One year later		1,555,146	1,115,750	1,068,899	636,235	579,238	520,507	408,031	307,911	578,408
Two years later			1,436,114	1,413,715	802,233	1,101,528	651,233	412,621	357,008	671,479
Three years later				1,641,350	809,992	1,426,971	843,807	437,609	429,932	883,389
Four years later					856,775	1,524,456	1,144,631	553,625	704,348	1,109,306
Five years later						1,656,471	1,121,482	590,577	718,594	1,148,652
Six years later							1,131,865	620,038	727,079	1,159,138
Seven years later								620,639	727,058	1,159,138
Eight years later									727,969	1,159,138
Nine years later										1,159,138
5 Re-estimated Incurred Claims:										
End of policy year	2,370,717	2,383,833	1,771,772	1,807,701	1,814,474	1,505,000	1,490,000	1,525,000	1,250,000	1,580,000
One year later		2,867,833	2,222,620	2,023,551	1,651,171	1,840,000	1,400,000	1,279,931	1,054,292	1,441,732
Two years later			2,179,639	2,020,406	1,614,558	1,957,625	1,423,635	1,081,869	953,309	1,375,512
Three years later				2,237,723	1,299,194	1,907,625	1,365,723	982,304	936,647	1,475,512
Four years later					1,163,777	1,857,625	1,490,230	932,304	971,193	1,425,512
Five years later						1,832,064	1,281,965	793,464	951,068	1,315,512
Six years later							1,220,462	724,569	900,718	1,275,512
Seven years later								678,973	850,543	1,255,512
Eight years later									820,408	1,195,512
Nine years later										1,185,512
6 Increase (decrease) in Estimated Net Incurred Claims and Expenses From End of Policy Year:	0	484,000	407,867	430,022	(650,697)	327,064	(269,538)	(846,027)	(429,592)	(394,488)

2. Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes claims liabilities for the past two years for the Pool's two types of contracts: liability and property.

	LIABILITY		PROPERTY	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$4,846,451	\$4,634,282	\$232,985	\$116,230
Provision for the Current Year	1,644,839	1,974,559	725,877	409,274
Change in Provision for Prior Fiscal Years	303,391	(419,057)	36,907	(15,217)
Total Incurred Claims and Claim Adjustment Expense:	1,948,230	1,555,502	762,784	394,057
Payments:				
Provision for Insured Events of the Current Fiscal Year	225,995	299,434	533,784	166,425
Provision for Insured Events of the Prior Fiscal Years	1,640,623	1,043,899	217,784	110,877
Total Payments	1,866,618	1,343,333	751,568	277,302
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	\$4,928,063	\$4,846,451	\$244,201	\$232,985

**WASHINGTON GOVERNMENTAL ENTITY POOL
SUPPLEMENTAL SCHEDULE OF EXPENSES
For Fiscal Years Ended August 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CLAIMS:		
Claims Paid	\$ 2,618,186	\$ 1,620,635
Increase (Decrease) in reserve for IBNR	(485,825)	702,104
Increase (Decrease) in reserve for Open Claims	<u>578,653</u>	<u>(373,180)</u>
TOTAL CLAIMS	<u>\$ 2,711,014</u>	<u>\$ 1,949,559</u>
EXCESS COVERAGE INSURANCE:		
Excess Liability	\$ 947,391	\$ 815,756
Property	755,688	600,408
Boiler and Machinery	<u>13,891</u>	<u>11,954</u>
TOTAL EXCESS COVERAGE	<u>\$ 1,716,970</u>	<u>\$ 1,428,118</u>
GENERAL AND ADMINISTRATIVE:		
Staff expenses/travel/education	61,175	\$ 66,975
Board expenses/travel/education	35,905	22,070
Office supplies and printing	24,335	29,416
Rent	101,193	97,795
Retention and Marketing	72,142	47,495
Telephone	14,851	16,062
Postage	13,220	14,455
Office equipment	1,465	11,569
Dues and subscriptions	7,607	7,957
Maintenance and repairs	4,090	4,246
Utilities	330	270
Travel, consultant	6,301	4,703
Member education	49,970	56,008
Miscellaneous	10,117	3,823
Data Archive		3,110
Bank Charges	1,407	74
Vehicle	<u>1,274</u>	<u>2,286</u>
TOTAL GENERAL & ADMINISTRATIVE	<u>\$ 405,382</u>	<u>\$ 388,314</u>
PAYROLL EXPENSES:		
Salary and wages	\$ 610,336	\$ 565,782
Payroll taxes	19,979	21,950
Pension	34,974	19,523
Employee benefits	<u>194,564</u>	<u>208,237</u>
TOTAL PAYROLL EXPENSE	<u>\$ 859,853</u>	<u>\$ 815,492</u>
CONTRACTED SERVICES:		
Legal	\$ 98,131	\$ 95,255
Financial Audit	10,218	11,433
Litigation Management	3,760	27,484
Loss Control	18,549	17,945
Accounting Services	45,303	42,041
Administration and Support Services	8,150	8,150
Computer Support	22,142	15,383
Claims Audit	7,373	7,191
Strategic Plan Facilitators	<u>40,666</u>	<u>26,979</u>
TOTAL CONTRACTED SERVICES	<u>\$ 254,292</u>	<u>\$ 251,861</u>

WGEP Membership 2007

Aging/Mental Health Agencies

Aging & Adult Care of Central Washington
Aging & Long Term Care of Eastern Washington
Greater Columbia Behavioral Health
Lewis-Mason-Thurston Area Agency on Aging
North Central Washington Regional Support Network
North Sound Regional Support Network
Olympic Area Agency on Aging

Cemetery Districts

Cemetery District #6 of Clark County
Chelan County Cemetery District #4
Colfax Cemetery District #6
Cowlitz County Cemetery District #2
Cowlitz County Cemetery District #3
Cowlitz County Cemetery District #6
Franklin County Cemetery District #2
King County Cemetery District #1
Lewis County Cemetery District #1
Pend Oreille Cemetery District #1
San Juan Cemetery District #3
Skagit Co Cemetery District #1
Skamania County Cemetery District #1
Thurston County Cemetery District #2
Whatcom County Cemetery District #10
Whatcom County Cemetery District #6

Clean Air Agencies

Benton Clean Air Authority
Northwest Clean Air Agency
Olympic Region Clean Air Agency
Puget Sound Clean Air Agency
Southwest Clean Air Agency
Spokane County Air Pollution Control Authority
Yakima Regional Clean Air Authority

Conservation Districts

Adams Conservation District
Asotin County Conservation District
Benton Conservation District
Central Klickitat Conservation District
Chelan County Conservation District
Clallam Conservation District
Clark Conservation District
Columbia Conservation District
Cowlitz Conservation District
Eastern Klickitat Conservation District
Ferry Conservation District

Conservation Districts Continued

Foster Creek Conservation District
Franklin Conservation District
Grant Conservation District
Grays Harbor Conservation District
Jefferson County Conservation District
King Conservation District
Kitsap Conservation District
Kittitas County Conservation District
Lewis County Conservation District
Lincoln County Conservation District
Mason Conservation District
Moses Lake Conservation
North Yakima Conservation District
Okanogan Conservation District
Pacific Conservation District
Palouse Conservation District
Palouse-Rock Lake Conservation District
Pend Oreille Conservation District
Pierce Conservation District
Pine Creek Conservation District
Pomeroy Conservation District
San Juan Conservation District
Skagit Conservation District
Snohomish Conservation District
South Douglas Conservation District
South Yakima Conservation District
Spokane County Conservation District
Stevens County Conservation District
Thurston Conservation District
Underwood Conservation District
Wahkiakum County Conservation District
Walla Walla County Conservation District
Warden Conservation District
Whatcom Conservation District
Whidbey Island Conservation District
Whitman Conservation District

Diking & Drainage Districts

Bertrand Watershed Improvement District
Clark County Diking District #14
Island County Diking District #1
King County Drainage District #7
Lewis Co Flood District #1
Marshland Flood Control District
Pacific County Drainage District #1
Port Ludlow Drainage District
Silver Lake Flood Control District
Skagit County Consolidated Diking District #22
Skagit County Dike District #17

Diking & Drainage Districts Continued

Skagit County Drainage and Irrigation District #15
Skagit County Drainage District #19
Snohomish County Diking District #1
Stillaguamish Flood Control District
Whatcom Co Flood Control Zone District
Yakima County Drainage Improvement District #11

Fire Districts

Adams County FPD #6
Adams County FPD #7
Asotin County FPD #1
Benton County FPD #5
Chelan County Fire District #8
Chelan County FPD #6
Chelan County FPD #9
Chelan County FPD #10
Clallam County FPD #1
Clallam County FPD #4
Clallam County FPD #5
Clark County FPD #13
Cowlitz County FPD #1
Cowlitz County FPD #4
Cowlitz County FPD #6
Cowlitz Skamania County FPD #7
Darrington Fire Department District #24
Douglas County Fire District #4
Douglas County FPD #3
Douglas Okanogan County FPD #15
Ferry Co #3/Stevens Co #8 Joint Fire Protection District
Grant County FPD #10
Grant County FPD #11
Grant County FPD #12
Grant County FPD #7
Grant County FPD #8
Grays Harbor County FPD #10
Grays Harbor County FPD #12
Grays Harbor County FPD #15
Island County FPD #3
Kittitas County FPD #7
Klickitat County FPD #1
Klickitat County FPD #11
Klickitat County FPD #13
Klickitat County FPD #3
Klickitat County FPD #4
Lewis County FPD #2
Lewis County FPD #5
Lewis County FPD #7
Lincoln County FPD #6
Lincoln-Adams County FPD #3

Fire Districts Continued

Mason County FPD #1
North Country Emergency Medical Service
Okanogan County FPD #10
Okanogan County FPD #11
Okanogan County FPD #12
Okanogan County FPD #7
Okanogan County FPD #8
Okanogan County Rural FPD #6
Pacific County Fire District #6
Pacific County FPD #2
Pacific County FPD #4
Pend Oreille County FPD #2
Pend Oreille County FPD #3
Pend Oreille County FPD #4
Pend Oreille County FPD #6
Pend Oreille County FPD #7
Pierce County FPD #11
Pierce County FPD #27
San Juan County Fire District #4
Skagit County FPD #12
Skagit County FPD #13
Skagit County FPD #14
Skagit County FPD #16
Skagit County FPD #17
Skagit County FPD #3
Skagit County FPD #4
Skagit County FPD #5
Skamania County FPD #5
Skamania County FPD #6
Snohomish County FPD #25
Spokane County FPD #10
Spokane County FPD #12
Spokane County FPD #2
Spokane County FPD #3
Stevens County FPD #11
Stevens County FPD #2
Stevens County FPD #5
Thurston County FPD #5
Thurston County FPD #9
Tonasket EMS District
Vashon Island Fire & Rescue
Wahkiakum County FPD #2
Whatcom County FPD #11
Whitman County Fire District #5
Whitman County FPD #7
Yakima County FPD #14

Health Districts

Asotin County Health District
Benton Franklin Health District
Chelan-Douglas Health District
Grant County Health District
Kitsap County Health District
Northeast Tri County Health District
Okanogan County Public Health
Snohomish Health District
Spokane Regional Health District
Yakima County Health District

Irrigation/Reclamation Districts

Agnew Irrigation District
Ahtanum Irrigation District
Alta Vista Irrigation District
Badger Mountain Irrigation District
Benton Irrigation District
Brewster Flat Irrigation District
Bridgeport Irrigation District #1
Carnhope Irrigation District #7
Cascade Irrigation District
Chelan Falls Irrigation District
Chelan River Irrigation District
Cline Irrigation District
Columbia Irrigation District
Dungeness Irrigation District
Eastside/Westside Irrigation District
Entiat Irrigation District
Franklin County Irrigation District #1
Greater Wenatchee Irrigation District
Helensdale Irrigation District
Highland Irrigation District
Hutchinson Irrigation District #16
Icicle Irrigation District
Isenhardt Irrigation District
Kiona Irrigation District
Lake Chelan Reclamation District
Methow Valley Irrigation District
Methow-Okanogan Reclamation District
Model Irrigation District #18
Okanogan Irrigation District
Oroville Tonasket Irrigation District
Peshastin Irrigation District
Selah and Moxee Irrigation District
Terrace Heights Irrigation District
Wenas Irrigation District
Wenatchee Heights Reclamation District
Wenatchee Reclamation District
Wenatchee-Chiwawa Irrigation District

Irrigation/Reclamation Districts Continued

Whitestone Reclamation District
Wolf Creek Reclamation District
Yakima Reservation Irrigation District
Zillah Irrigation District

Library Districts

Asotin County Library
King County Law Library
Kitsap Regional Library
La Conner Regional Library
Lopez Island Library District
North Olympic Library System
Orcas Island Library District
Stevens County Rural Library District
Upper Skagit Library District
Whitman County Rural Library District

Miscellaneous

Benton-Franklin Council of Governments
Franklin County Emergency Management
Island Co Emergency Services Communications Center (I-Com)
Kittcom
Lower Columbia Fish Recovery Board
Spokane Regional Transportation Council
Wenatchee Valley Transportation Council
Whatcom Council of Governments

Mosquito Control Districts

Adams County Mosquito Control District
Benton County Mosquito Control District #1
Camano Island Mosquito Control District #1
Clark County Mosquito Control District
Columbia Mosquito Control District
Cowlitz County Mosquito Control District
Franklin County Mosquito Control
Grant County Mosquito Control District #1
Grant County Mosquito Control District #2
Leavenworth Mosquito Control District
Skamania County Mosquito Control District
Touchet-Lowden Mosquito Control District

Park & Recreation Districts

Adams County Park & Recreation Board #2
Adams County Park & Recreation District #4
Adams County Park District #1
Adams County Parks & Recreation District #3
Anderson Island Park & Recreation District
Bainbridge Island Metropolitan Park & Recreation District
Central Klickitat County Park & Recreation District
Clallam County Park & Recreation District #1
East County Park & Recreation District

Park & Recreation Districts Continued

Eastmont Metropolitan Park District
Fidalgo Pool & Fitness Center District
Key Peninsula Metropolitan Park District
Lincoln County Park & Recreation District #2
Lincoln County Park & Recreation District #3
Manson Park & Recreation District
Naches Park & Recreation District #1
North Whidbey Park & Recreation District
Oakesdale Park & Recreation District #4
Peninsula Metropolitan Park District
Quillayute Valley Park & Recreation District
San Juan Island Park & Recreation District
South Kitsap Park & Recreation District
South Whidbey Park & Recreation District
Tekoa Park & Recreation District #6
Upper Valley Park & Recreation Service Area
Vashon-Maury Island Park & Recreation District

Port Districts

Grant County Port District #4
Grant County Port District #5
Grant County Port District #6
Grant County Port District #7
Grays Harbor Historical Seaport Authority
Klickitat County Port District
Port District of South Whidbey Island
Port of Allyn
Port of Brownsville
Port of Centralia
Port of Chehalis
Port of Chelan County/Pangborn Memorial Airport
Port of Chinook
Port of Clarkston
Port of Columbia
Port of Coupeville
Port of Dewatto
Port of Douglas County
Port of Edmonds
Port of Eglon
Port of Ephrata
Port of Friday Harbor
Port of Garfield
Port of Grandview
Port of Grapeview
Port of Hoodspport
Port of Illahee
Port of Ilwaco
Port of Indianola
Port of Kingston

Port Districts Continued

Port of Lopez
Port of Manchester
Port of Mattawa
Port of Olympia
Port of Orcas
Port of Othello
Port of Peninsula
Port of Port Townsend
Port of Poulsbo
Port of Quincy
Port of Ridgefield
Port of Royal Slope
Port of Shelton
Port of Silverdale
Port of Skagit County
Port of Skamania County
Port of Tracyton
Port of Walla Walla
Port of Waterman
Port of Whitman County
Port of Willapa Harbor
Port of Woodland
Wahkiakum County Port District #1
Wahkiakum County Port District #2
Warden Port District #8

Public Development Authorities

4Culture
East Lewis County Public Development Authority
Foss Waterway Development Authority
Grays Harbor Public Development Authority
Hamilton Public Development Authority
North Beach Public Development Authority
NW Lincoln Co Regional Public Development Authority
Odessa Public Development Authority
Wind River Public Development Authority

Public Facilities Districts

Capital Area Regional Public Facilities District
Clark County Public Facilities District
Cowlitz County Public Facilities District
Everett Public Facilities District
Grays Harbor County Public Facilities District
Greater Wenatchee Regional Events Center PFD
Kitsap Public Facilities District
Lynnwood Public Facilities District
Richland Public Facilities District
Skagit County Regional Public Facilities District
Snohomish County Public Facilities District

Sewer Districts

Crystal Mountain Sewer District
Lake Chelan Sewer District
Lake Stevens Sewer District
Liberty Lake Sewer District
Loon Lake Sewer District #4
Midway Sewer District
Olympus Terrace Sewer District
Seaview Sewer District
Southwest Suburban Sewer District
Stevens Pass Sewer District
Valley View Sewer District

Water & Sewer Districts

Diamond Lake Water & Sewer District
Lenora Water & Sewer District
Lewis County Water & Sewer District #6
Penn Cove Water & Sewer District
Pondoray Shores Water & Sewer District
Sacheen Lake Sewer & Water District

Water Districts

Admiral's Cove Water District
Ashford Water District
Bayview Beach Water District
Black Diamond Water District
Cascade Valley Water District
Chelan Falls Water District
Chinook Water District
Clear Lake Water District
Crockett Lake Water District
Four Lakes Water District
Freeland Water District
Grays Harbor County Water District #1
Hangman Hills Water District #15
Highland Water District
Highline Water District
Kapowsin Water District
King County Water District #111
Kittitas County Water District #4
Kittitas County Water District #6
Lagoon Point Water District
McKenna Water District
Samish Water District
Scatchet Head Water District
Shoreline Water District
Silverdale Water District #16
Strathview Water District #16
SunLand Water District

Water Districts Continued

Swantown Water District
Tri-City Estates Water District #45
Vel View Water District #13
Vera Water and Power
Willapa Valley Water District

Weed Districts

Adams County Noxious Weed Board
Adams County Weed District #1
Intercounty Weed District #51
Intercounty Weed District #52
Kittitas County Weed District #2
Kittitas County Weed District #5
Lincoln County Noxious Weed Control Board
Spokane County Noxious Weed Control Board
Weed District #1 of Grant County
Weed District #3 of Grant County



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

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

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency**

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Web Site

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