Washington State Auditor's Office

Financial Statements Audit Report

Washington Counties Insurance Fund

Thurston County

Audit Period

January 1, 2012 through December 31, 2012

Report No. 1010811

Issue Date

December 9, 2013

Washington
Troy Kelley
State Auditor

Washington State Auditor
Troy Kelley

December 9, 2013

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,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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

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

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

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 business-type activities and the aggregate discretely presented component unit of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 12, 2013. As discussed in Note F of the notes to the financial statements, the Washington Counties Insurance Pool, a discretely presented component unit of the Fund, dissolved, with all remaining assets and liabilities transferring to the Fund, effective September 30, 2013.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 12, 2013

Independent Auditor's Report on Financial Statements

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

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Washington Counties Insurance Fund, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Component Unit Discontinuing Operations

As discussed in Note F of the notes to the financial statements, the Washington Counties Insurance Pool, a discretely presented component unit of the Fund, dissolved with all remaining assets and liabilities transferring to the Fund, effective September 30, 2013. The financial statements do not include any adjustments that might result from the outcome of this dissolution and transfer. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 12, 2013

Financial Section

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

Washington Counties Insurance Fund MCAG NO. 0775
Management Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

The management of the Washington Counties Insurance Fund ("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, 2012. 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 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:

The financial health of the Washington Counties Insurance Fund (WCIF) improved when comparing year end 2012 to year end 2011. Total net position increased from $4.46 million on December 31, 2011 to $4.83 million on December 31, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS:

Financial Statements

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

The *Statement of Revenues, Expenses and Changes in 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).

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 position. In the case of the Fund, assets exceeded liabilities by $4,832,131 at the close of the most recent fiscal year. $1,075,959 net position are invested in capital position; and $3,756,172 are 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 12/31/12 & 12/31/11

	2012	2011
Current Assets	$5,910,497	$4,835,825
Noncurrent (Capital) Assets, Net	$1,075,959	$1,100,109
Total Assets	$6,986,456	$5,935,934
Current Liabilities	$2,132,713	$1,420,242
Noncurrent Liabilities	$21,612	$54,496
Total Liabilities	$2,154,325	$1,474,738
Net Position (Equity)	$4,832,131	$4,461,196
Total Liabilities and Net Position	$6,986,456	$5,935,934

Washington Counties Insurance Fund's Change in Net Position as of 12/31/12 & 12/31/11

	2012	2011
Operating Revenue	$58,134,494	$1,841,033
Non-operating Revenue	$27,267	$67,354,429
Total Revenue	$58,161,761	$69,195,462
Operating Expense	$57,790,258	$1,544,531
Non-operating Expense	$568	$66,553,647
Total Expense	$57,790,826	$68,098,178
Change in Net Position	$370,935	$1,097,284
Beginning Net Position	**$4,461,196**	**$3,363,912**
Ending Net Position	**$4,832,131**	**$4,461,196**

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
STATEMENT OF NET POSITION
December 31, 2012

	Washington Counties Insurance Fund		Component Unit Washington Counties Insurance Pool	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$	3,337,536	$	133,933
Commissions & Admin Fees Receivable		63,210		
Premiums Receivable		796,497		
Accounts Receivable		-	$	112
Other Receivables		-	$	39,939
Prepaid Insurance		29,453		
Prepaid Other		6,562		
CFR (LTD) The Standard		964,251		
WDS Stabilzation Reserve		712,988		
Uncollected Premium Assessments			$	36,000
TOTAL CURRENT ASSETS		5,910,497	$	209,984
Noncurrent Assets:				
Captial Assets (Net of Accumulated Depreciation)		1,075,959		
TOTAL NONCURRENT ASSETS		1,075,959		-
TOTAL ASSETS	**$**	**6,986,456**	**$**	**209,984**
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	$	36,388	$	1,282
Other Payables		1,472,310		
Payroll Liabilities		1,157		
Unearned Revenue Liability		621,608		
Unclaimed Property Liability		1,250		
IBNR Liability				25,756
TOTAL CURRENT LIABILITIES		2,132,713		27,038
Non Current Liabilities:				
Compensated Absences		13,563		
Vehicle/Equipment Reserves		8,049		
TOTAL NONCURRENT LIABILITIES		21,612		-
TOTAL LIABILITIES	$	2,154,325	$	27,038
NET ASSETS				
Invested in Capital Assets		1,075,959		
Unrestricted	$	3,756,172	$	182,946
TOTAL NET POSITION		4,832,131		182,946

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

	Washington Counties Insurance Fund	Component Unit Washington Counties Insurance Pool
OPERATING REVENUES		
Administrative Fees	$ 1,213,931	
Commissions	468,410	
Premiums Collected	56,217,025	$ 829,432
Other	235,128	7,659
Total Operating Revenue	$ 58,134,494	$ 837,091
OPERATING EXPENSES		
Third Party Administration	$ 315,949	$ 112,182
Medical and Rx Claims in Expcess of IBNR		(73,795)
Vision Claims Expense		622,546
Uncollectible Accounts Expense		74,012
Vivacity Wellness Program	58,351	
Insurance Expense	51,777	
Interest Expense	6,066	
Salaries and Wages	481,653	
Personnel Benefits	155,525	
Premium Expense	56,217,025	
Incentive & Rewards Programs	4,824	
Marketing & Publications	10,999	
Professional Services	166,749	11,674
Board Expenses	11,875	11
Staff Travel	31,783	
General and Administrative	213,788	2,541
Depreciation	63,894	
Total Operating Expenses	$ 57,790,258	$ 749,171
OPERATING INCOME (LOSS)	$ 344,236	$ 87,920
NON OPERATING REVENUES (EXPENSES)		
Interest Income	$ 27,267	$ 334
Investment Fees	(568)	-
Total Non Operating Revenues (Expenses)	$ 26,699	$ 334
CHANGE IN NET POSITION	$ 370,935	$ 88,254
TOTAL NET POSITION, Beginning of the Year	$ 4,461,196	$ 94,692
TOTAL NET POSITION, End of the Year	$ 4,832,131	$ 182,946

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

	Washington Counties Insurance Fund	Component Unit Washington Counties Insurance Pool
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for premiums	$ 56,134,216	$ 944,702
Cash received for fees and commissions	1,775,176	
Cash received for reimbursement, refunds, and subrogation	1,359,826	13,910
Cash received from Uncollected Additional 2010 Premiums	-	6,893
Cash received from other income	122,140	
Cash payments for claims		(751,553)
Cash payments for premiums	(55,495,090)	
Cash payments for insurance coverage	(51,777)	
Cash payments for Third Party Administrators	(299,437)	(115,653)
Cash payments to suppliers for goods and services	(256,610)	
Other operating expenses	(418,492)	(14,226)
Cash payments to employees for services	(498,586)	
Net Cash Provided (Used) by Operating Activities	$ 2,371,365	$ 84,073
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Purchases	$ (39,744)	
Net Cash Provided (Used) by Investing Activities	$ (39,744)	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	$ 27,267	$ 334
Investment Fees	(568)	
Net Cash Provided (Used) by Investing Activities	$ 26,699	$ 334
Increase (Decrease) in Cash and Cash Equivalents	$ 2,358,320	$ 84,407
Cash and Cash Equivalents, Beginning of the Year	$ 979,216	$ 49,526
Cash and Cash Equivalents, End of the Year	$ 3,337,536	$ 133,933
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 344,236	$ 87,920
Adjustment to reconcile operating income to net cash provided operating activiites		
Depreciation Expenses	63,894	
Changes in Assets and Liabilities:		
(Increase) decrease in prepaid expenses	18,956	
(Increase) decrease in receivables	1,384,453	159,971
(Increase) decrease in CFR Account/WDS Rate Stabilization	(119,761)	
Increase (decrease) In IBNR liability		(42,397)
Increase (decrease) in payables	726,609	(3,471)
Increase (decrease) in compensated balances	(16,933)	
Increase (decrease) in vehicle reserves	(15,951)	
Increase (decrease) in Other Current Liabilities	(14,138)	
Increase (decrease) in claims payable	-	(117,950)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 2,371,365	$ 84,073

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2012tThrough December 31, 2012

NOTE A – GENERAL DISCLOSURES & SIGNIFICANT ACCOUNTING POLICIES

Organization - The Washington Counties Insurance Fund, the "Fund", was established for the payment of medical, dental, life, vision, and accidental death and dismemberment 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.

Component Unit – The Washington Counties Insurance Pool is a legally separate, tax-exempt component unit of Washington Counties Insurance Fund. In the fall of 2000, the Pool was created by the Fund in response to rapidly escalating medical insurance premiums. The Fund voted to self-insure the indemnity medical and the Pool was formed. The formation of the Pool took place during the first quarter of 2001 with indemnity medical coverage effective April 1, 2001 for employees of the Fund's member employers. The Pool is governed by County Commissioners from member counties and appointees from Local Government participating entities, with the majority of the voting governing board being appointed by the Fund. The Pool has no staff but has administrative services provided by the Fund. The Pool is considered a component unit of the Fund and is discretely presented in the Fund's financial statements. The Pool's fund/equity balance has declined, as referenced in its notes to financial statements. <u>Please refer to the financial statements and notes of the Pool for more information.</u>

As negative margins continued at higher levels in 2010 than had been experienced in 2008 or 2009, the Board decided to discontinue the self-insured PPO medical programs offered through the Washington Counties Insurance Pool (WCIP) effective 12/31/10. The Board voted to replace the self- insured medical plan with fully insured PPO medical plans through Premera that mirrored the plans previously offered through WCIP, effective 01/01/2011.

WCIP continued to sponsor a self-insured vision plan through VSP for 2011 and the beginning of 2012. The Board held a special meeting on June 29, 2012 and approved the termination of the self-insured vision program. All members were transferred to a fully-insured plan on September 1, 2012.

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.

Receivables - Receivables for the Washington Counties Insurance Fund consist of amounts owed for premiums by member groups and services which have been rendered by the trust for the period ended December 31, 2012, such as commissions and administration fees.

CFR (LTD) The Standard – The Claims Fluctuation Reserve (CFR) for the Fund's Long Term Disability (LTD) Program has a balance of $964,251. The CFR account was restricted by The Standard for the first five years of the LTD program but that restriction expired on December 31, 2011. These funds are fully accessible to the Fund, however, by leaving them on deposit with The Standard the Fund receives a 30% reduction in the premium rates for the LTD insurance.

WDS Stabilization Reserve – These funds are unrestricted and available to the Fund on request but are on deposit with Washington Dental Service (WDS) for rate stabilization in future renewal years.

Other revenue - This account includes Interest Income, and amounts that have been collected by the Fund that are miscellaneous in nature. For the period ended December 31, 2012 other revenues include SSA Section 218 Social Security taxes refunded.

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.

Restricted Funds – In accordance with certain related agreements, separate restricted funds are 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, 2012, the Fund had no restricted funds.

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 C – DEPOSITS

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

Deposits

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

Investments

All investments are shown on the entity-wide Statement of Net Assets at fair market values as of December 31, 2012; however the Washington State Local Government Investment Pool (LGIP) is reported on the balance sheet as Cash and Cash Equivalents. The LGIP is an un-rated 2a-7 like pool, as defined by GASB31, and not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Office of the State Treasurer manages the pool with the goals of the safety of principal and the assurance of sufficient liquidity to meet the cash flow demands of the participants, and strives to attain the highest possible yield within the constraints of those goals. Historically, the LGIP has had sufficient liquidity to meet the needs of the participants.

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

	Carrying Amount	Fair Value
Washington State Local Governments Investment Pool (LGIP)	$2,007,071	$2,007,071
Total Investments	$2,007,071	$2,007,071

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 D – CAPITAL ASSETS

Equipment is recorded at cost. 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.

Capital assets consist of the following at December 31, 2012:

	2012
Building	$1,138,222
Furniture and Fixtures	98,891
Vehicles	48,071
Computer Hardware, Software And Office Equipment	79,335
Total Capital Assets	$1,364,519
Accumulated Depreciation	(288,560)
Net Capital Assets	$1,075,959

NOTE E – PENSION PLAN

Substantially all the 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 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, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement 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 monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC.

The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55.

The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to but not yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	**261,705**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee contribution rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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 December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.711%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
*** Minimum rate.

Both Washington Counties Insurance Fund and the employees made the required contributions.

Washington Counties Insurance Fund's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012		$ 33,401.29	
2011		$ 29,635.35	
2010		$ 29,864.41	

NOTE F – SUBSEQUENT EVENTS

The Washington Counties Insurance Pool terminated the self-insured vision plan on August 31, 2012. Following a one year run out period, the Pool was dissolved on September 30, 2013 with all assets and liabilities transferring to the Washington Counties Insurance Fund.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
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Main number	**(360) 902-0370**
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