Washington State Auditor's Office

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Financial Statements Audit Report

Washington Counties Insurance Fund

Thurston County

For the period January 1, 2014 through December 31, 2014

Published September 17, 2015

Report No. 1015056

Washington State Auditor's Office

September 17, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Washington Counties Insurance Fund
Thurston County
January 1, 2014 through December 31, 2014

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 8, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 8, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Counties Insurance Fund
Thurston County
January 1, 2014 through December 31, 2014

Board of Trustees
Washington Counties Insurance Fund
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Counties Insurance Fund, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Insurance Fund, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 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 September 8, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 8, 2015

FINANCIAL SECTION

Washington Counties Insurance Fund
Thurston County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Washington Counties Insurance Fund MCAG NO. 0775

Management Discussion and Analysis
For the Fiscal Year Ended December 31, 2014

The management of the Washington Counties Insurance Fund (WCIF or "Fund") offers the readers of the Fund's financial statements, this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2014. To more fully understand the financial position of the Fund, this narrative should be considered in conjunction with the information contained in the Fund's financial statements and accompanying notes.

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

2014 was another year of stability for the Washington Counties Insurance Fund (WCIF). Despite the tumultuous environment of the health benefits industry due to the implementation of the new Federal health care reform requirements, WCIF showed modest growth in both enrollment and revenue. At a time when new requirements are forcing many Association Health Plans out of the Washington State market, WCIF is well positioned for the future.

FINANCIAL HIGHLIGHTS:

The financial health of the Washington Counties Insurance Fund (WCIF) improved when comparing year end 2014 to year end 2013. Total net position increased from $5.03 million on December 31, 2013 to $5.34 million on December 31, 2014.

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 health of the Fund is improving or deteriorating.

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

Notes to the Financial Statements

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

FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of an organization's financial health. In the case of the Fund, assets exceeded liabilities by $5,340,410 at the close of the most recent fiscal year. $1,045,419 net position is invested in capital position; and $4,294,991 is unrestricted and may be used to meet the Fund's administrative requirements or to stabilize premium rates. 2014 was a relatively stable year for the Fund with only modest increases in membership or enrollment numbers. Operating Revenues and Expenses remained relatively stable in comparison to the prior year activity.

Washington Counties Insurance Fund's Net Position as of 12/31/14 & 12/31/13

	2014	**2013**
Current Assets	$10,958,108	$5,004,119
Noncurrent (Capital) Assets, Net	$1,045,419	$1,061,731
Total Assets	$12,003,527	$6,065,850
Current Liabilities	$6,637,777	$1,002,839
Noncurrent Liabilities	$25,340	$30,283
Total Liabilities	$6,663,117	$1,033,122
Invested in Capital Assets	$1,045,419	$1,061,731
Unrestricted Net Position	$4,294,991	$3,970,997
Total Net Position (Equity)	$5,340,410	$5,032,728
Total Liabilities and Net Position	$12,003,527	$6,065,850

Washington Counties Insurance Fund’s Change in Net Position as of 12/31/14 & 12/31/13

	2014	2013
Operating Revenue	$60,437,924	$58,023,280
Non-operating Revenue	$17,112	$9,482
Total Revenue	$60,455,036	$58,032,762
Operating Expense	$60,147,156	$58,040,538
Non-operating Expense	$198	$5,761
Total Expense	$60,147,354	$58,046,299
Special Item – Transfer of Equity		$214,134
Change in Net Position	$307,682	$200,597
Beginning Net Position	**$5,032,728**	**$4,832,131**
Ending Net Position	**$5,340,410**	**$5,032,728**

REQUESTS FOR INFORMATION:

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

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

WASHINGTON COUNTIES INSURANCE FUND **MCAG NO. 0775**
STATEMENT OF NET POSITION
DECEMBER 31, 2014

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	8,555,771
Commissions & Administrative Fees Receivable	$	388,064
Premiums Receivable	$	200,386
Accounts Receivable		
Other Receivables	$	17,000
Prepaid Expenses	$	35,665
CFR (LTD) The Standard	$	1,188,968
WDS Stabilization Reserve	$	572,254
TOTAL CURRENT ASSETS	$	10,958,108
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	$	1,045,419
TOTA NONCURRENT ASSETS	$	1,045,419
TOTAL ASSETS	**$**	**12,003,527**
DEFERRED OUTFLOWS OF RESOURCES		
	$	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	463,995
Premiums Payable	$	5,999,365
Payroll Liabilities	$	15,139
Unearned Revenue Liability	$	159,278
TOTAL CURRENT LIABILITIES	$	6,637,777
Noncurrent Liabilities:		
Compensated Absences	$	25,340
TOTAL NONCURRENT LIABILITIES	$	25,340
TOTAL LIABILITIES	**$**	**6,663,117**
DEFERRED INFLOWS OF RESOURCES		
	$	-
TOTAL DEFERRED INFLOWS OF RESOURCES	$	-
NET POSITION		
Net Investment in Capital Assets	$	1,045,419
Restricted Assets	$	-
Unrestricted	$	4,294,991
TOTAL NET POSITION	**$**	**5,340,410**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

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

For the Fiscal Year Ended December 31, 2014

OPERATING REVENUES:		
Administrative Fees	$	1,421,234
Producer Fees	$	110,484
Commissions	$	477,105
Premiums Collected	$	58,291,516
Other	$	137,585
TOTAL OPERATING REVENUES	$	60,437,924
OPERATING EXPENSES:		
Third Party Administration	$	373,828
Vivacity Wellness Program	$	135,639
Wellness Grant Program	$	42,199
Wellness Program Expenses	$	3,317
Insurance Expense	$	48,839
Salaries and Wages	$	544,887
Personnel Benefits	$	179,832
Premium Expense	$	58,291,516
Publication and Printing	$	14,641
Incentive & Rewards Programs	$	6,407
Marketing & Promotional	$	30,865
Professional Services	$	172,980
Board Expenses	$	12,678
Staff Travel Expenses	$	53,831
General and Administrative Expenses	$	182,014
Depreciation	$	53,683
TOTAL OPERATING EXPENSES	$	60,147,156
OPERATING INCOME (LOSS)	$	290,768
NONOPERATING REVENUES (EXPENSES):		
Interest Income	$	9,486
Investment Fees	$	(198)
Gain/Loss on Sale/Disposal of Assets	$	7,626
TOTAL NONOPERATING REVENUES (EXPENSES)	$	16,914
CHANGE IN NET POSITION	$	307,682
TOTAL NET POSITION, Beginning of the Year	$	5,032,728
TOTAL NET POSITION, End of the Year	$	5,340,410

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOW

For the Fiscal Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for premiums	$	58,312,998
Cash received for fees and commissions	$	1,925,022
Cash received from other income	$	17,495
Cash payments for premiums	$	(52,292,151)
Cash payments for insurance coverage	$	(45,723)
Cash payments for Third Party Administrators	$	(373,828)
Cash payments to suppliers for goods and services	$	(339,484)
Cash payments for other operating expenses	$	(857,128)
Cash payments to employees for services	$	(544,887)
Net Cash Provided (Used) by Operating Activities	$	5,802,314
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
	$	-
Net Cash Provided (Used) by Non-Capital Financing Activities	$	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Purchases	$	(29,747)
Other Income	$	-
Net Cash Provided (Used) by Capital and Related Financing Activities	$	(29,747)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	$	2,207
Investment Fees	$	(198)
Net Cash Provided (Used) by Investing Activities	$	2,009
Increase (Decrease) in Cash and Cash Equivalents	$	5,774,576
Cash and Cash Equivalents, Beginning of the Year	$	2,781,195
Cash and Cash Equivalents, End of the Year	$	8,555,771

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

OPERATING INCOME	$	290,768
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	$	53,683
Changes in Assets and Liabilities:		
(Increase) decrease in prepaid expenses	$	10,275
(Increase) decrease in receivables	$	(62,051)
(Increase) decrease in Other Current Assets	$	12,000
(Increase) decrease in Stabilization Reserves	$	(132,357)
Increase (decrease) in payables	$	5,522,925
Increase (decrease) in compensated balances	$	9,105
Increase (decrease) in payroll liabilities	$	13,952
Increase (decrease) in vehicle reserves	$	(14,048)
Increase (decrease) in Other Current Liabilites	$	98,062
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	5,802,314

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Washington Counties Insurance Fund, (WCIF or "Fund"), was established for the payment of medical, dental, life, vision, 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; January 1, 2003; January 1, 2006; January 1, 2012; January 1, 2014; and January 1, 2015.

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

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

Cash and Cash Equivalents - For the purposes of reporting cash flows, the trust considers all highly liquid deposits with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash Equivalents includes $379,538 Cash on Hand, which is monies that have been received by the Washington Counties Insurance Fund and have been credited to the Accounts Receivable, but have not been deposited into an account in a financial institution. The remaining $8,176,233 in Cash and Cash Equivalents are deposited into accounts (Note B).

Receivables - Receivables for the Washington Counties Insurance Fund consist of amounts owed for premiums by member groups and services which have been rendered by the trust for the period ended December 31, 2014, 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 $ 1,188,968. 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 – The WDS Stabilization Reserve has a balance of $572,254. These funds are unrestricted and available to the Fund on request but are on deposit with Delta Dental [formerly Washington Dental Service (WDS)] for rate stabilization in future renewal years.

Other revenue - This account includes Interest Income, and amounts that have been collected by the Fund that are miscellaneous in nature.

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

Restricted Funds – In accordance with certain related agreements, separate restricted funds may be required to be established. The assets held in these funds are restricted for specific time periods and/or for specific uses. At the end of the fiscal period ended December 31, 2014, 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 B – 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 the 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.

As of December 31, 2014, WCIF had the following deposit accounts:

Bank of America	$ 6,163,158

Investments
All investments are shown on the entity-wide Statement of Net Assets at fair market values as of December 31, 2014; 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 GASB 31, 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, 2014, WCIF had the following investments:

	Carrying Amount	Market Value
Washington State Local Governments Investment Pool (LGIP)	$2,013,075	$2,013,075
Total Investments	$2,013,075	$2,013,075

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

NOTE C – CAPITAL ASSETS

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.

WASHINGTON COUNTIES INSURANCE FUND
MCAG NO. 0775
Notes to Financial Statements
January 1, 2014 Through December 31, 2014

Capital assets consist of the following at December 31, 2014:

Capital Asset	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
Building	$1,138,222			$1,138,222
Furniture and Fixtures & Leasehold Improvements	$ 98,891			$ 98,891
Vehicles	$ 48,070	$ 27,911	$ 26,119	$ 49,862
Computers, Software, and Office Equipment	$ 79,988	$ 9,460	$ 26,432	$ 63,016
Total Capital Assets:	$1,365,171	$ 37,371	$ 52,551	$1,349,991
Less Accumulated Depreciation For:	**Beginning Balance 01/01/2014**	**Increases**	**Decreases**	**Ending Balance 12/31/2014**
Building	$ 136,198	$ 29,185		$ 165,383
Furniture and Fixtures & Leasehold Improvements	$ 80,152	$ 11,803		$ 91,955
Vehicles	$ 32,338	$ 4,855	$ 26,119	$ 11,074
Computers, Software, and Office Equipment	$ 54,753	$ 7,839	$ 26,432	$ 36,160
Total Accumulated Depreciation:	$ 303,441	$ 53,682	$ 52,551	$ 304,572
Total Capital Assets, Net	$ 1,061,730			$ 1,045,419

NOTE D – PENSION PLAN

Substantially all Washington Counties Insurance Fund 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.

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; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 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.

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 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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 3 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 benefit 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 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 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 by 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, and were hired before May 1, 2013, 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the 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.

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

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 6 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee 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, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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*	11.71%	11.71%	11.71%**
Employer- Local Gov't Units*	9.21%	9.21%	9.21%**
Employee- State Agency	9.76%	9.80%	7.50%***
Employee- Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both Washington Counties Insurance Fund and the employees made the required contributions. The 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
2014	$	$ 50,184.03	
2013	$	$ 39,443.49	
2012	$	$ 33,401.29	

NOTE E – SUBSEQUENT EVENTS

Rejection of WCIF's 2014 Rates: In January of 2015, the Office of the Insurance Commissioner (OIC) rejected the 2014 rates filed by Premera Blue Cross and Group Health Cooperative (and Options) on behalf of the Washington Counties Insurance Fund. The unusual timing of the rejections resulted in the rejection of a rate filing that had expired and was no longer in use. Premera and the WCIF have appealed the OIC actions through an administrative appeal process which is currently ongoing.

The immediate operational and financial impact to the WCIF from the OIC action is negligible as the 2014 rate filing is no longer in use. In addition, any formal enforcement action or penalites would be assessed to the insurance carriers and not the WCIF. It is the WCIF's position that the 2014 rate filings are in full compliance with all state and federal laws and that the rates will be upheld on appeal. If that turns out not to be the case, the WCIF's rating structure will have to be amended to come into compliance. This would likely limit the WCIF's ability to market to a broader demographic and could have a long term limiting impact on future growth. The OIC has taken no action on the 2015 rate filings to date.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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