

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Washington Rural Counties Insurance  
Pool  
Grant County**

Audit Period  
**September 1, 2011 through August 31, 2012**

**Report No. 1010242**

Issue Date  
**August 19, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

August 19, 2013

Board of Directors  
Washington Rural Counties Insurance Pool  
Ephrata, Washington

***Report on Financial Statements***

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

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

Sincerely,

**TROY KELLEY  
STATE AUDITOR**

# Table of Contents

**Washington Rural Counties Insurance Pool  
Grant County  
September 1, 2011 through August 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 <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	6

**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 Rural Counties Insurance Pool  
Grant County  
September 1, 2011 through August 31, 2012**

Board of Directors  
Washington Rural Counties Insurance Pool  
Ephrata, 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 Rural Counties Insurance Pool, Grant County, Washington, as of and for the year ended August 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated July 29, 2013.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the Pool'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 Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool'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 Pool'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.

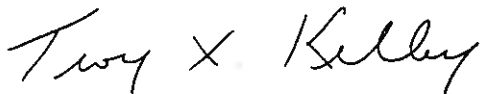
### **COMPLIANCE AND OTHER MATTERS**

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

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

### **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 Pool'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 Pool'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 KELLEY**  
STATE AUDITOR

July 29, 2013

# **Independent Auditor's Report on Financial Statements**

**Washington Rural Counties Insurance Pool  
Grant County  
September 1, 2011 through August 31, 2012**

Board of Directors  
Washington Rural Counties Insurance Pool  
Ephrata, Washington

## ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the Washington Rural Counties Insurance Pool, Grant County, Washington, as of and for the year ended August 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool'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 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 Pool'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 Pool'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 Rural Counties Insurance Pool, as of August 31, 2012, 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 7 through 9 and risk pools information on pages 22 through 23 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.

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The Schedule T-1 List of Participating Members and Schedule T-2 Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2013 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Pool's internal control over financial reporting and compliance.

*Troy X. Kelley*

**TROY KELLEY**  
STATE AUDITOR

July 29, 2013



# **Financial Section**

**Washington Rural Counties Insurance Pool  
Grant County  
September 1, 2011 through August 31, 2012**

## ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

## ***BASIC FINANCIAL STATEMENTS***

Balance Sheet – 2012  
Statement of Revenues, Expenses, and Changes in Fund Net Assets – 2012  
Statement of Cash Flows – 2012  
Notes to Financial Statements – 2012

## ***REQUIRED SUPPLEMENTARY INFORMATION***

Ten-Year Claims Development Information – 2012

## ***SUPPLEMENTARY INFORMATION***

Schedule T-1 List of Participating Members – 2012  
Schedule T-2 Schedule of Expenses – 2012

**WASHINGTON RURAL COUNTIES INSURANCE PROGRAM**  
**Management's Discussion and Analysis**  
**September 1, 2011 – August 31, 2012**

The management of the Washington Rural Counties Insurance Program (WRCIP) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the WRCIP for the fiscal year ending August 31, 2012. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

**Overview of the Financial Statements**

The Balance Sheet presents information on the WRCIP's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the program is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Assets shows both operating and nonoperating revenues and expenses that occurred during the year. The difference between revenues and expenses is reported as a change to net assets. Items are reported as the event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows provides information on how various activities of the program affect cash and cash equivalents during the fiscal year.

The Notes to the Financial Statements present additional information that is essential for a full understanding of the data provided in the accompanying financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the program's development of claims over the last ten years.

**WRCIP - Condensed Financial Information**

	2012	2011
Current Assets	\$3,287,026	\$2,929,294
Noncurrent Assets	\$0	\$3,772
Total Assets	<u>\$3,287,026</u>	<u>\$2,933,066</u>
Current Liabilities	\$652,771	\$1,441,286
Noncurrent Liabilities	\$924,756	\$0
Total Liabilities	<u>\$1,577,527</u>	<u>\$1,441,286</u>
Invested In Capital Asset, net of debt	\$	\$3,772
Restricted (for 70% Confidence Level)	\$	\$136,714
Unrestricted	\$1,709,499	\$1,351,294
Total Net Assets	<u>\$1,709,499</u>	<u>\$1,491,780</u>
Operating Revenues		
Member contributions	\$3,725,746	\$3,468,938
Nonoperating Revenues		
Interest Income	\$50,611	\$53,269
Total Revenues	<u>\$3,776,358</u>	<u>\$3,522,207</u>
Operating Expenses	\$3,551,535	\$3,092,609
Total Expenses	<u>\$3,551,535</u>	<u>\$3,092,609</u>
Income Before Contributions, Transfers, Special or Extraordinary Items	\$224,823	\$429,598
Prior Period Adjustments	\$(7,104)	\$0
Change in Net Assets	<u>\$217,718</u>	<u>\$429,598</u>
Ending Net Assets	<u>\$1,709,499</u>	<u>\$1,491,781</u>

## **Financial Statement Analysis**

The Washington Rural Counties Insurance Program (WRCIP) is a property and liability risk and insurance pooling program for counties. The WRCIP was formed in 1998 with three founding member counties. Current membership in the program is eight counties. A board of directors that includes an appointed representative from each member county governs the program. The Board of Directors contracts with Canfield, a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, account education, and risk management services.

The WRCIP had another favorable year with its income exceeding the expenses. The total net assets increased by a little over \$217,000, this was mainly due to the claims expenses being less than anticipated. The pool's current assets consist of cash and equivalents, investments and receivables from its members and its reinsurance/excess carriers. The pool invests any excess cash with the Grant County Investment Pool. These investments allow short-term liquidity with favorable interest rates. Current liabilities are accounts payable and reserves set aside for unpaid claims liabilities as determined by the pool's actuary. In addition, the WRCIP purchases a stop loss policy as another layer of protection to its membership. The program funds its claims liabilities to the actuary ultimate loss pick and has assets to fund to the 70% confidence level. The WRCIP does not have any restrictions or commitments that affect the availability of pool resources for future use.

## **Requests for Information**

This financial report is designed to provide a general overview of the Washington Rural Counties Insurance Program's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the WRCIP's third-party administrator, Canfield, 451 Diamond Drive, Ephrata, WA 98823.

**Washington Rural Counties Insurance Program**  
**Balance Sheet**  
**August 31, 2012**

<u>ASSETS</u>	<u>2012</u>
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$903,308
Investments	\$2,063,393
Receivables:	
Member Contributions	\$8,138
Accrued Member Deductibles	\$5,528
Other Receivables	\$306,659
TOTAL CURRENT ASSETS	\$3,287,026
TOTAL ASSETS	\$3,287,026
 <u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Claims Reserves:	
IBNR	\$314,719
Open Claims (Case Reserves)	\$318,323
Accounts Payable	\$19,729
TOTAL CURRENT LIABILITIES	\$652,771
 <u>Noncurrent Liabilities:</u>	
Claim Reserves:	
IBNR	\$459,746
Open Claims (Case Reserves)	\$465,010
TOTAL NONCURRENT LIABILITIES	\$924,756
TOTAL LIABILITIES	\$1,577,527
 <u>NET ASSETS</u>	
Unrestricted	\$1,709,499
TOTAL NET ASSETS	\$1,709,499
TOTAL NET ASSETS AND LIABILITIES	\$3,287,026

See Accompanying Notes to Financial Statements

**Washington Rural Counties Insurance Program**  
**Statement of Revenues, Expenses, and Changes In Fund Net Assets**  
**For the Fiscal Year Ended August 31, 2012**

	<b>2012</b>
<b>Operating Revenues:</b>	
Member Contributions	\$3,725,746
<b>Total Operating Revenues</b>	<b>\$3,725,746</b>
<b>Operating Expenses:</b>	
<i>Incurred Loss/Loss Adjustment Expenses:</i>	
Paid on Current Losses	\$144,507
Change in Loss Reserves	\$489,008
<i>Unallocated Loss Adjustment Expenses:</i>	
Paid Unallocated Loss Adjustment Expenses	\$325,899
Excess/Reinsurance Premiums	\$1,651,428
General and Administrative Expenses	\$936,921
Other Insurance Services	
Depreciation	\$3,772
<b>Total Operating Expenses</b>	<b>\$3,551,535</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$174,212</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest Income	\$50,611
<b>Total Nonoperating Revenues (Expenses):</b>	<b>\$50,611</b>
<b>Income Before Contributions, Transfers, Special and Extraordinary Items</b>	<b>\$224,823</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$224,823</b>
<b>Total Net Assets, September 1</b>	<b>\$1,491,781</b>
Prior Period Adjustments	(\$7,104)
<b>Total Net Assets, August 31</b>	<b>\$1,709,500</b>

See Accompanying Notes to Financial Statements

**Washington Rural Counties Insurance Program**  
**Statement of Cash Flows**  
**For the Fiscal Years Ended August 31, 2012**

	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from members	\$3,418,103
Cash payments to suppliers for good and services	(\$3,418,626)
Net Cash Provided (Used) by Operating Activities	(\$522)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Net Cash Provided (Used) by Noncapital Financing Activities	\$0
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Equipment Purchase	\$0
Net Cash Provided (Used) by Capital and Related Financing Activities	\$0
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Received	\$50,611
Net Cash Provided (Used) by Investing Activities	\$50,611
Increase (Dec) in Cash and Cash Equivalents	\$50,089
Cash and Equivalents, September 1	\$2,916,613
Cash and Equivalents, August 31	\$2,966,702

**Reconciliation of Operating Income to Net Cash  
Provided (Used) By Operating Activities**

	<b>2012</b>
<b>OPERATING INCOME</b>	<b>\$174,212</b>
Prior Period Adjustment	(7,104)
Depreciation Expense	\$3,772
(Increase) Decrease in Accounts Receivable	(\$307,643)
Increase (Decrease) in Unpaid Claims Liability	\$116,512
Increase (Decrease) Accounts Payable	\$19,729
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(\$522)</b>

See Accompanying Notes to Financial Statements

**NOTES TO FINANCIAL STATEMENTS**  
**WASHINGTON RURAL COUNTIES INSURANCE PROGRAM**  
For the Period  
September 1, 2011 through August 31, 2012

The following notes are an integral part of the financial statements accompanying the annual report.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Washington Rural Counties Insurance Program conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The following is a summary of the more significant policies:

a. **Reporting Entity**

The Washington (WRCIP) was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The WRCIP was formed on September 1, 1998 for purposes of the joint purchase of insurance and/or joint self-insuring and/or joint hiring or contracting for risk management purposes, claims administration and all other functions necessary to carry out provisions of the Interlocal Agreement. There were 8 member Counties as of August 31, 2012.

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is governed by an eight-member Board of Directors appointed by each member. It is felt the individual Counties are best able to select their own representatives to manage their insurance association. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.



b. Basis of Accounting

The accounting records of the WRCIP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapters 39.34 and 43.09. The WRCIP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* as amended by the GASB Statement 30, *Risk Financing Omnibus* and the GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The WRCIP uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The principal operating revenues of WRCIP are \$3,725,746.

Operating expenses include payment of claims, general and administrative costs, and reinsurance costs.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the WRCIP considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets – See Note 7.

e. Receivables

All receivables are from member Counties or insurance carriers and are, therefore, deemed collectible. All uncollectable accounts receivable under \$500 can be written off without Board permission, but are reported to the fiscal officer monthly. All debts or uncollectable accounts receivable over \$500 may only be written off with Board approval.

f. Investments - See Note 3.

g. Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

h. Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risk reinsured. The WRCIP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to reinsurers during 2012 were \$1,651,428.

i. Member Premium and Unearned Premiums

Member premiums are collected at the beginning of the fiscal year and recognized as revenue in the period for which insurance protection is provided. The program premium is calculated based on a percentage of the member's apportioned excess insurance cost. Unearned member premiums are premiums that are collected prior to the effective date of the policy.

j. Unpaid Claims

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

k. Reserve for Unallocated Loss Adjustment Expenses

Pursuant to the contract in place between WRCIP and its third-party administrator, the third-party administrator will administer in all matters related to the processing, supervision and resolution of all program and program membership claims or losses incurred during the term of the agreement.

I. 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 pool from insurance premium taxes and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Management is not aware of any violations of finance-related legal or contractual provisions.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

a. Deposits

The WRCIP deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

b. Investments

As of August 31, 2012, the WRCIP had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Investment in Grant County Investment Pool	<u>\$2,063,393</u>	<u>\$2,063,393</u>
Total Investments	<u>\$2,063,393</u>	<u>\$2,063,393</u>

**NOTE 4 – RISK FINANCING LIMITS (SELF-INSURED RETENTION)**

The following table reflects the risk financing limits on coverage policies issued and retained by WRCIP for the 2011-12 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 to \$5,000	\$25,000	\$100,000,000 per occurrence
Flood	\$25,000 per occurrence; \$500,000 per occurrence for Flood Zones prefixed A or V	\$25,000	\$35,000,000 annual aggregate
Earthquake	Greater of 2% of the total value or \$50,000 per occurrence	\$25,000	\$35,000,000 annual aggregate
Equipment Breakdown	\$2,500 per occ; Sewer Plants \$5,000	\$0	\$100,000,000
Employee Dishonesty	\$5,000	\$25,000	\$1,000,000
Auto Comp and Collision	\$1,000 Standard Some Vehicles Vary per Schedule	\$25,000	\$50,000,000
<b>Liability Loss:</b>			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000 to \$10,000	\$50,000	\$15,000,000 per occurrence;
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000 to \$10,000	\$50,000	\$15,000,000 per occurrence; \$45,000,000 group annual aggregate
Wrongful Acts / Misc. Professional Liability	\$1,000 to \$10,000	\$50,000	\$15,000,000 per claim; \$45,000,000 group annual aggregate

**NOTE 5 – REINSURANCE AND EXCESS INSURANCE CONTRACTS**

The pool maintains reinsurance and excess insurance contracts with several carriers which provide various limits of coverage over the pool's self-insured retention limits. All carriers are A rated. The aggregate limits provided by these contracts are as follows:

<u>Excess Insurance Contracts</u>	<u>2011-12</u>
General Liability	\$45,000,000
Automobile Liability, No Aggregate	\$15,000,000
Wrongful Acts Liability	\$45,000,000
Property	\$100,000,000 Replacement
Equipment Breakdown	\$100,000,000 Replacement
Employee Dishonesty, No Aggregate	\$1,000,000

Per-occurrence coverage limits provided by the Pool, including the excess insurance limits combined with the Pool's self-insured retention limits are as follows:

<u>Excess Insurance Contracts</u>	<u>2011</u>
General Liability	\$15,000,000
Automobile Liability	\$15,000,000
Wrongful Acts Liability	\$15,000,000
Property	\$100,000,000 Replacement
Equipment Breakdown	\$100,000,000 Replacement
Employee Dishonesty	\$1,000,000

There have been no settlements that exceeded insurance coverage in the past three years.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$1,651,428. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$35,249.

**NOTE 6 – MEMBERS’ SUPPLEMENTAL ASSESSMENTS AND CREDITS**

The Interlocal Agreement provides for supplemental assessments to members in the event the pool lacks resources to pay claims. The WRCIP has never made a supplemental assessment.

**NOTE 7 – CAPITAL ASSETS**

**Capital Assets**

Capital assets are defined by the pool as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years.

Capital assets are recorded at historical cost. Capital assets activity for the year ended August 31, 2012 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Equipment	\$18,858	\$0	\$18,858
Less Accum Depreciation	\$15,086	\$3,772	\$18,858
Total Capital Assets, net	<u>\$3,772</u>	<u>\$3,772</u>	<u>\$0.000</u>

Depreciation is calculated using the straight-line method with a useful life of five years.

**NOTE 8 – PRIOR PERIOD ADJUSTMENTS**

There were prior period adjustments of \$7,104 for fiscal year 2011 in order to report payables expensed to the correct year.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The WRCIP’s third party administrator and insurance broker are both owned by the same parent company, Brown and Brown, Inc. Canfield, the third party administrator, runs its operations from Ephrata, Washington. Apex Insurance, the pool’s broker, is located in Glen Allen, VA.

**NOTE 10 – UNPAID CLAIMS LIABILITY**

As discussed in Note 1, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following table represents changes in those aggregate liabilities for the pool during the current and previous year:

	<u>2012</u>	<u>2011</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$1,441,286	\$1,697,097
<b>INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:</b>		
Provision for Insured Events of Current Year	\$805,000	\$710,000
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>(\$94,067)</u>	<u>(\$510,483)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$710,933</u>	<u>\$199,517</u>
<b>PAYMENTS:</b>		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$144,507	\$182,255
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	\$449,914	\$273,073
Total Payments	<u>\$594,421</u>	<u>\$455,328</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$1,557,798</u>	<u>\$1,441,286</u>

**NOTE 11 - FINANCIAL SOLVENCY/REQUIRED ASSETS (WAC) 200-100**

Revised WAC 200-100 requires WRCIP to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 70% confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

		08/31/2012	08/31/2011
Primary Asset Test			
Primary Assets		\$2,946,972	\$2,916,612
Estimated Claims Liabilities at Expected Level		\$1,557,798	\$1,441,286
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		\$3,267,297	\$2,929,294
Estimated Claims at 70% Confidence Level		\$1,604,646	\$1,578,000
	Results	Pass	Pass



**Washington Rural Counties Insurance Pool**  
**TEN YEAR CLAIMS DEVELOPMENT INFORMATION**

Fiscal and Policy Year Ended August 31

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Net earned required contribution and investment revenues										
Earned							3,025,289	3,233,544	3,522,207	3,776,358
Ceded							1,668,642	1,756,344	1,853,782	1,651,428
Net earned	631,405	889,132	923,002	977,964	1,195,067	1,362,879	1,356,647	1,477,200	1,668,425	2,124,930
2. Unallocated expenses	110,780	138,865	181,520	252,584	249,293	294,673	777,978	735,336	857,056	1,266,592
3. Estimated incurred claims and expense, end of policy year										
Incurred							1,676,229	802,000	864,078	1,013,800
Ceded							891,026	12,000	154,078	208,800
Net incurred	490,993	752,703	748,948	775,310	836,681	944,763	785,203	790,000	710,000	805,000
4. Net Paid (cumulative) as of:										
End of Policy Year	197,182	245,633	217,276	389,325	319,681	319,892	142,587	208,370	182,255	144,507
One year later	310,350	356,747	294,315	467,250	409,436	450,832	222,338	312,927	403,295	
Two years later	357,851	472,575	442,691	627,753	494,476	382,018	415,149	383,490		
Three years later	420,734	530,392	559,632	656,226	344,427	413,225	535,249			
Four years later	442,432	582,905	613,140	474,299	411,845	457,393				
Five years later	449,577	585,391	356,635	480,242	426,344					
Six years later	449,920	394,804	377,472	480,169						
Seven years later	264,665	394,804	376,472							
Eight years later	264,665	395,079								
Nine years later	264,665									
5. Reestimated ceded claims and expenses	275,995	1,864,336	679,395	897,517	457,458	850,180	2,194,180	214,251	766,748	208,800
6. Reestimated incurred claims and expense:										
End of Policy Year	490,993	752,703	748,948	775,310	836,681	944,763	785,203	790,000	710,000	805,000
One year later	519,154	755,657	763,126	802,476	922,529	922,348	865,000	681,239	857,000	
Two years later	528,675	756,702	755,088	959,551	775,326	536,706	694,904	519,563		
Three years later	536,425	758,526	793,442	847,746	594,952	554,311	734,904			
Four years later	537,178	613,090	735,011	512,620	531,471	457,393				
Five years later	466,061	615,576	383,816	482,914	531,471					
Six years later	449,920	396,894	377,472	482,914						
Seven years later	264,665	396,894	376,472							
Eight years later	264,665	395,079								
Nine years later	264,665									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	(226,328)	(357,624)	(372,476)	(292,396)	(305,210)	(487,370)	(50,299)	(270,437)	147,000	0

**WASHINGTON RURAL COUNTIES INSURANCE PROGRAM**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**September 1, 2011 through August 31, 2012**

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

**1. Ten-Year Claims Development Information**

This table illustrates how the program's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the pool as of the end of each of the last ten years. The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the pool including overhead and claims expenses not allocable to individual claims.
3. This section shows the pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 2011 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates and management property estimates and aggregate stop losses. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

LIST OF PARTICIPATING MEMBERS  
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM

Asotin County  
Grant County  
Ferry County  
Klickitat County  
Lincoln County  
Stevens County  
Wahkiakum County  
Whitman County

Schedule T-2

SCHEDULE OF EXPENSES

Washington Rural Counties Insurance Program  
For the Fiscal Year Ended August 31, 2012

<b>Contracted Services:</b>	
Third Party Administrator Fees	\$51,712
Actuary	16,465
Audit Expenses	23,813
Legal Fees	6,202
Other Consultant Fees (Lobbyist)	3,000
<b>General Administrative Expenses:</b>	
Miscellaneous & Supplies	13,773
Retreat/Board Meetings	6,401
Depreciation	3,772
Prelitigation Program	52,781
Account Education	218,187
Bad Debt Expense	0
<b>Other:</b>	
Medicare Reporting	4,500
Director's E&O	17,500
Underwriting Fees	300,034
Local Agents Commission	222,554
Total Operating Expenses	<u>\$940,692</u>

(\*Total Operating Expenses detailed on this schedule includes General and Administrative Expenses, Other Insurance Services, and Depreciation from the Statement of Net Assets.)



## **ABOUT THE STATE AUDITOR'S OFFICE**

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

Our mission is to work 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.

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**Chief of Staff**  
**Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
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