

STATE RISK MANAGER'S REPORT
REVIEW OF REGULATORY COMPLIANCE
OF
WASHINGTON COUNTIES RISK POOL

As of September 30, 2011
Issued July 19, 2012

Results:

Based on audited financial information, Washington Counties Risk Pool meets standards adopted by the State Risk Manager in the areas tested.

Background:

The State Risk Manager in the Office of Risk Management, a division of the Department of Enterprise Services, State of Washington, is responsible for regulatory oversight of local government joint self-insured risk pools formed under the authority of chapter 48.62 RCW. The law requires the State Risk Manager to adopt rules for risk pools to follow, adopted as Washington Administrative Code (WAC) 200-100. Those rules include standards for solvency, operations and management and require that risk pools maintain certain financial reserves in order to ensure that claims are funded.

The State Risk Manager determines whether risk pools are operating in a safe financial condition, according to the solvency regulations. The pool's compliance with those regulatory requirements is based on audited financial information provided by the Washington State Auditor's office. Pools that operate in an unsafe financial condition or in violation of statutory or regulatory requirements may cause the State Risk Manager to take administrative action.

Areas Covered:

We examined the Pool's compliance with regulatory standards adopted in rule by the State Risk Manager in the following areas:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability
2. Financial Solvency/Required Assets
3. Presentation of Liabilities
4. Compliance with Reporting Requirements
5. Compliance with Membership Requirements
6. Financial Trends

Results of Review of Regulatory Compliance:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability

Requirement: Risk pools must obtain an annual actuarial review which meets the following criteria:

WAC 200-100-03001 requires that “(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end which provides estimates of the unpaid claims measured at the expected and the seventy percent confidence level. . .”

WAC 200-100-020 (1) "Actuary" means any person who is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Result: A review of the actuarial report of Kevin Wick, FCAS, MAAA, of Price Waterhouse Coopers, indicates that an actuary meeting the qualifications set forth above estimated the Pool’s liability for third-party liability claims at both the expected and the 70 % confidence level. Washington Counties Risk Pool has met this requirement.

2. Financial Solvency/Required Assets

Requirement 2.a: Risk pools must ensure claims liabilities are funded at the expected level by meeting certain standards for solvency and liquidity as follows:

WAC 200-100-03001 states, in part “ . . .(2) The governing body of the joint self-insurance program shall establish and maintain primary assets in an amount at least equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (20) "Primary assets" means cash and investments (less any nonclaims liabilities).

Results: Washington Counties Risk Pool met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected levels as determined by the Pool’s actuary.

Requirement 2.b: Risk pools must meet the above requirement to maintain primary assets and must also maintain other assets to fund claims liabilities at the 70 % confidence level as follows:

WAC 200-100-03001 states, in part, “. . . (3) The governing body of the joint self-insurance program shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the seventy percent confidence level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (23) states that "Secondary assets" means insurance receivables, real estate or other assets (less any nonclaims liabilities) the value of which can be independently verified by the state risk manager.

Results: Washington Counties Risk Pool met this requirement by funding claims liabilities in excess of the 70 % confidence level required as determined by the Pool’s actuary. The secondary assets consist of additional cash reserves, investments and other assets (property and equipment are excluded from this calculation). Also excluded were nonclaims liabilities, including prepaid contributions.

	Test 1 - Primary Asset Test		Test 2 - Secondary Asset Test
	(WAC 200-100-03001(2))		(WAC 200-100-03001(3))
\$20,632,000	Primary Assets	\$31,112,000	Secondary Assets
\$14,992,000	Estimated Claim Liabilities at the expected level per actuarial estimate	\$15,898,000	Estimated Claim Liabilities at the 70% confidence level per actuarial estimate
RESULT:	PASS	RESULT:	PASS
	<i>Estimated outstanding liabilities (Note 1) at the expected level must be less than primary assets (cash and investments less nonclaims liabilities)(Note 2)</i>		<i>Estimated outstanding liabilities (Note 1) at the seventy percent confidence level must be less than combined primary assets and secondary assets (receivables, recoverables, real estate and other assets that can be independently verified by the State Risk Manager)(Note 2)</i>

(Note 1) The outstanding liabilities are estimated by an independent actuary meeting the requirements of WAC 200-100-020(1). Actuarial reports submitted as part of the annual report to the State Risk Manager are available by contacting Vyrle Hill, Executive Director of Washington Counties Risk Pool at 360-292-4495. Contact information is also available by visiting the Pool’s website at <http://www.wcrp.info/contact.html> .

(Note 2) The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The audit reports are available on the State Auditor’s Office website at <http://www.sao.wa.gov/EN/Pages/default.aspx> , or by telephone at (360) 902-0370.

3. Presentation of Liabilities

Requirement 3.a: The estimated liability for unpaid claims as presented in the Pool’s financial statements is supported by the actuarial report.

RCW 43.09.200 Local government accounting — Uniform system of accounting. The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Result: Washington Counties Risk Pool meets this requirement by reporting the amount of the total liability for unpaid claims in its 2011 audited financial reports as \$14,992,000, which is supported by the report of the independent actuary.

4. Compliance with Reporting Requirements

Requirement: The pool is required by WAC 200-100-60 to provide unaudited annual financial statements to the State Risk Manager within 150 days of fiscal year end, and audited financial statements are to be provided to the State Risk Manager within one year of the fiscal yearend date. If required by the State Risk Manager, a pool must provide quarterly reports based on its financial condition.

WAC 200-100-60 requires that “. . . (1) Every joint property and liability self-insurance program authorized to transact business in the state of Washington shall submit the annual report to the state risk manager.

(2) The annual report to the state risk manager shall require the following information to be submitted in electronic form:

(a) Unaudited annual financial statements, including attestation, as provided to the state auditor’s office;

(b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the unaudited financial statements are based;

(c) Copies of all insurance coverage documents;

(d) List of contracted consultants;

(e) Details of changes in articles of incorporation, bylaws or foundation agreement;

(f) Details of services provided by contract to nonmembers;

(g) List of members added or terminated.

Such reports shall be submitted to the state risk manager no later than one hundred fifty days following the completion of the joint program’s fiscal year.

(3) Audited financial statements shall be provided to the state risk manager within one year of the program’s fiscal year end and comply with requirements for submission of audited financial statements established by the state risk manager.

(4) All joint self-insurance programs shall submit quarterly financial reports if, in the estimation of the state risk manager, the financial condition of a program warrants additional quarterly reporting requirements. . .”

Results: The Pool met this requirement by providing both audited and unaudited financial statements within the time required. The Pool is not required to report quarterly. Washington Counties Risk Pool received an unqualified opinion on its audited financial statements for FY 2011 from the State Auditor.

5. Compliance with Membership Requirements

Requirement: Participants in the Pool's insurance program must sign the interlocal agreement and must also be responsible for the contingent liabilities of the program if assets are insufficient.

WAC 200-100-02005 provides that "Membership in a joint self-insurance program requires the execution of a foundation agreement. Only members may participate in risk-sharing. Only members may participate in the self-insured retention layer, and only members may participate in the joint purchase of insurance or reinsurance".

RCW 48.62.141 requires that "Every joint self-insurance program covering liability or property risks, excluding multistate programs governed by RCW 48.62.081, shall provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities".

Results: The Pool is in compliance with this requirement. Our review of the membership list and interlocal agreements indicates that participation in the Pool's excess and self-insured retention layer is limited only to those members signing the Pool's interlocal agreement which provides for shared risk and joint responsibility for liabilities. The agreement also provides that members are responsible for the contingent liabilities of the program if assets are insufficient.

6. Financial Trends

Requirement: Risk pools are required to notify the State Risk Manager if solvency requirements are not met (WAC 200-10003001(2)) and the State Risk Manager is required to monitor trends over time and take action when programs experience adverse trends which may require the State Risk Manager to take additional actions.

WAC 200-100-03001 states, in part ". . . (4) The state risk manager shall evaluate the operational safety and soundness of the program by monitoring changes in liquidity, claims reserves and liabilities, member equity, self-insured retention, and other financial trends over time. Programs experiencing adverse trends may cause the state risk manager to increase frequency of on-site program review and monitoring, including increased communication with the governing body and requirements for corrective plans. . ."

Results: Financial trends show the increases and decreases in assets, liabilities, revenues and expenses. The information below was taken directly from the audited financial statements of FY 2011. Upon review, no adverse financial trends were noted (See Attachments A & B).

Attachment A - Trends in Assets, Liabilities and Membership

	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	9/30/2011	9/30/2010	9/30/2009	9/30/2008	9/30/2007	9/30/2006
ASSETS:						
Cash and Cash Equivalents	35,737,238	33,026,490	22,767,431	19,317,651	24,902,986	18,262,637
Member Deductible	782,602	1,243,646	787,861	2,639,448	898,868	1,106,316
Excess/Reinsurance Recoverable	1,055,240	861,355	8,193,385		0	0
Retro Assessment Premium Receivable				0	332,708	1,022,823
Member Liability Assessment Receivable	2,139,792	1,917,055	2,086,033	943,787	795,467	1,394,041
Property Insurance Assessment Receivable	243,299	535,517	706,987	412,721	0	960
Prepaid Expenses	2,000	2,850	0	6,647,495	0	0
Other Accounts Receivable	33,322	116,230	109,009		100,600	1,598
Capital Assets (Net of Accumulated Depreciation)	983,848	1,033,510	1,058,202	1,103,766	716,338	758,932
Investment held for Resale (Franjo Beach)	150,000	150,000				
TOTAL ASSETS	41,127,341	38,886,654	35,708,908	31,064,869	27,746,966	22,547,307
LIABILITIES:						
Claim Reserves						
Reserves for Open Claims	3,219,531	3,861,864	3,354,196	2,898,097	3,250,952	2,680,897
IBNR Claims Reserve	2,353,447	2,283,272	3,738,490	4,395,431	4,692,992	5,058,118
AL/GL Corridor Reserves						
Reserves for Open Claims	5,358,868	3,829,925	3,476,000	1,225,000	350,000	
IBNR Claims Reserve	3,216,068	3,180,914	1,659,214	2,577,571	1,650,000	
Reserve for ULAE	844,207	889,299	904,149	860,564	819,633	644,672
Accounts Payable	496,219	636,229	81,019	591,462	182,130	224,319
Accrued Liabilities	85,266	77,370	72,808	57,684	52,821	41,870
Unearned Revenue - Members Assessments	14,523,684	13,918,411	14,260,668	11,680,555	11,430,175	9,141,407
TOTAL LIABILITIES	30,097,290	28,677,284	27,546,544	24,286,365	22,428,702	17,791,283
TOTAL NET ASSETS/EQUITY	11,030,051	10,209,370	8,162,363	6,778,505	5,318,264	4,756,024
Number of County Members	27	27	28	28	28	28
Avg Equity per Member	408,520	378,124	291,512	242,089	189,938	169,858

Attachment B - Trends in Revenues and Expenses

	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	9/30/2011	9/30/2010	9/30/2009	9/30/2008	9/30/2007	9/30/2006
REVENUES:						
Member Assessments -- Liability Insurance	11,354,006	11,508,205	9,139,429	9,141,287	9,141,407	9,800,082
Member Assessments -- Property Insurance	2,606,106	2,890,723	2,546,189	2,322,429	2,286,503	1,438,461
Member Services - Revenues	106,930	110,964	70,566	100,000	28,776	329
Insurance Recovery-Over SIR						1,152,678
Interest Income	55,930	67,537	221,392	630,365	760,477	483,808
Rental Income	0	5,322	20,518	10,314	0	
Rental Expense	0	-527	-4,533	-2,114		
Recovery of Franjo Beach Property	0	150,000				
Miscellaneous Income	0	0	0	855	4,645	0
Gains (Losses) on Capital Asset Disposition						307,555
TOTAL	14,122,972	14,732,224	11,993,561	12,203,136	12,221,808	13,182,913
EXPENSES:						
Current Year's "Claims" Reserve	1,570,125	1,502,751	1,437,299	1,264,343	1,182,993	1,353,914
Current Year's "Corridor" Reserve	2,375,000	2,475,000	1,825,000	1,825,000	2,000,000	
Adjustment of Prior Years' Claims Reserves	-850,922	-1,652,831	-878,038	-251,088	554,843	-1,520,697
Reserve for ULAE	-45,092	-14,850	43,585	40,932	174,960	-83,139
Reinsurance Premiums	5,480,000	5,480,000	3,697,000	3,806,063	3,772,810	6,398,438
Excess Insurance Premiums	525,054	579,758	369,661	384,790	384,790	373,681
Property Insurance Premiums	2,535,007	2,787,059	2,460,925	2,260,094	2,266,927	1,443,465
Depreciation Expense	49,661	53,666	45,564	70,947	65,372	74,235
Operating Expenditures	1,663,458	1,474,664	1,608,706	1,341,814	1,256,874	1,147,102
TOTAL	13,302,291	12,685,217	10,609,703	10,742,895	11,659,569	9,186,999
CHANGES IN NET ASSETS	820,681	2,047,007	1,383,859	1,460,241	562,240	791,363

Conclusion: We appreciate the cooperation and assistance of the staff and management of Washington Counties Risk Pool during this process. No exceptions were noted and no recommendations were made as a result of this review.

About Washington Counties Risk Pool:

The Washington Counties Risk Pool was established to provide its member counties with joint programs and services including self insurance, purchasing of insurance and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. As of fiscal year end 2011, the Pool included 27 member counties.

The Pool is governed by a Board of Directors consisting of one representative designated by each member county. Its day-to-day operations are administered by the Board-appointed Executive Director who reports to an 11-member Executive Committee and the Board. For the year under review, the Pool operated on an annual operating budget of approximately \$1.73 million and had nine employees.

About State Risk Manager Regulatory Compliance Reviews:

RCW 48.62 provides authority for local governments to join or form a self-insurance program together with other entities, to jointly purchase insurance or reinsurance with other entities, and to contract for or hire personnel to provide risk management, claims and other administrative services. The State Risk Manager in the Office of Risk Management, Department of Enterprise Services, is authorized by RCW 48.62 to adopt rules for self-insurance programs formed under this chapter to follow. The rules contain standards for operations and management, claims administration, solvency, including frequency of actuarial studies and claims audits, and standards for contracts between self-insurance programs and private businesses.

In order to ensure compliance with these standards, which are adopted as Washington Administrative Code (WAC) 200-100, the Local Government Self-Insurance Program, under the direction of the State Risk Manager, conducts periodic reviews of joint self-insurance programs and, when necessary, provides for further investigation of those programs that are not operating in a safe and sound financial manner as required. The State Risk Manager may take certain administrative actions, including the issuance of a cease and desist order, when a program operates in violation of chapter 48.62 RCW or does not operate in a financially safe manner.

Each local government member of a joint self-insurance program is responsible for providing monies to the pool to pay claims for the years in which they were a member of the pool. Even if a member leaves a pool, a reassessment, or “cash call”, can occur in later years, requiring local government members to provide additional monies for past funding deficiencies for years in which they were a member. For this reason, the Local Government Self-Insurance program takes proactive measures to monitor the financial health of local government risk pools and to communicate the results of monitoring and periodic compliance reviews before adverse financial trends affect the pool and its local government members. Frequent reviews of compliance with the State Risk Manager’s rules are undertaken and the results are reported, in writing, to the board of directors and management of the pool.

Questions about this report should be addressed to the Local Government Self Insurance Program or the State Risk Manager, located at the Department of Enterprise Services, by telephone at 360-407-8153, or at shannon.stuber@des.wa.gov . The Department of Enterprise Services is located at 1500 Jefferson Street, PO Box 41466, Olympia, WA 98504-1466.

WASHINGTON COUNTIES RISK POOL

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Created by Counties for Counties



WCRP's response to the

STATE RISK MANAGER'S REPORT REVIEW OF REGULATORY COMPLIANCE OF

WASHINGTON COUNTIES RISK POOL

As of September 30, 2011

The referenced report was presented to and discussed with the Board of Directors during the Annual Meeting of the Washington Counties Risk Pool ("the WCRP") held in Ocean Shores, Washington, July 26-27, 2012. We extend our sincere thanks and we would also like to take to express our appreciation to the State Risk Manager and staff for the thoroughness of the recent examination and the results communicated in the report. We strongly support the efforts of the State Risk Manager to ensure that "pooling" under its purview within Washington complies with Chapters 48.62, Revised Code of Washington (RCW) and with Washington Administrative Code (WAC) 200-100.

We agree with the examination's findings of the WCRP and its operations and the results presented within the referenced report. We believe they are reflective of our commitment to both "pooling" excellence and to code compliance. WAC 200-100 requires Washington's self-insured risk pools to maintain primary and secondary assets for funding claims-related liabilities equivalent to at least an actuarially-computed 70% confidence level. In early 2007 after a very large reassessment of the WCRP membership was satisfied, however, the WCRP Board decided to increase the WCRP funding objectives to the actuarial 98% confidence level.

We were pleased to have reported during our 2011 Annual Meeting achieving that much higher level. We are even more pleased to report that our funding levels continue to rise. Funding self-insured programs at higher confidence levels affords those pools and their memberships with opportunities they otherwise wouldn't be able to consider, including rate stabilization and minimizing the reassessment potential. Yet, the WCRP Board decided during its recent Annual Meeting to go even further and engage its independent actuary to complete a capital modeling/needs study for the WCRP during the next fiscal year to assist the Board with further evaluation of the WCRP funding needs and insuring goals and objectives.

In addition to solvency and funding stability, transparency is quite important to the WCRP and its membership. Much more information is available from the WCRP website (www.wcrp.info) including its meeting notices and minutes of its proceedings. It is also where we proudly post electronic copies of our Annual Reports and the examinations of the State Auditor's office (finding-free since inception in 1988).



Steve Bartel
Py2012 WCRP President



Vyrle Hill
Executive Director