Washington State Auditor's Office

Financial Statements Audit Report

Washington Counties Risk Pool

Thurston County

Audit Period
October 1, 2009 through September 30, 2010

Report No. 1005148

Issue Date
February 28, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

February 28, 2011

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Thurston County
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Washington Counties Risk Pool
Thurston County
October 1, 2009 through September 30, 2010

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated February 9, 2011. The Pool has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *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.

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

COMPLIANCE AND OTHER MATTERS

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 9, 2011

Independent Auditor's Report on Financial Statements

Washington Counties Risk Pool
Thurston County
October 1, 2009 through September 30, 2010

Board of Directors
Washington Counties Risk Pool
Tumwater, Washington

We have audited the accompanying basic financial statements of the Washington Counties Risk Pool, Thurston County, Washington, as of and for the years ended September 30, 2010 and 2009, as listed on page 5. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Counties Risk Pool, as of September 30, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 11, claims development information on pages 26 through 27 and reconciliation of claims liabilities on page 28, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The Pool has not presented all of the management's discussion and analysis information that accounting principles generally accepted in the United State of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 9, 2011

Financial Section

Washington Counties Risk Pool
Thurston County
October 1, 2009 through September 30, 2010

WCRP… *Management's Discussion and Analysis*

The management of the Washington Counties Risk Pool ("WCRP" or "Risk Pool") offers this narrative overview and analysis of the financial activities of the WCRP for the fiscal year that ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements for Fiscal Year ("FY") 2010 and the notes to those financial statements to enhance their understanding of the WCRP financial performance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements for the Washington Counties Risk Pool. The financial statements pertain solely to the WCRP, which has no other component units for which it is financially accountable. The Risk Pool operates as a single proprietary fund in accounting for the members' participation in the public entity. This type of fund is used for "business type activities" that are intended to recover all or a significant portion of their costs through user fees and charges.

The primary function for the WCRP is administering a jointly funded, (third-party liability) self-insurance program for the Risk Pool's member counties from within the state of Washington. Its primary source of revenue is the fees/assessments paid by its present and former member counties. And its major expenses are payments of claims and judgments, including their associated fees and charges, and payments for selected insurance coverage options purchased from superior-rated reinsurance and excess insurance carriers. The following are some of the recent Risk Pool financial highlights:

- Operating Income was experienced during FY-2010 of more than $1.8 million, a 59% increase from FY-2009. Substantially contributing to this improvement was the nearly million dollar (13.4%) reduction in the independent actuary's estimate for the Pool-only layer's claims reserves. And during the past five years, nearly $6.8 million has been realized in Operating Income.
- Interest Income slipped further to a measly $0.1 million (-69%) due once again to the nearly non-existent rates available to municipal investors under Washington State's regulations as well as the lowering of interest rates to address the national and worldwide recession.
- Total Assets grew by $3.2 million (9%) during FY-2010 and $17.8 million (85%) in the past five years to nearly $38.9 million. Specifically, current assets increased $3.1 million (9%) during FY-2010, while non-current assets increased $0.1 million (12%).
- 769 claims (and lawsuits) were added to the Pool's claims-related database during FY-2010, a 20% decline in submissions from FY-2009 yet raising the to-date total (Oct 1988 – Sep 2010) of third-party liability claims submitted by WCRP member counties to 17,238. With 16,800 of the claims designated as *closed*, only 438 claims remained classified as *open* at year's end. Still, the Pool's independent actuary estimated another 440 claims could be filed for covered occurrences from all WCRP years through September 2010, bringing the estimated ultimate claims total to 17,678.

  Total claims reserves for the Pool's direct exposures increased to $14.0 million, up 7% from FY-2009 and 35% during the past five years. That total includes $6.1 million (down 13% from one year ago and 37% in the past five years) for losses in the Pool-only layer; $7.0 million (up 37% from one year ago) for losses within the (automobile liability / general liability) "corridor" program's aggregated stop losses; and $0.9 million (down 2% from one year ago but up 22% from five years ago) for unallocated loss adjustment expenses.

NOTE: The corridor program only began four years ago. Its occurrence coverage maximum increased to one million dollars in FY-2010, up from the half million level that existed during the program's first three years. The program's occurrence coverage minimum remained the greater of the applicable member's deductible or $100,000.

- Net Assets (also referred to as "Members' Equity") increased $2.0 million during FY-2010 and $9.4 million during the past five years to in excess of $10.2 million at September 30, 2010. Of that total, $5.8 million is classified as 'Restricted' - $1.0 million to satisfy the newer solvency provisions of WAC 82.60.03001 and the remaining $4.8 million to address the 98% confidence factor requirements in Section D of the WCRP Underwriting Policy. Another $0.2 million is invested in a real property recovery and $1.0 million in Capital Assets (net of debt). The remaining $3.2 million is 'Non-Restricted' and available for use. The WCRP Board of Directors is the authority that must decide if, how much, and when distributions of any (Non-Restricted) Net Assets are to be made.

The WCRP basic financial statements are comprised of two components, the financial statements and the notes to the financial statements. To more fully understand the financial position of the Risk Pool, this narrative must be viewed in context with information contained in the companion financial statements and their accompanying notes.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the finances of the Washington Counties Risk Pool. They are prepared using the accrual accounting basis in accordance with the *U.S. generally accepted accounting principles* applicable to governmental enterprise funds.

The *Comparative Statement of Net Assets* presents the financial position of the WCRP at September 30th of the most recent fiscal year(s). Information is displayed on assets and liabilities, with the difference between the two reported as Net Assets. Over time, the changes in Net Assets may provide a useful indicator regarding how the WCRP is meeting the financial needs and expectations of its member counties.

The *Comparative Statement of (Revenues, Expenses and) Fund Net Assets* presents information detailing the revenues and expenses that resulted in the change (i.e. revenues in excess of expenses) to Net Assets during the fiscal year(s). All revenues and expenses are reported on an accrual basis, which means that all changes in net assets are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will (or did) result in cash flows in future or past periods (e.g. accrued investment income, incurred claims costs).

The *Comparative Statement of Cash Flow* presents the cash provided for and used by WCRP operations categorized by operating, capital and investing activities. The effects of accrual accounting have been adjusted out, and non-cash activities such as depreciation have been removed. This statement reconciles the beginning and ending cash balances for the year(s) reflected in the balance sheet.

Notes to the Financial Statements

The *Notes to the Financial Statements* follow the basic financial statements and provide additional information essential to fully understanding the data provided in the financial statements of the Washington Counties Risk Pool.

COMPARATIVE FINANCIAL INFORMATION – Washington Counties Risk Pool

NET ASSETS

	09/30/2010	09/30/2009	Change $	Chg %
Current Assets	$37,703,144	$34,650,706	$3,052,438	8.8
Non-current (Capital) Assets	1,033,510	1,058,202	(24,692)	-2.3
Investment Held for Resale	150,000		150,000	100.0
Total Assets	**$38,886,654**	**$35,708,908**	**$3,177,746**	**8.8**
Current Liabilities	$28,827,285	$27,546,545	$1,280,740	4.6
Restricted Equity – UW Policy, § D	5,847,409	6,345,958	(498,549)	-7.8
Restricted Net Assets – Investment of Franjo Beach	150,000	0	150,000	100.0
Unrestricted Net Assets	3,178,450	758,203	2,270,247	279.6
Invested in Capital Assets, Net of Debt	1,033,510	1,058,202	(24,692)	-4.7
Total Liabilities and Net Assets	**$38,886,654**	**$35,708,908**	**$3,177,746**	**8.9**

REVENUES, EXPENSES and CHANGES IN NET ASSETS

	FY-2010	FY-2009	Change $	Chg %
Operating Revenues				
Member JSLIP Assessments	$11,508,205	$9,139,429	$2,368,776	25.9
Member WCPP Assessments	2,890,723	2,546,189	344,534	13.5
Operating Revenues – Miscellaneous	110,964	70,566	40,398	57.2
Total Operating Revenues	***$14,509,892***	***$11,756,184***	***$2,753,708***	***23.4***
Non Operating Revenues (and Expenses)				
Interest Income	$67,537	$221,392	($153,855)	-69.5
Recovery of Franjo Beach Property	150,000	0	150,000	100.0
Rental Income (net)	4,794	15,985	(11,191)	-70.0
Total Non-Operating Revenues	***$ 222,331***	***$ 237,377***	***($15,046)***	***-6.3***
Total Revenues	**$14,732,223**	**$11,993,562**	**$2,738,661**	**22.8**
Operating Expenses				
Current Year's Claims Reserve	$1,502,751	$1,437,299	$65,452	4.6
Current Year's Aggregate Stop Loss	2,475,000	1,825,000	650,000	35.6
Prior Years' Claim Reserve Adjustment	(1,652,831)	(878,038)	(774,793)	88.2
Reserve for ULAE	(14,850)	43,585	(58,435)	-134.1
Reinsurance Premiums (JSILP)	5,480,000	3,697,000	1,783,000	48.2
Excess (Liability) Insurance Premiums	579,758	369,661	210,097	56.8
WCPP (Property) Premiums	2,787,059	2,460,925	326,134	13.3
Depreciation Expenses	53,666	45,564	8,102	17.8
Administrative Expenses	1,474,664	1,608,706	(134,042)	-8.3
Total Operating Expenses	**$12,685,217**	**$10,609,703**	**$2,075,514**	**19.6**
CHANGES IN NET ASSETS	***$2,047,006***	***$1,383,859***	***$663,147***	***47.9***
Beginning Net Assets (October 1st)	**$8,162,363**	**$6,778,505**	**$1,383,858**	**20.4**
Ending Net Assets (September 30th)	**$10,209,369**	**$8,162,363**	**$2,047,006**	**25.1**

CASH FLOWS

	09/30/2010	09/30/2009	Change $	Chg %
Net Cash Provided (Used) For Op. Activities	$10,364,173	$3,212,402	$7,151,771	222.6
Net Cash Provided (Used) For Cap. Activities	(172,650)	15,985	(188,635)	-1180.1
Net Cash Provided (Used) For Investing Act.	67,536	221,392	(153,856)	-69.5
Increase (Decrease) in Cash & Cash Equiv.	**$10,259,059**	**$3,449,780**	**$6,809,280**	**197.4**
Cash & Cash Equivalents (Beg. of Year)	$22,767,431	$19,317,651	$3,449,780	17.9
Cash & Cash Equivalents (End of Year)	$33,026,490	$22,767,431	$10,259,059	45.1

BUDGETARY VARIATIONS:

Costs for administering the Risk Pool were reduced 6.0% (more than $95,200) from the prior fiscal year. The following summarizes the administrative budget variations during FY-2010.

1. Staffing remained near the level established prior to FY-2005. Further implementation of the board-approved salary schedule (2006), but without any cost-of-living-adjustments, coupled with increased costs for established employee benefits only slightly elevated the Payroll and Benefits costs (+0.4%).
2. Supply purchases were reduced 23.0%.
3. Other Services and Charges costs were reduced 15.4%. More specifically,
    a. Professional Services acquisitions were down 24.0% with funds actually used for:
        i. Phase 2 property appraisals (-28.7%) for the Washington Counties Property Program ("WCPP");
        ii. Actuarial services (-37.4%) even with a supplemental study of the Risk Pool's self-insured retention levels to assist the Business Model Task Force;
        iii. Information Technology (hardware and software) system maintenance (-47.8%). This includes servers/workstations, webpage, RiskMaster™ and the WCPP Property Inventory Management System;
        iv. SAO auditing and SRM oversight fees (+1.3%);
        v. Administrative support of Member Services operations (-3.0%);
        vi. Legal services (-21.2%) for complex public records requests presented to the Risk Pool, coverage questions, pre-defense reviews, and a minor amount for the fraudulent actions of a former WCRP employee; and
        vii. Reporting support and assistance for MMSEA compliance (+531.6%);
    b. Travel costs were up 7.1%; and
    c. Combined costs for Communications, Operating Rentals/Leases, (Business) Insurance, Utility Services, Office Maintenance, and Miscellaneous categories were down 16.3%.
4. Training costs declined further (-15.9%) even with still another installment from ACE Public Entities, one of the Pool's coverage reinsurers, for training program enhancements aimed at lessening severities and/or frequencies of member counties' tortuous occurrences, especially those stemming from employment activities.
5. Capital Outlays acquired during FY-2010 included a new automobile ($21,704) for use by the claims staff and a replacement exchange server ($7,269).

6. Operating Adjustments – Leave Expense decreased some from the prior fiscal year due to an extended absence, but still reflects employee leave accruals exceeding usage. Still, the account seems to be stabilizing in relation with the Risk Pool's employment base.

ADMINISTRATIVE BUDGET

Comparative	Actual FY-10	Actual FY-09	Diff $	Diff %
Payroll & Benefits	$784,783	$781,599	$3,184	0.4
Supplies	16,000	20,767	(4,767)	-23.0
Professional Services	280,570	369,047	(88,477)	-24.0
Communications	17,732	17,553	179	1.0
Travel, Conference & Meeting Expenses	154,707	143,779	10,928	7.6
Repairs & Maintenance	446	908	(462)	-50.9
Other Expenditures (including Capital Outlays)	120,739	113,184	7,555	6.7
Training	123,404	146,745	(23,341)	-15.9
TOTAL BUDGET EXPENDITURES	**$1,498,381**	**$1,593,582**	**($95,201)**	**-6.0**
Operating Adjustments:				
Capitalized & Depreciated Outlays	(28,973)	0	(28,973)	-100.0
Annual/Sick Leave Expense	5,256	15,124	(9,868)	-65.2
TOTAL ADMIN. EXPENDITURES	**$1,474,664**	**$1,608,706**	**($134,042)**	**-8.3**

Fiscal Year 2010	Actual	Budget	Diff $	Diff %
Payroll & Benefits	$784,783	$801,593	($16,810)	-2.1
Supplies	16,000	18,600	(2,600)	-14.0
Professional Services	280,570	285,150	(4,580)	-1.6
Communications	17,732	19,000	(1,268)	-6.7
Travel, Conference & Meeting Expenses	154,707	181,000	(26,293)	-14.5
Repairs & Maintenance	446	2,600	(2,154)	-82.8
Other Expenditures (incl. Capital Outlays)	120,739	139,050	(18,311)	-13.2
Training	123,404	286,600	(163,196)	-56.9
TOTAL BUDGET EXPENDITURES	**$1,498,381**	**$1,733,593**	**($235,212)**	**-13.6**
Operating Adjustments:				
Capitalized & Depreciated Outlays	(28,973)			
Annual/Sick Leave Expense	5,256			
TOTAL ADMIN. EXPENDITURES	**$1,474,664**			

Fiscal Year 2009	Actual	Budget	Diff $	Diff %
Payroll & Benefits	$781,599	$807,826	($26,227)	-3.2
Supplies	20,767	17,600	3,167	18.0
Professional Services	369,047	293,475	75,572	25.8
Communications	17,553	18,700	(1,147)	-6.1
Travel, Conference & Meeting Expenses	143,779	209,200	(65,421)	-31.3
Repairs & Maintenance	908	3,900	(2,992)	-76.7
Other Expenditures (incl. Capital Outlays)	113,184	143,450	(30,266)	-21.1
Training	146,745	283,350	(136,605)	-48.2
TOTAL BUDGET EXPENDITURES	**$1,593,582**	**$1,777,501**	**($183,919)**	**-10.3**
Operating Adjustments:				
Capitalized & Depreciated Outlays	0			
Annual/Sick Leave Expense	15,124			
TOTAL ADMIN. EXPENDITURES	**$1,608,706**			

CAPITAL ASSET AND DEBT ACTIVITIES:

Capital Assets

As earlier noted, the Risk Pool made Capital Asset purchases in FY-2010 of a new fleet automobile being used by the claims division staff ($21,704) and a replacement exchange network server ($7,269).

Long-Term Debt

The Risk Pool also had no long-term debt as of September 30, 2010.

REQUEST FOR INFORMATION:

Once again, this Management's Discussion and Analysis is provided as a general overview of the Washington Counties Risk Pool for all those with an interest in the Pool's finances. Questions concerning the information provided and the Risk Pool's financial report, or requests for additional information, should be addressed to: WASHINGTON COUNTIES RISK POOL, Attn: Executive Director Vyrle Hill, 2558 R.W. Johnson Road SW, Suite 106, Tumwater, WA 98512-6103, or telephone 360/292-4495.

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF NET ASSETS

For the Fiscal Years Ended September 30, 2010 and 2009

ASSETS:	**Year Ended 9/30/2010**	**Year Ended 9/30/2009**
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 33,026,490	$ 22,767,431
Member Deductible	1,243,646	787,861
Excess/Reinsurance Recoverable	861,355	8,193,385
Member Liability Assessment Receivable	1,917,055	2,086,033
Property Insurance Assessment Receivable	535,517	706,987
Prepaid Expenses	2,850	0
Other Accounts Receivables	116,230	109,009
TOTAL CURRENT ASSETS	$ 37,703,144	$ 34,650,705
NONCURRENT ASSETS:		
Capital Assets (Net of Accumulated Depreciation)	$ 1,033,510	$ 1,058,202
Investment held for Resale (Franjo Beach)	150,000	
TOTAL NON CURRENT ASSETS	$ 1,183,510	$ 1,058,202
TOTAL ASSETS	**$ 38,886,654**	**$ 35,708,908**
LIABILITIES:		
CURRENT LIABILITIES:		
Claim Reserves		
Reserves for Open Claims	$ 3,861,864	$ 3,354,196
IBNR Claims Reserve	2,283,272	3,738,490
xs $100M AL/GL Corridor Reserves		
Reserves for Open Claims	3,829,925	3,476,000
IBNR Claims Reserve	3,180,914	1,659,214
Reserve for ULAE	889,299	904,149
Accounts Payable	636,229	81,019
Accrued Liabilities	77,370	72,808
Unearned Revenue - Members Assessments	13,918,411	14,260,668
TOTAL CURRENT LIABILITIES	$ 28,677,284	$ 27,546,544
NET ASSETS:		
Restricted Net Assets - Underwriting Policy Section D	$ 5,847,409	$ 6,345,958
Restricted Net Assets - Investment of Franjo Beach	$ 150,000	
Non-Restricted Net Assets	3,178,450	758,203
Capital Assets Net of Debt	1,033,511	1,058,202
TOTAL NET ASSETS	$ 10,209,370	$ 8,162,363
TOTAL NET ASSETS AND LIABILITIES	**$ 38,886,654**	**$ 35,708,908**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND FUND NET ASSETS

For the Fiscal Years Ended September 30, 2010 and 2009

	Year Ended 9/30/2010	Year Ended 9/30/2009
OPERATING REVENUES:		
Member Assessments -- Liability Insurance	$ 11,508,205	$ 9,139,429
Member Assessments -- Property Insurance	2,890,723	2,546,189
Member Services - Revenues	110,964	70,566
Total Operating Revenues	$ 14,509,892	$ 11,756,184
OPERATING EXPENSES:		
Current Year's "Claims" Reserve	$ 1,502,751	$ 1,437,299
Current Year's "Corridor" Reserve	2,475,000	1,825,000
Adjustment of Prior Years' Claims Reserves	(1,652,831)	(878,038)
Reserve for ULAE	(14,850)	43,585
Reinsurance Premiums	5,480,000	3,697,000
Excess Insurance Premiums	579,758	369,661
Property Insurance Premiums	2,787,059	2,460,925
Depreciation Expense	53,666	45,564
Operating Expenditures	1,474,664	1,608,706
Total Operating Expenses	$ 12,685,217	$ 10,609,703
OPERATING INCOME	$ 1,824,675	$ 1,146,481
NON OPERATING REVENUES (EXPENSES)		
Interest Income	$ 67,537	$ 221,392
Rental Income	5,322	20,518
Rental Expense	(527)	(4,533)
Recovery of Franjo Beach Property	150,000	
Miscellaneous Income	0	0
Total Nonoperating Revenues (Expenses)	$ 222,332	$ 237,378
CHANGES IN NET ASSETS	$ 2,047,007	$ 1,383,859
TOTAL NET ASSETS, Beginning of Year	$ 8,162,363	$ 6,778,504
TOTAL NET ASSETS, End of Year	**$ 10,209,370**	**$ 8,162,363**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF CASH FLOW

For the Fiscal Years Ended September 30, 2010 and 2009

	Year Ended 9/30/2010	Year Ended 9/30/2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members & insurers	$ 21,377,105	$ 6,448,979
Cash payments for goods and services	(10,371,363)	(2,439,853)
Cash payments to employees for services	(790,039)	(796,724)
Net Cash Provided (Used) by Operating Activities	$ 10,215,703	$ 3,212,402
CASH FROM CAPITAL ACTIVITIES:		
Purchase of Equipment & Building	$ (28,974)	$ -
Cash from Rental of Office (net)	4,793	15,985
Net Cash Provided (Used) by Capital Activities	$ (24,181)	$ 15,985
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	$ 67,536	$ 221,392
Net Cash Provided (Used) by Investing Activities	$ 67,536	$ 221,392
Increase (Decrease) in Cash and Cash Equivalents	$ 10,259,058	$ 3,449,780
Cash and Cash Equivalents - Beginning of the Year	$ 22,767,431	$ 19,317,651
Cash and Cash Equivalents - End of the Year	**$ 33,026,490**	**$ 22,767,431**

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
COMPARATIVE STATEMENT OF CASH FLOW

For the Fiscal Years Ended September 30, 2010 and 2009

	Year Ended 9/30/2010	Year Ended 9/30/2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 1,824,675	$ 1,146,481
Adjustments to Reconcile Net Operating Income to Net Cash provided (used) by Operating Activities:		
Depreciation Expense	53,666	45,564
Decrease (Increase) in Accounts Receivable	7,209,471	(7,887,318)
Increase (Decrease) in Claims Reserves	(947,550)	1,131,801
Increase (Decrease) in AL/GL Corridors Reserves	1,875,626	
Increase (Decrease) in Reserve for ULAE	(14,850)	43,585
Increase (Decrease) in Unearned Revenue	(342,257)	2,580,113
Increase (Decrease) in Accounts Payable	555,210	(510,444)
Increase (Decrease) in Accrued Liabilities	4,562	15,125
Increase (Decrease) in Prepaid Expenses	(2,850)	6,647,495
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ 10,215,703**	**$ 3,212,402**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Investment Held for Resale - Franjo Beach Property	$ 150,000	
Recovery of Franjo Beach Property	(150,000)	

The accompanying notes are an integral part of this financial statements

WASHINGTON COUNTIES RISK POOL
NOTES TO FINANCIAL STATEMENTS
October 1, 2009 Thru September 30, 2010

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Washington Counties Risk Pool conform to generally accepted accounting principles ("GAAP"). The following is a summary of the more significant policies:

a. Reporting Entity

The Washington Counties Risk Pool ("WCRP") was organized August 18, 1988 to provide its members with joint programs including self-insurance, purchase of insurance, and contracting for or hiring personnel to provide administrative, claims handling and risk management services pursuant to Chapter 48.62, RCW. It was established via agreement amongst Washington's counties under the Interlocal Cooperation Act (Chapter 39.34, RCW).

A new member county makes a 60 month commitment when joining the WCRP. A member may withdraw after that time at the end of any WCRP fiscal year provided the county has given the WCRP at least a twelve-month written notice of its intent to withdraw. New members must be approved by a majority vote of the (WCRP) Board, provided that a majority of the (WCRP) Executive Committee may approve the admission, fees and premiums of any new member counties of less than 125,000 populations. The membership of the WCRP presently includes 27 counties with populations ranging from 2,300 to 470,300.

WCRP members are subject to supplemental assessment(s) in the event of deficiencies. Underwriting and rate-setting policies are modified after consultation with the insurance producer and/or independent actuary. Annual deposit assessments are adjusted to incorporate actuarial projections and operational needs, and then approved by the (WCRP) Board. If its assets were depleted, members would be responsible for outstanding liabilities of the WCRP.

Twenty or twenty five million dollars (member option) in third-party "per occurrence" liability coverage was provided via the WCRP to its member counties during policy year 2010 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury. That included joint self-insurance coverage from the WCRP of ten million dollars, subject to each member's individual deductible, along with "following form" excess insurance coverage of ten or fifteen million dollars. The WCRP is reinsured for losses within its layers of coverage exceeding the greater of one hundred thousand dollars or the member's deductible. Members annually select a "per occurrence" deductible amount of ten, twenty five, fifty, one hundred, two hundred fifty or five hundred thousand dollars. There are no annual aggregate limits to the payments the WCRP might make for any one member county or all members combined.

The WCRP also offers counties a joint-purchase program for insuring their properties with extraordinary limits. This includes five hundred million dollars "all other perils" coverage with two hundred million dollars per occurrence/annual aggregate catastrophe limits each for earthquake and flood coverage. During the 2010 policy year, there were twenty-seven counties participating.

b. Basis of Accounting and Presentation

The accounting records of the WCRP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The WCRP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement 10, *Accounting And Financial Reporting For Risk Financing And Related Insurance*

Issues, as amended by GASB Statement 30, *Risk Financing Omnibus,* GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds,* and GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In 1999 GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The presented financial statements (including notes) reflect this and consecutive statements.

The WCRP 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.

The principal operating revenues of the WCRP are member assessments (sometimes referred to as premiums or contributions), while operating expenses include claims paid from current year allowances and adjustments to prior year's reserves, insurance (reinsurance, excess and property) premiums, and administrative expenses.

c. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the WCRP considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalent.

d. Capital Assets and Depreciation

See Note 7

e. Receivables

The WCRP Board of Directors, acting through its Executive Committee, decides if any accounts are deemed uncollectible. Uncollectible accounts are charged to expense in the period they are deemed uncollectible.

f. Investments

See Note 2.

g. Compensated Absences

Compensated absences are absences for which the employees will be paid such as vacation and sick leave. The WCRP records unpaid leave for compensated absences as an expense and liability when incurred.

Annual Leave may be accumulated up to 30 days and is payable upon resignation, retirement, or death. An employee with more than sixty days sick leave accrued may convert the days earned in the previous year (less any sick leave days used in that year) to annual leave days at the rate of four days of sick leave for one day of annual leave. Sick leave may accumulate up to 130 days. Sick leave does not vest until death or retirement, and the accrued liability is booked at ½ the amounts earned.

h. Unpaid Claim Liabilities

The WCRP establishes claim liabilities based on independent actuarial estimates of the ultimate cost of claims, including future claims adjustment expenses for claims/lawsuits that have been reported but are not settled and for claims that have been incurred but are not yet reported. The length of time for which such costs must be estimated varies depending on the coverage type involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability.

Claims liabilities are actuarially recomputed periodically using the Jury Verdict Value process and a variety of techniques and formulas to produce current estimates that reflect recent settlements, claims frequencies, 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 reflects 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.

i. Reinsurance

The WCRP uses reinsurance agreements to reduce its exposure to large third-party liability losses. Reinsurance permits recovery of substantial portions of the losses from reinsurers, although it does not discharge the primary liability of the WCRP (and its member counties) as the direct insurer of the risks reinsured. The WCRP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The cumulative to-date incurred loss amount deducted from claims liabilities as of September 30, 2010 and 2009 for reinsurance were $16,762,665 and $10,443,682 respectively. Premiums ceded to reinsurers during 2010 and 2009 were $5,480,000 and $3,697,000 respectively. The cumulative to-date total loss reserves amount deducted from claims liabilities as of September 30, 2010 for reinsurance was $48,251,995.

j. Member Assessments and Unearned Member Assessments

Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. On the balance sheet, member assessments receivables were billed September 1st with up to the amount equivalent to 105% of the prior year's assessment being due by September 30th, and any remaining assessments due by the following January 31st. The assessments calculated were based on the members' prior year's worker hours and licensed vehicle counts. Investment income is not considered for the determination of member assessments.

k. Unpaid Claims

Claims/Lawsuits are charged to revenues as incurred. Claim reserves represent the accumulation of estimates for reported, unpaid claims plus a provision for claims incurred but not reported (IBNR). These estimates are continually reviewed and updated by applying the Jury Verdict Value process, and any resulting adjustments are reflected in current earnings.

l. Reserve for Unallocated Loss Adjustment Expense

The reserve for unallocated loss adjustment expenses (ULAE) represents the estimated cost to be incurred with respect to the settlement of both claims in process and those claims recognized as incurred but not reported (IBNR). The independent actuary estimates this liability at the end of each year. The change in this liability each year is reflected in current earnings.

m. 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 WCRP from state insurance premium taxes and from business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

This shall serve as a follow up to a fraud involving the Washington Counties Risk Pool and committed by a former Risk Pool employee. This matter was investigated by the SAO and initially reported upon as Report No. 1001789 issued July 20, 2009, wherein it was disclosed the Mason County Prosecuting Attorney had pursued the former employee with criminal charges of First Degree Theft. The former employee pled guilty and was sentenced by Superior Court Judge Toni A. Sheldon to 60 months confinement in the custody of the state Department of Corrections and is currently serving out that sentence.

Immediately following the sentencing hearing, the Pool commenced civil legal actions to obtain reconveyance of the real property. A Quit Claim Deed and related papers, signed by the family members to whom the property was fraudulently conveyed, were obtained by the Pool's legal counsel and filed in Mason County, Washington. The court later issued a Quiet Title order in favor of the Risk Pool.

In the early part of fiscal year 2010, all requirements of the Quit Claim and Quiet Title were met and the property was deeded to the Pool. The transfer of ownership is recorded on the Pool's balance sheet at the court's appraised value of $150,000. It is also recognized in the Cash Flow Statement as Noncash Investing Capital.

NOTE 3 - DEPOSITS AND INVESTMENTS

a. Deposit

The WCRP 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

The WCRP had invested with the Local Government Investment Pool and administered by the State Treasurer funds on September 30, 2010 and 2009, of $29,274,116 and $21,696,579 respectively.

NOTE 4 - JOINT SELF-INSURED RETENTION

The WCRP retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its reinsurance and excess insurance contracts.

For fiscal years 2010 and 2009 the Pool's per-occurrence retention limit was $100,000 for liability claims. For liability claims greater than $100,000 but less than $500,000, the Pool's aggregate reinsurance retention pertaining only to Public Officials Liability, Employment Practices Liability and Employee Benefits Liability is $20,000,000.

Through pre-funded member assessments (deposit assessments) collected at the beginning of each policy year, the WCRP committed assets for the years ended September 30, 2010 and 2009 of $1,502,751 and $1,437,299 respectively, and is committing $1,570,125 for PY-2011, specifically for the purpose of funding its self-insured retentions for those years.

NOTE 5 – REINSURANCE/EXCESS INSURANCE CONTRACTS

The WCRP, on behalf of and in conjunction with its members, maintains both reinsurance and "following form" excess insurance contracts with several superior-rated insurance carriers which provide various limits of coverage over the WCRP third-party liability self-insured retention limits. The limits provided by these reinsurance/excess insurance contracts for both PY-2010 and PY-2009 are as follows:

I. An "occurrence-based" Comprehensive Joint Self-Insurance Liability Policy with no aggregates that includes auto, employment, general, professional, and public officials' coverage.

WCRP/Member SIR (*)	Reinsurance (**)	Excess Insurance (***)	Total (***)
$100,000	$9,900,000	$10,000,000	$20,000,000

* Counties annually select individual deductible amounts of $10,000, $25,000, $50,000, $100,000, $250,000 or $500,000.

** The WCRP provides joint, self-insurance for the balance between the member deductibles and $10,000,000 with reinsurance purchased to address losses that exceed the greater of the member's deductible or $100,000.

*** An additional $5,000,000 "following form" excess insurance policy is available as a county-by-county option that was purchased by the majority of the member counties.

II. The Washington Counties Property Program (WCPP) was established October 1, 2005. The coverage was initially purchased by seventeen counties. Five counties were added during the first policy year that ended September 30, 2006; three more counties joined in the 2006-07 policy year; another county joined at the beginning of Py2008; a 27th participated March through September 2008; and one more county joined and one withdrew in Py2010 keeping the total participating counties at 27. WCPP general coverage specifications and limits are as follows:

LIMITS OF INSURANCE:	**$500,000,000**; All Indicated Limits are per Occurrence; Subject to Sub-Limits [below].
PERILS:	All Risks of Direct Physical Loss or Damage Including Equipment Breakdown, Earthquake and Flood.
PROPERTY COVERED:	Real & Personal Property, Business Interruption, Extra Expense, Rental Value, Demolition and Increased Cost of Construction, Valuable Papers, Accounts Receivable, Transit, EDP (Equipment,/Media /Extra Expense), Newly Acquired Property, Course of Construction, Contractors Equipment, Errors and Omissions, Offsite Storage and Personal Property of the Insured's officers and employees while on the premises of the Insured.

SUBLIMITS: *Are within, and do not increase, the limits stated in the Limits of Insurance.*

$200,000,000	Earthquake and Volcanic Eruption – Per Occurrence and Annual Aggregate
$200,000,000	Flood – Per Occurrence and Annual Aggregate, except:
$ 25,000,000	Flood for locations wholly or partially within a SFHA – Per Occurrence and Annual Aggregate
$ 20,000,000	Terrorism, certified and non-certified
$100,000,000	Equipment Breakdown

VALUATION:

A. Real and Personal Property and Mobile Equipment – Replacement Cost
B. Vehicles on Premises – Actual Cash Value
C. Business Interruption and Extra Expense – Actual Loss Sustained

DEDUCTIBLES

A. All loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of $5,000 (to $50,000 as individual county selection) **except;**

B. Earthquake: **$100,000,** except Puget Sound Earthquake (ISO Zone 2) shall be **2%** of the total values at the time of loss at each location involved in the loss subject to a minimum of **$ 100,000,** for any one occurrence shall be deducted from any adjusted Earthquake loss; or

C. Flood: The following sum(s) shall be deducted from any adjusted loss due to Flood;

(1) With respect to locations wholly or partially within Special Flood Hazard Areas (SFHA), areas of 100-year flooding, as defined by the Federal Emergency Management Agency (if these locations are not excluded elsewhere in this policy with respect to the peril of flood), the deductible shall be **5%** of the total values at the time of loss at each location involved in the loss, subject to a minimum of **$1,000,000** for any one occurrence;

(2) With respect to Named Storms (a storm that has been declared by the National Weather Service to be a Hurricane, Typhoon, Tropical Cyclone or Tropical Storm), the deductible shall be **5%** of the total values at the time of loss at each location involved in the loss, subject to a minimum of **$100,000** for any one occurrence;

(3) With respect to any other flood loss, the deductible shall be **$100,000** any one occurrence.

D. Windstorm and Hail: All loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of $5,000 (to $50,000 as individual county selection);

NOTE: If two or more deductible amounts in this policy apply to a single occurrence, the total to be deducted shall not exceed the largest deductible applicable.

WASHINGTON COUNTIES RISK POOL
NOTES TO FINANCIAL STATEMENTS
October 1, 2009 Thru September 30, 2010

NOTE 6 - MEMBER'S SUPPLEMENTAL ASSESSMENTS AND CREDITS

RCW 48.62.141 and the WCRP Interlocal Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities. Deficits of the WCRP are financed through supplemental (retroactive) assessments against its affected member counties. During policy year 2010, no additional retroactive assessments were levied or collected.

NOTE 7 – CAPITAL ASSETS

Capital assets are defined by WCRP policy as having an initial, individual cost of at least $2,500 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost.

Capital assets activities for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance 9/30/09	Increase (Decrease)	Ending Balance 9/30/10
Capital Assets Being Depreciated:			
Building	$ 1,125,659		1,125,659
Office Furnishings and Equipment	303,034	27,443	330,477
Total Capital Assets being Depreciated	$ 1,428,693	27,443	1,456,136
Less Accumulated Depreciation for:			
Building	$ 101,970	37,522	139,492
Office Furnishings and Equipment	268,521	14,614	283,135
Total Accumulated Depreciation	$ 370,491	52,136	422,627
TOTAL CAPITAL ASSETS NET	$ 1,058,202	$ (24,693)	$1,033,509

When equipment is retired or otherwise disposed of, its cost and accumulated depreciation are removed from the WCRP asset accounts, and the net gain or loss on disposition is credited to or charged against income.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings	30
Building Improvements	30
Vehicles	5
Equipment	5

WASHINGTON COUNTIES RISK POOL
NOTES TO FINANCIAL STATEMENTS
October 1, 2009 Thru September 30, 2010

NOTE 8 - PENSION PLANS

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

The Washington Counties Risk Pool's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement program; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to age 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of 2 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is not cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living as Plan 2.

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Noninvested	56,456
Total	**262,057**

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates were 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 the current-year covered payroll as of December 2009 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the WCRP and its employees made their required contributions. The WCRP required contributions for the years ending September 30th were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	$9,176	$18,343	$2,740
2009	$8,662	$30,613	$3,674
2008	$7,414	$26,127	$1,890

b. Qualified Pension Plan

The WCRP also participates in a qualified pension plan created in accordance with Internal Revenue Code Section 401(a). This plan is with the International City/County Management Association (ICMA). Employer contributions to the Qualified Pension Plan for the years ended September 30, 2010 and 2009 were $35,330 and $35,203, respectively.

NOTE 10 - DEFERRED COMPENSATION PLANS

The WCRP offers its employees a choice of two deferred compensation plans created in accordance with Section 457 of the Internal Revenue Code. The plans are with the International City/County Management Association (ICMA) and Nationwide Retirement Solutions (NRS). The plans, available to all eligible employees, permit them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In 1998 NRS and ICMA Deferred Compensation Program plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32 and since the WCRP is no longer the owner of these assets, the plan assets and liabilities are no longer reported in the WCRP financial statements.

Washington Counties Risk Pool
Claims Development
September 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required Contribution and investment revenue:										
Earned	6,799,590	7,055,506	10,416,405	11,721,713	12,042,031	13,182,912	12,221,809	12,203,136	11,993,561	14,732,223
Ceded	3,108,561	3,330,311	4,286,341	6,791,100	7,019,288	6,398,439	3,772,810	3,806,063	3,697,000	5,480,000
Net earned	3,691,029	3,725,195	6,130,064	4,930,613	5,022,743	6,784,473	8,448,999	8,397,073	8,296,561	9,252,223
2. Unallocated expenses	1,107,834	1,200,638	1,348,625	1,375,775	1,590,008	2,955,343	4,148,923	4,098,577	4,528,441	4,880,297
3. Estimated claims and expenses end of policy year:										
Earned										14,000,000
Ceded										9,750,000
Net incurred	2,250,000	1,860,000	1,615,000	1,900,000	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000
4. Net paid (cumulative) as of:										
End of policy year:	3,796	36,101	5,092	68,432	0	100,676	75,153	87,032	0	41,325
One year later	204,322	160,494	240,284	273,951	161,478	443,146	207,883	227,021	197,532	
Two years later	394,195	282,113	595,806	425,821	294,511	1,001,021	751,102	541,119		
Three years later	695,326	617,953	836,430	655,369	773,209	1,251,293	1,278,211			
Four years later	725,427	927,215	1,102,556	928,018	974,077	1,414,271				
Five years later	741,756	1,074,727	1,201,556	956,566	1,066,499					
Six years later	752,559	1,095,846	1,279,277	1,005,907						
Seven years later	752,559	1,107,346	1,290,585							
Eight years later	752,559	1,108,080								
Nine years later	752,559									
5. Reestimated ceded claims and expenses	4,347,441	4,744,343	11,588,788	3,944,606	6,096,936	13,620,567	9,780,255	8,300,000	14,625,000	9,750,000
6. Reestimated net incurred claims and expenses:										
End of policy year:	2,250,000	1,860,000	1,615,000	1,900,000	1,510,000	1,850,000	3,895,000	3,875,000	4,075,000	4,250,000
One year later	1,800,000	1,685,000	1,890,000	1,765,000	1,610,000	2,345,000	3,770,000	3,700,000	3,875,000	
Two years later	1,730,000	1,380,000	1,950,000	1,510,000	1,890,000	2,575,000	3,350,000	3,200,000		
Three years later	1,350,000	1,445,000	1,505,000	1,335,000	1,540,000	2,060,000	3,519,745			
Four years later	1,150,000	1,432,000	1,343,000	1,168,000	1,320,000	1,579,433				
Five years later	935,000	1,392,000	1,348,000	1,084,000	1,103,064					
Six years later	833,102	1,274,734	1,347,800	1,055,394						
Seven years later	793,102	1,229,734	1,311,212							
Eight years later	783,102	1,205,657								
Nine years later	752,559									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(1,497,441)	(654,343)	(303,788)	(844,606)	(406,936)	(270,567)	(375,255)	(675,000)	(200,000)	$0

REQUIRED SUPPLEMENTARY INFORMATION

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

1. Ten-Year Claims Development Information

The table below illustrates how the WCRP earned revenues and investment income compare to related costs of loss and other expenses assumed by the WCRP as of the end of each of the last ten years.

The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.

(2) This line shows each fiscal year's other operating costs of the WCRP including overhead and claims expenses not allocable to individual claims.

(3) This line shows the WCRP incurred claims and allocated claims adjustment expense (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 of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.

(5) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

(6) This line compares the latest reestimated 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.

RECONCILATION OF CLAIMS LIABILITIES

As discussed in Note 2, the WCRP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents comparative changes in those aggregate liabilities for the WCRP during the past two years:

	2009	2009
Unpaid Claims and Claims Adjustment Expenses		
Beginning of Year	$ 7,092,686	$ 7,293,528
Incurred Claims and Claims Adjustment Expenses:		
Provisions for Insured Events of the Current Year	1,502,751	1,437,299
Increase (Decrease) in Provision for Insured Events		
Prior Years	(1,652,831)	(878,040)
Total Incurred Claims and Claims Adjustment Expenses	$ 6,942,606	$7,852,787
Payments:		
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of the Current Year	$ 41,324	$ 0.00
Claims and Claims Adjustment Expenses Attributable to		
Insured Events of Prior Years	756,145	760,101
Total Payments	$ 797,469	$ 760,101
Total Unpaid Claims and Claims Adjustment Expenses		
End of Year	$ 6,145,137	$ 7,092,686

2. List of Participating Members

The following is a list of WCRP membership for the fiscal year 2009-2010

Adams County	**Kittitas County**
Benton County	**Lewis County**
Chelan County	**Mason County**
Clallam County	**Okanogan County**
Clark County	**Pacific County**
Columbia County	**Pend Oreille County**
Cowlitz County	**San Juan County**
Douglas County	**Skagit County**
Franklin County	**Skamania County**
Garfield County	**Spokane County**
Grays Harbor County	**Thurston County**
Island County	**Walla Walla County**
Jefferson County	**Whatcom County**
Kitsap County	**Yakima County (*)**

(*) Not participating in the joint-purchase property program option.

WASHINGTON COUNTIES RISK POOL
OFM Schedule of Expenses
Fiscal Year Ended September 30, 2010

Insurance Premiums/Reserve Expense	$12,824,568
ULAE Expense	-$14,850
Adjustment to Prior Years' Reserves	-$1,652,831
Contracted Services:	
Actuarial	$41,600
State Audit Expense	$9,499
State Risk Manager Expenses	$11,734
Legal Fees	$107,818
IT Consultants	$22,574
Other Consulting Fees	$7,369
Property Appraiser	$47,000
Member Services Consultant	$32,975
General Administrative Expenses	
Employee Salaries and Benefits	$790,039
Communication	$17,732
Supplies	$15,999
Dues and Memberships	$9,133
Travel - Employee	$79,464
Committee and Board Meetings	$87,314
Depreciation	$53,666
Building and Auto Insurance	$15,410
Operating Leases	$41,397
Utilities	$19,742
Member Services - Training	$92,339
Grants/Scholarships	$18,995
Miscellaneous Expenses	$6,530
Total Operating Expenses	$12,685,217

ABOUT THE STATE AUDITOR'S OFFICE

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

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

The State Auditor's Office employees are located around the state to deliver our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
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