

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

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**Washington Fire Commissioners Association**  
**Insurance Rate Stabilization Reserve Account**  
**Thurston County**

Audit Period  
January 1, 2010 through December 31, 2011

**Report No. 1010168**

Issue Date  
July 29, 2013



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

July 29, 2013

Board of Directors  
Washington Fire Commissioners Association  
Olympia, Washington

***Report on Financial Statements***

Please find attached our report on the Washington Fire Commissioners Association's Insurance Rate Stabilization Reserve Account financial statements.

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

Sincerely,

**TROY KELLEY  
STATE AUDITOR**

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Insurance Rate Stabilization Reserve Account  
Thurston County  
January 1, 2010 through December 31, 2011**

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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 Fire Commissioners Association  
Insurance Rate Stabilization Reserve Account  
Thurston County  
January 1, 2010 through December 31, 2011**

Board of Directors  
Washington Fire Commissioners Association  
Olympia, 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 Fire Commissioners Association's Insurance Rate Stabilization Reserve Account, Thurston County, Washington, as of and for the years ended December 31, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the Account's basic financial statements, and have issued our report thereon dated July 11, 2013. During the year ended December 31, 2010, the Account changed its basis of accounting from cash basis to full accrual basis. The Account has not presented all of the claims development 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. Our opinion on the basic financial statements is not affected by this missing information.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

In addition, we noted certain matters that we have reported to the management of the Account in a separate letter dated July 11, 2013.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Account's financial statements are free from material misstatement, we performed tests of the Account'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 Account'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 Account'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 11, 2013

# Independent Auditor's Report on Financial Statements

## Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account Thurston County January 1, 2010 through December 31, 2011

Board of Directors  
Washington Fire Commissioners Association  
Olympia, Washington

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

We have audited the accompanying financial statements of the Washington Fire Commissioners Association's Insurance Rate Stabilization Reserve Account, Thurston County, Washington, as of and for the years ended December 31, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the Account'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 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 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 Account'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 Account'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 Fire Commissioners Association's Insurance Rate Stabilization Reserve Account, as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As discussed in Note 1, the financial statements present only the Insurance Reserve Stabilization Account and do not purport to, and do not, present fairly the financial position of the Washington Fire Commissioners Association as of December 31, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 13, in 2010 the Account changed its basis of accounting from cash basis to full accrual basis. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16 and claims development information on page 48 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. Although our opinion on the basic financial statements is not affected, management has not presented all of the required information in the claims development information, which is a material departure from the prescribed guidelines. 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 Account's basic financial statements as a whole. The List of Participating Members and Office of Financial Management 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 11, 2013 on our consideration of the Account'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 Account's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

July 11, 2013



# Financial Section

**Washington Fire Commissioners Association  
Insurance Rate Stabilization Reserve Account  
Thurston County  
January 1, 2010 through December 31, 2011**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2011  
Management's Discussion and Analysis – 2010

***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2011  
Statement of Net Assets – 2010  
Statement of Revenues, Expenses and Changes in Fund Net Assets – 2011  
Statement of Revenues, Expenses and Changes in Fund Net Assets – 2010  
Statement of Cash Flow – 2011  
Statement of Cash Flow – 2010  
Notes to Financial Statements – 2011  
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***REQUIRED SUPPLEMENTARY INFORMATION***

Claims Development Information – 2011 and 2010

***SUPPLEMENTAL INFORMATION***

List of Participating Members (Schedule T-1) – 2011  
List of Participating Members (Schedule T-1) – 2010  
Office of Financial Management Schedule of Expenses (Schedule T-2) – 2011  
Office of Financial Management Schedule of Expenses (Schedule T-2) – 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

The Washington Fire Commissioners Association presents this Management Discussion and Analysis (MD&A) of the financial activities of the Insurance Rate Stabilization Reserve Account (IRSRA) primarily referred to in this report as the WFCFA Health Care Program. The narrative overview and analysis is intended to be read in conjunction with the Health Care Program's financial statements, notes to financial statements, and required supplementary information for the fiscal year ended December 31, 2011. Calendar Year 2010 financial information is provided for comparative purposes.

The Insurance Rate Stabilization Reserve Account is a proprietary fund that supports all health and welfare benefits offered by the Washington Fire Commissioners Association. The WFCFA Health Care Program includes self-funded medical, vision, prescription drug benefit options and insured medical and dental options as well as life insurance.

### **HIGHLIGHTS**

#### Self-Funded Plans

- The self-funded portion of the WFCFA Health Care Program's overall cash position improved during Calendar Year 2011. Net cash assets increased by \$3,252,217 or 19.8 percent from the beginning cash balance of \$15,419,207 to the ending cash balance of \$18,671,424.
- Calendar Year 2011 medical, vision and prescription drug claims experience compared to net premium funding for the self-funded portion of the WFCFA Health Care Program resulted in a favorable experience ratio of 85.7 percent for the fiscal period.
- Program funds in reserve meet and exceed state mandated reserve requirements. Required state reserve funding (actuarially determined) amounted to \$2,579,000 and an additional \$3,973,102 is retained in reserve to meet the WFCFA Board's reserve policy. Combined restricted reserve funding is available to cover any outstanding medical claims expenses in excess of premium revenues.
- Year-end unrestricted funds of \$8,267,421 were available to meet any unforeseen program costs or future program changes.
- Individual large claims of \$50,000 or greater decreased by 1 case from 38 cases in 2010 to 37 cases in 2011. However, the cost of large claims was \$1,727,706 or 33.8 percent more in 2011. The average value of the 2011 large claims was \$184,788 compared to the 2010 average large claim of \$134,459.

#### Insured Plans

##### Group Health Cooperative

- Premiums rates for active employees enrolled in 2011 increased 17.5 percent over the prior year.
- Premiums rates for retirees enrolled in 2011 increased by 4.6 percent over the prior year.

#### Kaiser Foundation of the Northwest

- Premiums rates for active employees enrolled in 2011 increased by 10.0 percent over the prior year.
- Premiums rates for retirees enrolled in 2011 also increased by 10.0 percent over the prior year.

#### Washington Dental Services/Delta Dental

- The Traditional Dental Plan transitioned to a PPO network and was renamed the PPO Incentive Plan without affecting choice of dentists and increased member benefit levels.
- Monthly PPO Incentive Plan premiums for 2011 were reduced by 4.5 percent from 2010 premium levels by switching to PPO Provider Network reimbursement rates.
- Monthly PPO Basic Plan premiums for 2011 increased by 2.9 percent over 2010 premium levels.
- Gross premium funding received by WDS for CY 2011 was \$2,214,298 of which \$245,787 was set aside for administrative purposes and claims reserves and \$1,890,731 was paid to providers for member dental claims expenses.
- Paid claims experience compared to net premium funding received for Calendar Year 2011 resulted in a favorable experience ratio of 96.0 percent.

#### Standard Life Insurance

- The WFCA Health Care Program provides \$2,000 of Core Life Insurance coverage for all employees participating in self-funded health care plans at an annual cost of \$6,388 .
- Additional employer funded basic life insurance options were offered in 2011 to include options for \$75,000 and \$100,000 of coverage.
- Employee funded supplemental life insurance is available to fire district employees who are also covered by Core and/or Basic life insurance to purchase up to \$300,000 of additional coverage.

## **OVERVIEW OF FINANCIAL STATEMENTS**

Calendar Year 2011 is the second year that the WFCA Health Care Program has reported its financial activity on an accrual basis. Through 2009, the WFCA Health Care Program submitted a cash-basis year-end financial report to the Office of the State Risk Manager. Pursuant to the enactment of Washington Administrative Code (WAC) Chapter 82-65 on October 1, 2010, the WFCA reports Insurance Rate Stabilization Account revenues and expenses on an accrual accounting basis to the Office of the State Auditor. The Health Care Program fiscal year covers January 1 through December 31.

The WFCA Insurance Rate Stabilization Reserve Account is an enterprise fund and accounts for its expenditures on a full accrual accounting basis. Revenues are recognized when earned and expenses are recognized when incurred.

The WFCA monitors self-insurance premium revenues and medical, vision and prescription drug expenses and vendor fees on a monthly basis. Trusteed Plans Services Corporation (TPSC) manages and maintains the financial information systems used to track premium revenue and to pay providers for medical services rendered to covered members. Mercer Health Benefits L.L.C. prepares the monthly Funding and Paid Claims Experience Reports for review by the Health Care

Committee and the Board of Directors. The WFCFA Finance Officer manages the Wire In and Wire Out Account between TPSC and South Sound Bank as well collects and accounts for revenues coming directly to the Association as well as accounting for expenses related to Health Care Committee activities and staff responsibilities.

Assets:

Operating revenues are generated from premiums paid by member fire districts and regional fire authorities. For every \$1.00 received in premium support in 2011 for the self-funded medical plans, \$0.857 was spent on medical services and contracted program support. The unexpended \$0.143 was anticipated to be used to avoid premium increases in 2012 and to provide a one month premium holiday in March 2012. The remainder to be was saved to improve the financial position of the Health Care Program. Gross premium funding from member organizations totaled \$23,518,729 for Fiscal Year 2011.

Non operating revenues are generated from interest earnings on fund balances in the Local Government Investment Pool and South Sound Bank. The leasing of office space also provides an income stream. Other sources of revenue come from stop loss insurance reimbursement, and various rebates and refunds. Funds held in the Local Government Investment Pool (LGIP) earned 0.17 percent interest and generated \$19,847 in earnings. Funds held in the South Sound Bank checking Account earned 0.19 percent interest and generated \$3,078 in earnings. Funds held in the South Sound Bank Wire In, Wire Out Account earned 0.19 percent interest and generated \$9,506 in earnings (See Note 3-Deposits and Investments). The WFCFA Insurance Rate Stabilization reserve Account held no investment instruments (i.e., Certificates of Deposit, stocks, bonds etc.) during 2011.

The Washington Fire Commissioners Association and the WFCFA Health Care Program jointly own 92.1 percent of the office space in the James R Larsen, Forum Building. The Washington Association of Fire Chiefs owns the remaining 7.9 percent of the office space in the building. The WFCFA Health Care Program also owns the adjacent parking lot. The Health Care Program owns the first floor which equates to 49 percent of the useable office space and the general operations of the Association owns the second floor or 43.1 percent of the useable office space. With the exception of the space occupied by the Washington Fire Commissioners Association and the Washington Association of Fire Chiefs, the remaining office space is leased to state agencies. The building and property is owned outright and yields a positive capital return from office leases. The current five year lease period expired in September of 2011.

The portion of the land and building owned by the Health Care Program was purchased for \$419,299 of which \$171,074 was attributable to the land. The adjacent parking lot was purchased for \$130,891. The total historical value of the WFCFA Health Care Program's capital assets is \$550,190 (See Note 8-Capital Assets).

For Fiscal Year 2011, the rental of office space owned by the Health Care Program returned gross revenues of \$107,544. Insurance, operating and maintenance expenses attributable to the Health Care Program totaled \$7,565 and \$23,844 was paid in property taxes. Net rental revenues after expenses were \$76,135 or a return on investment of 18.2 percent.

The WFCFA Health Care Program has no long-term debt and has no investments in stocks, bonds or other asset classes (See Note 6-Long-Term Debt and Liabilities)

The MD&A accompanies the WFC Health Care Program's three primary financial statements (Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows) and the Notes to Financial Statements. Supplementary information is also provided.

## FINANCIAL ANALYSIS

Condensed versions of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets and the Statement of Cash Flows are provided below. The more detailed financial statements follow.

### Condensed Comparative Financial Information

#### NET ASSETS

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>Change</u>	<u>% Change</u>
Current Assets	21,804,840	16,103,874	5,700,966	35.4%
Capital Assets	419,972	426,078	(6,106)	(1.4%)
<b>Total Assets</b>	<b>22,224,812</b>	<b>16,529,952</b>	<b>5,694,860</b>	<b>34.5%</b>
<b>Current Liabilities</b>	<b>6,985,317</b>	<b>4,046,453</b>	<b>2,938,864</b>	<b>72.6%</b>
Invested in Capital Assets	419,972	426,078	(6,106)	(1.4%)
Restricted Net Assets	6,552,102	9,539,545	(2,987,443)	(31.3%)
Unrestricted Net Assets	8,267,421	2,517,876	5,749,545	228.3%
<b>Total Net Assets</b>	<b>15,239,495</b>	<b>12,483,499</b>	<b>2,755,996</b>	<b>22.1%</b>

#### REVENUES, EXPENSES and CHANGES IN FUND NET ASSETS

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>Change</u>	<u>% Change</u>
Total Operating Revenues	23,518,729	25,697,023	(2,178,294)	(8.5%)
Total Non-Operating Revenues	139,975	202,787	(62,812)	(31.0%)
<b>Total Revenues</b>	<b>23,658,704</b>	<b>25,899,810</b>	<b>(2,241,106)</b>	<b>(8.7%)</b>
<b>Total Operating Expenses</b>	<b>20,870,221</b>	<b>23,848,274</b>	<b>(2,978,053)</b>	<b>(12.5%)</b>
<b>Total Non-Operating Expenses</b>	<b>31,409</b>	<b>89,112</b>	<b>(57,703)</b>	<b>(64.8%)</b>
<b>Total Expenses</b>	<b>20,901,630</b>	<b>23,937,386</b>	<b>(3,035,756)</b>	<b>(12.7%)</b>
<b>Changes in Net Assets</b>	<b>2,755,996</b>	<b>1,962,424</b>	<b>793,572</b>	<b>40.4%</b>
<b>Beginning Net Assets 1/1/2011</b>	<b>12,483,499</b>	<b>10,521,075</b>	<b>1,962,424</b>	<b>18.7%</b>
<b>Ending Net Assets 12/31/2011</b>	<b>15,239,495</b>	<b>12,483,499</b>	<b>2,755,996</b>	<b>18.1%</b>

## **CASH FLOWS**

	<b>12/31/2011</b>	<b>12/31/2010</b>	<b>Change</b>	<b>% Change</b>
Net Cash Provided For Operating Activities	3,144,729	237,235	2,907,494	1,225.6%
Net Cash Provided For Capital Activities	76,135	62,641	(13,494)	(21.5%)
Net Cash Provided For Investing Activities	31,353	51,034	(19,679)	(38.6%)
<b>Increase in Cash &amp; Cash Equivalents</b>	<b>3,252,217</b>	<b>350,910</b>	<b>2,874,319</b>	<b>819.1%</b>
<b>Cash and Cash Equivalents Beg. Of Year</b>	<b>15,419,207</b>	<b>15,068,297</b>	<b>350,910</b>	<b>2.3%</b>
<b>Cash and Cash Equivalents End. of Year</b>	<b>18,671,424</b>	<b>15,419,207</b>	<b>3,252,217</b>	<b>21.1%</b>

The overall financial position of the WFC Health Care Program improved during 2011 as shown in the above condensed comparative statements.

### The Condensed Statement of Net Assets

Total assets increased by \$5.7 million or 34.5 percent as of December 31, 2011 over the prior year ending position, primarily due to an increased cash balance and higher than usual stop loss reinsurance reimbursements. Total liabilities as of December 31, 2011 increased by \$2.9 million or 72.6 percent due to medical claims processed and on hand but not yet funded. Net assets increased in 2011 by \$2.8 million or 22.1 percent.

### The Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets

Revenues for CY 2011 declined by \$2.2 million or 8.5 percent when compared to 2010 revenues. Less revenue resulted from a reduction in program enrollment during 2011. Operating expenses also declined by \$3.0 million or 12.5 percent. The decrease in medical expenses was attributable to reduced enrollment and decreased utilization of medical services from the prior year. Ending net assets as of December 31, 2011 were \$2.8 million or 22.1 percent higher than at the end of 2010.

### The Condensed Statement of Cash Flows

Combined cash and cash equivalents held by the WFCA Health Care Program and Trusteed Plans Services Corporation as of December 31, 2011 increased by \$3.3 million or 21.1 percent over the 2010 year-end cash and cash equivalents position. During 2011, cash flows from all activities increased from \$15.4 million to \$18.7 million.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

The Washington Fire Commissioners Association presents this Management Discussion and Analysis (MD & A) of the financial activities of the Insurance Rate Stabilization Reserve Account (IRSRA) primarily referred to in this report as the WFCOA Health Care Program. The narrative overview and analysis is intended to be read in conjunction with the Health Care Program's financial statements, notes to financial statements, and required supplementary information for the fiscal year ended December 31, 2010.

The Insurance Rate Stabilization Reserve Account is a proprietary fund that supports all health and welfare benefits offered by the Washington Fire Commissioners Association. The WFCOA Health Care Program includes self-funded medical, vision, prescription drug benefit options and insured medical and dental options as well as life insurance.

### **HIGHLIGHTS**

#### **Self-Funded Plans**

- The self-funded portion of the WFCOA Health Care Program's overall cash position improved during Calendar Year 2010. Net cash assets increased by \$1,092,606 or 7.6 percent from the beginning cash balance of \$14,326,601 to the ending cash balance of \$15,419,207.
- Calendar Year 2010 medical, vision and prescription drug claims experience compared to net premium funding for the self-funded portion of the WFCOA Health Care Program resulted in a favorable experience ratio of 92.5 percent for the fiscal period.
- Program funds in reserve meet and exceed state mandated reserve requirements. Required state reserve funding (actuarially determined) amounted to \$2,622,000 and an additional \$6,917,545 is retained in reserve to meet the WFCOA Board's reserve policy. Combined restricted reserve funding is available to cover any outstanding medical claims expenses in excess of premium revenues.
- Year-end unrestricted funds of \$2,517,876 were available to meet any unforeseen program costs or future program changes.
- Individual large claims of \$50,000 or greater decreased in number from 65 cases in 2009 to 38 cases in 2010 thus reducing medical expenses generated from large claims by \$2,154,842 or 34.3 percent.

#### **Insured Plans**

##### **Group Health Cooperative**

- Premiums rates for active employees enrolled in 2010 remained constant from the prior year.
- Premiums rates for retirees enrolled in 2010 decreased by 3.5 percent from the prior year.

##### **Kaiser Foundation of the Northwest**

- Premiums rates for active employees enrolled in 2010 increased by 5.4 percent over the prior year.
- Premiums rates for retirees enrolled in 2010 increased by 10.5 percent over the prior year.

#### Washington Dental Services/Delta Dental

- Monthly dental premiums remained constant at 2009 levels for both the Traditional Dental Plan and the Preferred Provider Plan.
- Gross premium funding received by WDS for CY 2010 was \$2,692,803 of which \$296,208 was set aside for administrative purposes and claims reserves and \$2,396,595 was paid to providers for member dental claims expenses.
- Paid claims experience compared to net premium funding received for Calendar Year 2010 resulted in a favorable experience ratio of 98.9 percent.

#### Standard Life Insurance

- The WFOA Health Care Program provides \$2,000 of Core Life Coverage for all employees participating in the self-funded portion of the Health Care Program at an annual cost of \$7,541.84.
- Basic life insurance is available for fire districts to purchase for their employees up to \$50,000 of coverage.
- Supplemental life is available for fire district employees covered by Core and/or Basic life to purchase up to \$300,000 of coverage.

#### Office Improvements

- An office was constructed and equipped for the Health Care Manager.

### OVERVIEW OF FINANCIAL STATEMENTS

Historically, the WFOA Health Care Program submitted a cash-basis year-end financial report to the Office of the State Risk Manager. With the adoption and implementation of Washington Administrative Code (WAC) Chapter 82-65 WAC rules on October 1, 2010, the WFOA is now required to annually report Insurance Rate Stabilization Account revenues and expenditures using a full accrual accounting methodology. The 2010 Year-End financial report is the first annual financial report submitted by the WFOA Health Care Program based on a full accrual accounting methodology. The Health Care Program fiscal year covers January 1 through December 31.

The WFOA Insurance Rate Stabilization Reserve Account is an enterprise fund and accounts for its expenditures on a full accrual accounting basis. Revenues are recognized when earned and expenses are recognized when incurred.

The WFOA monitors self-insurance premium revenues and medical, vision and prescription drug expenses and vendor fees on a monthly basis. Trusteed Plans Services Corporation (TPSC) manages and maintains the financial information systems used to track premium revenue and to pay providers for medical services rendered to covered members. Mercer Health Benefits L.L.C. prepares the monthly Funding and Paid Claims Experience Reports for review by the Health Care Committee and the Board of Directors. The WFOA Finance Officer manages the Wire In and Wire Out Account between TPSC and South Sound Bank as well collects and accounts for revenues coming directly to the Association as well as accounting for expenses related to Health Care Committee activities and staff responsibilities.



Assets:

Operating revenues are generated from premiums paid by member fire districts and regional fire authorities. For every \$1.00 received in premium support in 2010 for the self-funded medical plans, \$0.925 was spent on medical services and contracted program support. The unexpended \$0.075 was saved to improve the financial position of the Health Care Program. Gross premium funding from member organizations totaled \$25,697,023 for Fiscal Year 2010.

Non operating revenues are generated from interest earnings on fund balances in the Local Government Investment Pool and South Sound Bank and from the leasing of office space. Other sources of revenue come from stop loss reimbursement, and various rebates and refunds. Funds held in the Local Government Investment Pool (LGIP) earned 0.29 percent interest and generated \$25,645 in earnings. Funds held in the South Sound Bank checking Account earned 0.27 percent interest and generated \$9,603 in earnings. Funds held in the South Sound Bank Wire In, Wire Out Account earned 0.27 percent interest and generated \$16,370 in earnings. The WFCOA Insurance Rate Stabilization reserve Account held no investment instruments (i.e., Certificates of Deposit, stocks, bonds etc.) during 2010. The WFCOA Health Care Program has no long-term debt of any kind.

The Washington Fire Commissioners Association and the WFCOA Health Care Program jointly own 92.1 percent of the office space in the James R Larsen, Forum Building. The Washington Association of Fire Chiefs owns the remaining 7.9 percent of the office space in the building. The WFCOA Health Care Program also owns the adjacent parking lot. The Health Care Program owns the first floor which equates to 49 percent of the useable office space and the general operations of the Association owns the second floor or 43.1 percent of the useable office space. With the exception of the space occupied by the Washington Fire Commissioners Association and the Washington Association of Fire Chiefs, the remaining office space is leased to state agencies. The building and property is owned outright and yields a positive capital return from office leases. The current five year lease period expires in September of 2011.

For Fiscal Year 2010, the rental of office space owned by the Health Care Program returned gross revenues of \$151,168. Insurance, operating and maintenance expenses attributable to the Health Care Program totaled \$50,037. The relocation and construction of the Health Care Manager's office totaled \$18,835 and \$19,655 was paid in property taxes. Net rental revenues after expenses were \$62,641 or a return on investment of 25.1 percent.

The WFCOA Health Care Program restricted reserves meet and exceed the outstanding medical claims experienced at any time throughout the calendar year. The unrestricted reserves are also available for making any mid-course benefit changes necessary to meet federal or state statutory mandates or changes. For further detail see the following financial schedules and supplementary notes.

The MD&A accompanies the WFCOA Health Care Program's three financial statements (Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows), the Notes to Financial Statements and other supplementary information.

## FINANCIAL ANALYSIS

Calendar Year 2010 is the first year the WFC Health Care Program was required to report revenues and expenses on an accrual basis to the Office of the State Auditor. In prior years, the WFC Health Care Program reported on a cash basis to the Office of the State Risk Manager. The condensed financial information provided on the following page is for 2010 only. Year to year comparative financial information will be provided in subsequent WFC Health Care Program Year-End Financial Statements.

### **Condensed Financial Information**

#### **NET ASSETS**

	<b><u>12/31/2010</u></b>
Current Assets	16,103,874
Capital Assets	<u>426,078</u>
<b>Total Assets</b>	<b>16,529,952</b>
<b>Current Liabilities</b>	<b>4,046,453</b>
Invested in Capital Assets	426,078
Restricted Net Assets	9,539,545
Unrestricted Net Assets	<u>2,517,876</u>
<b>Total Net Assets</b>	<b>12,483,499</b>
<b>Total Liabilities and Net Assets</b>	<b>16,529,952</b>

#### **REVENUES, EXPENSES and CHANGES IN FUND NET ASSETS**

	<b><u>12/31/2010</u></b>
Total Operating Revenues	\$25,697,023
Total Non-Operating Revenues	<u>202,787</u>
<b>Total Revenues</b>	<b>\$25,899,810</b>
Total Operating Expenses	\$23,848,274
Total Non-Operating Expenses	89,112
<b>Total Expenses</b>	<b>\$23,937,386</b>
<b>Change in Net Assets</b>	<b>\$1,962,424</b>
<b>Beginning Net Assets 1/1/2010</b>	<b>10,521,075</b>
<b>Ending Net Assets 12/31/2010</b>	<b>\$12,483,499</b>

## CASH FLOWS

	<u>12/31/2010</u>
Net Cash Provided For Operating Activities	237,235
Net Cash Provided For Capital Activities	62,641
Net Cash Provided For Investing Activities	<u>51,034</u>
<b>Increase in Cash &amp; Cash Equivalents</b>	<b>350,910</b>
<b>Cash &amp; Cash Equivalents Beg. of Year 1/1/2010</b>	<b>15,068,297</b>
<b>Cash &amp; Cash Equivalents End of Year 12/31/2010</b>	<b>15,419,207</b>

### Condensed Statement of Net Assets

The WFCA Health Care Program is financially sound as is evidenced by the relationship of Current Liabilities to Total Net Assets. Capital Assets of \$426,078 reflect the historical value of the land and the depreciated value of the portion of the office building owned by WFCA Health Care Program.

### Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets

Revenues from all sources exceeded expenses by \$1,962,424 for the year resulting in an improved net asset position as of December 31, 2010.

### Condensed Statement of Cash Flows

On a net cash basis, the WFCA Health Care Program increased its cash and Cash Equivalents position for the year by \$350,910.

**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**

**ASSETS**

<u>Current Assets:</u> (Note 1c)	
Cash and Cash Equivalents (Note 3)	\$17,842,954
Deposits held by TPA	828,470
Receivables (Note 1e)	
Member Contributions	99,612
Stop-Loss and Subrogation Recoveries	2,969,938
Prescription Drug Recoveries	49,229
RDS Subsidy Payments	14,637
WDS/Mercer Refunds	
Subtotal Receivables	3,133,416
Total Current Assets	21,804,840
 <u>Capital Assets:</u> (Note 8)	
Land (Note 1d)	301,965
Building (Net of Accumulated Depreciation)	118,007
Total Capital Assets	419,972
 <b>TOTAL ASSETS</b>	 <b>22,224,812</b>

**LIABILITIES & NET ASSETS**

<u>Current Liabilities</u>	
Accounts Payable	
Carrier Payables/Post Cutoff Payables	\$137,146
Unearned Member Premiums (Note 11)	790,936
Claims Processed But Not Yet Funded (Note 1j)	3,462,522
Claim Reserves (Note 1m, 1n):	
IBNR/ Open Claims (Case Reserves)	2,508,000
Unallocated Loss Adjustment Expenses	71,000
Employee Leave Liability (Note 6c)	15,713
<b>TOTAL LIABILITIES</b>	<b>6,985,317</b>
 <u>Net Assets</u>	
Invested in Capital Assets (Note 1d, Note 8)	419,972
Restricted Assets (State Requirement, Note 9 )	2,579,000
Restricted Assets (Board Requirement, Note 9)	3,973,102
Unrestricted Cash	8,267,421
 <b>TOTAL NET ASSETS</b>	 <b>15,239,495</b>
 <b>TOTAL NET ASSETS &amp; LIABILITIES</b>	 <b>\$22,224,812</b>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**STATEMENT OF NET ASSETS**  
**December 31, 2010**

**ASSETS**

Current Assets: (Note 1c)

Cash and Cash Equivalents (Note 3)	\$14,897,856
Deposits held by TPA (Note 1c)	521,351
Receivables (Note 1e)	
Member Contributions	23,181
Subrogation/Stop Loss Recoveries	538,160
Prescription Drug Recoveries	21,757
RDS Subsidy Payments	9,792
WDS/Mercer Refunds	<u>91,777</u>
	684,667

TOTAL CURRENT ASSETS \$16,103,874

Capital Assets: (Note 7)

Land (Note 1d)	301,965
Building (Net of Accumulated Depreciation) (Note 7)	<u>124,113</u>
TOTAL CAPITAL ASSETS	426,078

**TOTAL ASSETS \$16,529,952**

**LIABILITIES & NET ASSETS**

Current Liabilities

Accounts Payable	
Carrier Payables/Post Cutoff Payables	24,199
Unearned Member Premiums (Note 11)	956,517
Claims Processed But Not Yet Funded (Note 1j)	435,166
Claim Reserves (Note 1m):	
IBNR/ Open Claims (Case Reserves)	2,535,000
Unallocated Loss Adjustment Expenses (Note 1n)	87,000
Employee Leave Liability (Note 1h, 6)	8,571

**TOTAL LIABILITIES \$4,046,453**

Net Assets

Invested in Capital Assets (Note 1d, Note 7)	426,078
Restricted Assets (State Requirement, Note 8 )	2,622,000
Restricted Assets (Board Requirement, Note 8)	6,917,545
Unrestricted Cash	2,517,876

**TOTAL NET ASSETS \$12,483,499**

**TOTAL NET ASSETS & LIABILITIES \$16,529,952**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**For the Year Ended December 31, 2011**

**OPERATING REVENUES**

Member Premium Contributions - Self-Insured	\$19,705,184
Member Premium Contributions - Insured	3,813,545
<b>TOTAL OPERATING REVENUES</b>	<b><u>23,518,729</u></b>

**OPERATING EXPENSES**

Medical, Drug, Vision Claims Expenses - Self-Insured	13,840,780
Medical, Drug, Vision, Dental Claims - Insured Premiums	3,743,441
Stop Loss Carrier Fee	554,884
Third-Party Administrative Fees	373,665
Provider Network Fees	143,283
Insurance Consulting Fees	51,664
Utilization Review Fee	18,044
CareLine	6,926
PBM Admin Fees	1,208
Marketing & Promotions	4,045
Legal Services	1,660
Actuarial Services	2,325
State Oversight Fees	4,474
Staff Compensation and Travel	158,515
Program Supplies and Materials	7,768
Health Care Committee Expenses	5,629
Workshops/Seminar Expenses	7,958
Website Maintenance Expense	4,565
Hope Health Newsletter	5,668
Office Equipment	513
Claim Reserves (Note 1m)	1,872,000
Unallocated Loss Adjustment Expenses	55,000
Depreciation (Note 7)	6,206
<b>TOTAL OPERATING EXPENSES</b>	<b><u>20,870,221</u></b>

**OPERATING INCOME** **2,648,508**

**NONOPERATING REVENUES (EXPENSES)**

Interest Income	32,431
Building Lease Income	<u>107,544</u>
<b>Total NonOperating Revenue</b>	<b>139,975</b>
General LGIP Expense	(1,078)
Forum Building Expense	<u>(31,409)</u>
<b>Total Nonoperating Expenses</b>	<b>(32,487)</b>
<b>TOTAL NET NONOPERATING REVENUES</b>	<b><u>107,488</u></b>

**CHANGE IN NET ASSETS** **2,755,996**

**TOTAL NET ASSETS, Beginning January 1, 2011** **12,483,499**

**TOTAL NET ASSETS, Ending December 31, 2011** **15,239,495**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**For the Year Ended December 31, 2010**

<b>OPERATING REVENUES</b>	
Member Premium Contributions - Self-Insured	\$21,454,190
Member Premium Contributions - Insured	<u>4,242,833</u>
<b>Total Operating Revenues</b>	<b>\$25,697,023</b>
<b>OPERATING EXPENSES</b>	
Medical, Drug, Vision Claims Expenses - Self-Insured	\$15,798,975
Medical, Drug, Vision, Dental Claims - Insured Premiums	4,084,806
Stop Loss Carrier Fee	448,834
Third-Party Administrative Fees	442,325
Provider Network Fees	151,750
Insurance Consulting Fees	47,576
Actuarial Services	2,850
Legal Services	2,610
CareLine	14,420
Utilization Review Fee	21,671
PBM Fees	2,433
State Oversight Fees	10,008
Staff Compensation and Travel	151,033
Program Supplies and Materials	11,915
Health Care Committee Expenses	8,822
Workshops/Seminar Expenses	7,626
Website Maintenance Expense	4,590
Hope Health Newsletter	4,565
Office Equipment	3,259
Claim Reserves (Note 1m)	2,535,000
Unallocated Loss Adjustment Expenses	87,000
Depreciation (Note 7)	<u>6,206</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$23,848,274</b>
<b>OPERATING INCOME</b>	<b>\$1,848,749</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest Income	51,619
Building Lease Income	<u>151,168</u>
<b>Total Nonoperating Revenues</b>	<b>202,787</b>
General LGIP Expense	(585)
Forum Building Expense	<u>(88,527)</u>
<b>Total Nonoperating Expenses</b>	<b>(89,112)</b>
<b>TOTAL NET NONOPERATING REVENUES</b>	<b><u>113,675</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>\$1,962,424</b>
<b>TOTAL NET ASSETS, Beginning January 1, 2010</b>	<b>\$10,521,075</b>
<b>TOTAL NET ASSETS, Ending December 31, 2010</b>	<b><u>\$12,483,499</u></b>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from members	26,665,452
Stop Loss Reimbursement for large claims	354,443
RDS Subsidy Received	35,134
Payments made on self-funded medical, vision claims	(18,929,031)
Payments made for insured carriers	(3,648,439)
Payments made for contract services	(600,791)
Payments made for excess insurance coverage	(551,049)
Payments made for payroll expenses	(139,475)
Payments in support of program activities	<u>(41,515)</u>
Net Cash Provided (Used) by Operating Activities	<u>3,144,729</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Building Office Leases	107,544
Building Expenses	<u>(31,409)</u>
Net Cash Provided (used) by Capital and Related Financing Activities	<u>76,135</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	32,431
LGIP administration fee	<u>(1,078)</u>
Net Cash Provided (used) by Investing Activities	<u>31,353</u>

Increase (Decrease) in Cash and Cash Equivalents 3,252,217

Cash and Cash Equivalents, Beginning January 1, 2011 15,419,207

Cash and Cash Equivalents, Ending December 31, 2011 18,671,424

**RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES**

Operating Income	2,648,508
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	6,206
Change in operating assets and liabilities:	
Increase in Receivables	(2,448,749)
Increase in Accounts Payable	112,947
Decrease in Unearned Member Premiums	(165,581)
Increase in Claims Processed But Not Yet Funded	3,027,256
Decrease in Claims Reserves	(43,000)
Increase in Employee Leave Liability	<u>7,142</u>
Net Cash Provided by Operating Activities	<u><u>3,144,729</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



**Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from members	\$24,714,838
Stop Loss Reimbursement for large claims	588,959
RDS Subsidy Payments	39,395
Payments made on medical, vision claims	(19,872,265)
Payments made for insured carriers	(3,912,395)
Payments made for contract services	(688,626)
Payments made for excess insurance coverage	(449,340)
Payments made for payroll expenses	(142,366)
Payments in support of health care program activities	(40,965)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$237,235</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Building office leases	\$151,168
Building Expenses	(88,527)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>\$62,641</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	\$51,619
LGIP administration fee	(585)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$51,034</b>

**Increase (Decrease) in Cash and Cash Equivalents** 350,910

**Cash and Cash Equivalents, Beginning January 1, 2010** 15,068,297

**Cash and Cash Equivalents, Ending December 31, 2010** **\$15,419,207**

**RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$1,848,749
Adjustments to reconcile operating income to Net cash provided by operating activities	
Depreciation expense	6,206
Change in operating assets and liabilities:	
(Increase) Decrease in Receivables	(71,042)
Increase (Decrease) in Claims Processed but Unfunded	(564,946)
Increase (Decrease) in Accounts Payable	23,890
Increase (Decrease) in Unearned Member Premiums	(50,208)
Increase (Decrease) in Claims Reserves	(959,700)
Increase in Employee Leave Liability	4,286
<b>Net Cash Provided by Operating Activities</b>	<b>237,235</b>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

## WFCA Insurance Rate Stabilization Reserve Account

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2011

The following notes are an integral part of the accompanying WFCA Health Care Program financial statements.

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

The accounting policies of the WFCA Insurance Rate Stabilization Reserve Account 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 Fire Commissioners Association is a non-profit association created by fire districts. Chapter 52.12 RCW provides for the creation of the association to encourage uniformity and coordination to achieve more efficient and economical operation of associated fire districts. The conditions and qualifications for membership in the association and the rights and privileges of the classes of membership are prescribed in the bylaws of the association.

There are three classes of members: Fire Districts, Active Commissioner Members and Associate Members. An associate member is an individual or organization granted associate member status by the Board of Directors. Associate members can be private individuals or organizations supporting the activities of fire districts and the Association. Private funds and public funds are accounted for separately and under no circumstances co-mingled. General Association revenues and expenses and Health Care Program revenues and expenses are accounted for separately and under no circumstances co-mingled. Case law characterizes the Association as a quasi-municipal corporation.

The WFCA Health Care Insurance Rate Stabilization Reserve Account also referred to in this report as the WFCA Health Care Program was created in 1981 by a resolution passed by the Washington Fire Commissioners Association Board of Directors for the benefit of member fire districts. In accordance with Section 52.12.031(4) RCW, member fire districts through the articles of association are authorized to select a chairman, secretary, and other officers as they may determine, and may employ and discharge agents and employees as the officers deem convenient to carry out the purposes of the association.

Fire district members of the Association determined it was in their collective best interest to purchase health care through the Association. The pooling of resources allowed fire districts to jointly benefit from volume purchasing and lower administrative overhead. The WFCA Board of Directors was tasked with providing and managing a health care program to cover employee health and medical claims through premiums paid by employer fire districts, qualified regional fire authorities and qualified municipal fire departments. The WFCA Health Care Program is not intended to function as an insurance company for fire districts, regional fire authorities and municipal fire departments.

Rather, it is a means of combining the administration of claims and of obtaining lower insurance rates for member organizations. Premiums billed to the fire districts, regional fire authorities and municipal fire departments are determined annually based on an average of at least the prior twelve months of actual premiums paid. Annual premium funding and accumulated fund balances cover all program expenses. There are no reassessments levied on member organizations during a plan year. The ultimate liability for unpaid claims and program expenses is the responsibility of the Washington Fire Commissioners Association Board of Directors.

Membership in the WFCOA Health Care Program is voluntary however, in order to be eligible to enroll in the Program, participant organizations must be dues paying members or associate members of the Washington Fire Commissioners Association. Member organizations of the Health Care Program must provide 31-days notice of termination from the Program if they choose not to renew. Fire Districts, Regional Fire Authorities and Municipal Fire Departments that are members or associate members of the Association and are not enrolled in the Health Care Program may enroll in the Health Care Program throughout the Plan Year. For Plan Year 2011, 118 member organizations participated in the WFCOA Health Care Program.

b. Basis of Accounting

The accounting records of the WFCOA Insurance Rate Stabilization Reserve Account are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The WFCOA Insurance Rate Stabilization Reserve Account 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 the GASB Statement 30, *Risk Financing Omnibus*, the 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 the 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 WFCOA Health Care Program has elected not to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the governmental Accounting Standards Board (GASB).

The recording of member premium revenues and medical claims expenses occurs in the financial accounting system maintained by the Health Care Program's Third-Party Administrator. The Third-Party Administrator uses the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases by the WFCOA Health Care Program are either expensed or amortized depending on the cost, use and type of capital asset. All program capital expenses whether short-term or long-term are accounted for in the fund.

The principal operating revenues of the WFC Health Care Program are from health care premiums paid by member fire districts and regional fire authorities. No municipal fire departments were enrolled in the Health Care Program in 2011.

Operating expenses include medical claims, vision claims, prescription drug claims, premiums due for dental expense claims, fees charged by the third-party administrator to process member premiums and claims, excess insurance premiums, subscription fees, 24-hour Careline expenses and broker fees. Administrative expenses include: Health Care Committee expenses, staff salaries and benefits, and office equipment and supplies.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the WFC Health Care Program considers all demand deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All WFC Health Care Program investments meet the requirements set forth in Section 48.62.111 RCW. The year-ending cash balance was \$17,842,954. During Fiscal Year 2011, the WFC Health Care Program earned interest on its excess cash balances in the Local Government Investment Pool managed by the Office of the State Treasurer and in South Sound Bank. Interest earnings from all accounts amounted to \$32,431 for the fiscal period. Once earned, the interest proceeds are available for expenditure if needed.

The third-party administrator (TPA) holds deposits made by member organizations when member premium contributions are submitted to cover more than one month of medical claims expenses. Future premium payments held by the TPA as of December 31, 2011 amounted to \$828,470.

d. Capital Assets

The Washington Fire Commissioners Association and the WFC Health Care Program jointly own 92.1 percent of the James R Larsen, Forum Building. The Washington Association of Fire Chiefs owns the remaining 7.9 percent of the building. The WFC Health Care Program owns the adjacent parking lot used by building tenants and visitors. No mortgage payments remain on the property. The 2011 assessed value of the property and adjacent parking lot owned by the Health Care Program is \$1,890,950 which reflects a decline in assessed value of \$100,600 or 5.1 percent in the past year.

The historical value of the WFC Health Care Program's portion of the James R Larsen, Forum Building and land is \$550,190. The straight line method of depreciation is used based on a 40-year useful life for the building (See NOTE 8(a)).

e. Receivables

The majority of receivables deemed collectable for 2011 are attributable to unpaid subrogation payments, and unpaid stop loss carrier reimbursement. The Statement of Net Assets lists the 2011 receivables. Of the \$3,133,416 identified receivables, subrogation payments amounted to \$210,084 and stop loss recoveries owed to the WFC Health Care Program amounted to \$2,759,854. Unpaid member premiums, refunds, rebates and

subsidy payments collectively accounted for the remaining \$163,478 in receivables. All member premiums and stop loss carrier reimbursements are initially collected by the program's third-party administrator and then remitted to the WFCFA Health Care Program for deposit.

f. Inventories

The WFCFA Health Care Program provides Medical Plan Identification Cards for members enrolled in self-funded plans and provides administrative reference guides and plan booklets to fire district human resources and administrative staff. Extra copies are kept on hand by the third-party administrator. During 2011, \$7,356 was spent on inventory type items such as identification cards, plan booklets and program reference material. Inventory is primarily held by the third-party administrator and is minimal.

g. Investments

During 2011, the WFCFA Health Care Program had no holdings in stocks, bonds or securities of any type. There are no non-cash investments to report. The Association and the Health Care Program ownership of the James R. Larsen, Forum Building does yield a return from the leasing of office space. The fund balances in the Local Government Investment Pool and South Sound Bank earn simple interest on the unused account balances.

h. Compensated Absences

Paid absences are recognized and accumulated for vacation and sick leave as follows:

<b>Vacation Leave:</b>		<b>Sick Leave:</b>
Year 1	5 days	1 Day per month
Years 2-5	10 days	
Years 6-10	15 days	
Years 11-15	21 days	
Years 16+	22 days	

Vacation and sick leave apply to full-time career employees only. Vacation time is credited and paid on a pro rata basis to the nearest full day upon termination of employment. Accrued vacation time in excess of 30 working days is forfeited and not compensated. Any unused sick leave at the time of termination of employment or retirement is forfeited without being partially or totally reimbursed.

i. Unamortized Debt Expenses

The WFCFA Health Care Program has no outstanding bonds or long-term debt.

j. Unpaid Claims Liabilities

The WFC Health Care Program, Board of Directors is responsible for funding any outstanding claims liabilities of the program. There are no reassessments of member organizations during a year. Methods for calculating reserves to cover unpaid claims liabilities are prescribed by the state risk manager in WAC 82.65.040(1) and (2). Reserves above the levels required by the state are established by Board of Directors policy.

The claims reserve amounts reflected as Current Liabilities on the Statement of Net Assets are the result of an actuarial review. Operationally on a quarterly basis, the reserve amounts are recalculated based on Board policy which requires an 8-week average of claims paid over the prior 12 months plus third-party administrative fees to process the unpaid claims. A second level of reserves is calculated using the 8-week average of paid claims over the prior 12 months and the third level involves setting aside a reserve amount that equals the difference between the estimated annual claims expense and 125 percent of the aggregate claims amount as calculated by the reinsurance carrier.

The 8-week average of claims paid methodology also meets the requirements of WAC 82-65. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed on both actual and historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they occur. On December 31, 2011, the WFC Health Care Program had restricted reserves totaling \$6,552,103 to cover any outstanding claims liability.

k. Reinsurance

The WFC Health Care Program contracts with a stop loss carrier to reduce its financial exposure to extraordinary medical expense claims due to unforeseen health events, serious illness or injury. Reinsurance protects the WFC Health Care Program from potential financial insolvency by covering losses above certain threshold amounts. Explanatory NOTE 4 contains the reinsurance coverage amounts. The Health Care Program is responsible for medical expenses until the reinsurance policy threshold amount is reached and exceeded. The WFC Health Care Program does not report reinsured risk as a liability unless there is strong evidence that the stop loss carrier will not be able to meet its contractual obligations. This has not been an issue since the inception of the self-funded health care program in 1999.

l. Unearned Member Premium Contributions

Fire districts may pay premiums for more than one month at a time. Member premium contributions are collected in advance, held on deposit and recognized as revenue in the month for which coverage is provided. Premium levels are based on the estimated annual funding requirements of the enrolled members in the program. On December 31, 2011, the third-party administrator had future member premium contributions on deposit of \$790,936.

m. Claims Reserves

Self-funded claims are charged against premium income in the month the service occurred and the premium income was received. The 2011 Statement of Net Assets reflects the results of an actuarial calculation of incurred but not paid (IBNP) self-funded medical claims liability of \$2,508,000 and related unallocated loss adjustment expenses of \$71,000. The WFCOA Board of Directors maintains additional reserves beyond the amount calculated by the actuary to address any extraordinary financial circumstances (See NOTE 9).

The WFCOA Health Care Program maintains three levels of self-funded reserves to cover potential unpaid medical, vision and prescription drug claims liability that exceeds state reserve requirements.

The first level of reserves covers IBNP claims which is an amount equal to an average 8 weeks of medical, vision and prescription drug claims based on claims paid in the most recent 12 months drug claims plus the estimated third-party administrator (TPA) run-out fee as calculated according to the TPA's run-out fee schedule (unallocated loss adjustment expenses). The second level of reserve is the cash reserve which is an amount equal to an average 8 weeks of medical, vision and prescription drug claims based on claims paid in the most recent 12 months. The third level of reserve is the contingency reserve which is an amount that is the difference between the projected aggregate stop loss liability for the plan year and the projected claim funding generated from premiums charged to participating fire districts. The calculation is 1.25 percent times the total projected annual premiums equals the aggregate stop loss claims liability for the plan year. The difference between the two equals the contingency reserve. These reserve amounts are recalculated and reviewed quarterly by the WFCOA Health Care Committee. For purposes of year-end financial reporting, the WFCOA Health Care Program contracts with an Actuary to conduct an assessment of outstanding claims.

n. Reserve for Unallocated Loss Adjustment Expenses

As part of the restricted reserve amount, the WFCOA Health Care Program includes an estimate of the administrative costs that would be incurred at the time the claims were processed and to process claims incurred but not reported when the expense became known.

o. Exemption from Federal and State Taxes

Income of publicly funded risk pools is excluded from gross income under Section 115(1), as provided in Revenue Ruling 90-74.

The self-funded portion of the WFCOA Health Care Program is exempt from insurance premium taxes, from fees assessed under chapter 48.02 RCW, from chapters 48.32 and 48.32A and from business and occupation taxes imposed under chapter 82.04 RCW.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The WFC Health Care Program had no violations of finance related legal or contractual provisions during 2011.

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

Funds in excess of the immediate operational requirements are deposited in South Sound Bank or the Local Government Investment Pool (LGIP). The WFC Health Care Program bank deposits are entirely covered by collateral bank reserves and federal depository insurance (FDIC). The Local Government Investment Pool deposits funds in depositories that meet collateral requirements and are approved by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2011, the WFC Health Care Program had the following account balances:

<b>Financial Institution</b>	<b>Balance</b>
Cash in Local Government Investment Pool	\$ 10,587,525
Cash in Bank (Checking Account)	\$ 987,206
Cash in Bank (Savings Account)	\$ 6,268,223
Total	\$ 17,842,954

The WFC Health Care Program made no direct investments in Certificates of Deposits, securities, commercial paper or any other investment vehicle during 2011 but did earn interest on its account balances in the Local Government Investment Pool and South Sound Bank.

Local Government Investment Pool – Deposits in the LGIP are invested in accordance with securities and deposits authorized by state statutes: RCW 39.58, RCW 39.59 RCW and 43.84.080. The LGIP invests in obligations of the United States government, obligations of United State’s government agencies, obligations of government sponsored corporations, banker’s acceptance s purchased on the secondary market meeting certain rating requirements from Nationally Recognized Statistical Rating Organizations, commercial paper, certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission and obligations of the state of Washington or its political subdivisions. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities. To the extent possible, both market and credit risk is minimized.

To further ensure safety and liquidity of LGIP funds, the fund’s investment portfolio total daily balance is subject to further restrictions including predetermined percentages of liquidity, diversification and percentages of different government investment vehicles, diversification and percentages of different non-governmental securities. The duration of



investment vehicle maturities is also limited based on a weighted average maturity of the portfolio not to exceed 60-days and a weighted average life maturity not to exceed 120-days. Repurchase and reverse repurchase agreements are subject to an additional set of restrictions.

The Office of the State Treasurer in conjunction with the LGIP Advisory Committee oversees and approves policies governing the LGIP. The Office of the State Auditor audits the accounts and inspects the books for compliance with state laws and the LGIP Investment Policy. An outside auditor independently audits the LGIP financial statements for final approval.

Bank Accounts – The WFC Health Care Program maintains a checking account and claims payment account in South Sound Bank. Both accounts are interest bearing. The checking account is used to pay for program expenses: payroll, Health Care Committee travel and per diem, health care workshops and seminars and other program support expenses. The claims payment account is used to wire funds between the WFC Health Care Program and the third-party administrator for the receipt of premium revenues and the payment of medical and dental claims expenses.

**NOTE 4 – RISK FINANCING LIMITS**

The WFC Health Care Program self-insures the medical, prescription drug and vision claims of its covered members up to certain limits upon which the program’s excess reinsurance policy is activated. The WFC Health Care Program staff, committee members and Board of Directors are covered by private insurance policies purchased by the Washington Fire Commissioners Association.

The self-insured limits maintained by the WFC Health Care Program are:

<b>Plan Option 1/</b>	<b>Member Deductible</b>	<b>Member Co-Pay 2/</b>	<b>Self-Insured Retention 3/</b>	<b>Excess Limit</b>
Traditional	\$0	0%	\$250,000	\$250,001
PPO-Plus	\$0	10%	\$250,000	\$250,001
PPO-100	\$100	20%	\$250,000	\$250,001
PPO-300	\$300	20%	\$250,000	\$250,001
High Deductible	\$1,500	20%	\$250,000	\$250,001
Retiree	\$350	20%	\$250,000	\$250,001

1/ Employee Only.

2/ Individual co-payment percentage for most, but not all medical services covered.

3/ The WFC Health Care Program pay medical claims expenses up to \$250,000 per individual. A corridor payment covering an additional \$100,000 in claims is paid by WFC before reinsurance coverage begins after the first \$350,000 in claims is paid.

NOTE 5 – MEMBER’S SUPPLEMENTAL ASSESSMENTS AND CREDITS

Member organizations make monthly premium contributions as a condition of participating in the WFCAs Health Care Program. Financial management and solvency of the Insurance Rate Stabilization Reserve Account is the responsibility of the Washington Fire Commissioners Association Board of Directors. Board of Director Policy requires that the WFCAs Health Care Program operate with a fund balance that exceeds the outstanding member claims at any time during the plan year. The Insurance Rate Stabilization Reserve Account fund balance is maintained at a level that avoids the need for special assessments on member organizations to cover medical claims expenses not anticipated in the budget.

NOTE 6 – LONG-TERM DEBT AND LIABILITIES

a. Long-Term Debt

The WFCAs Health Care Program has no outstanding long-term debt as of December 31, 2011.

b. Notes Payable

The WFCAs Health Care Program had no outstanding notes payable on December 31, 2011.

c. Changes in Liabilities

During the year ended December 31, 2011, the following changes occurred in employee leave balance liability:

	<b>Beginning Balance 01/01/2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/2011</b>	<b>Due Within One Year</b>
Compensated Absences*	\$7,857	\$7,856	0	\$15,713	0
<b>Total Liability</b>	<b>\$7,857</b>	<b>\$7,856</b>	<b>0</b>	<b>\$15,713</b>	<b>0</b>

\*Health care staff accumulated sick and annual leave.

NOTE 7 – SHORT-TERM DEBT

The WFCAs Health Care Program did not set up or use a line of credit with any financial institution during 2011. The program maintains sufficient resources to avoid the need for short-term borrowing of any type for operational purposes.

NOTE 8 – CAPITAL ASSETS

a. Capital Assets

The James R. Larsen Forum building is owned by three parties, the Washington Fire Commissioners Association, the WFC Health Care Program and the Washington Fire Chiefs Association. The WFC Health Care Program owns the adjacent parking lot. The office building is a long-term capital asset with a useful life of 40 years and a total building market value approximately \$2.5 million. Equipment is a capital asset with an initial, individual cost of more than \$5,000 and a useful life of 3 to 7-years depending on the type and use.

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

<u>Asset</u>	<u>Years</u>
Buildings	40
Equipment	3-7

Capital assets are recorded at historical cost. Capital asset activity for the year ended December 31, 2011 was as follows:

<b>Asset Type</b>	<b>Beg. Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Non-Depreciable Assets-Land	301,965			301,965
Depreciable Assets-Buildings	248,225			248,225
Total Capital Assets	550,190			550,190
Accumulated Depreciation	(124,112)	(6,206)		(130,318)
Total Capital Assets net of Accumulated Depreciation	426,078	(6,206)		419,872

b. Impaired Capital Assets

The WFC Health Care Program had no impairments to capital assets during 2011.

NOTE 9 – RESTRICTED NET ASSETS

The Department of Enterprise Services, State Risk Management Office sets the reserve requirements for public self-funded health and welfare programs in Washington Administrative Code (WAC). WAC 82-65-040 (1) requires that joint health and welfare programs self-insuring medical benefits shall: (a) establish program reserves in an amount equal to eight weeks of program expenses; (b) maintain an aggregate stop loss insurance policy with an attachment point set at or below 125 percent of annual expected claims costs and (c) establish by ordinance or resolution of the governing body, an additional contingency reserve in the amount of at least eight weeks of program expenses. WAC 82-65-040 (2) states that in lieu of the requirements in WAC 82-65-040 (1), all joint health and welfare programs self-insuring medical benefits must obtain an independent actuarial study and fund to the actuarially determined program liability.

The WFCAs Health Care Program annually obtains an actuarial assessment of outstanding year-end claims and related administrative expenses. In actual practice, the WFCAs Health Care Program maintains three levels of reserves. Level 1 restricted reserve covers eight weeks of Incurred but not Reported medical claims expenses and related administrative expenses. Level 2 restricted reserves covers an additional eight weeks of medical claims expenses and Level 3 reserves cover the amount that the aggregate stop loss liability exceeds the WFCAs premium funding. The Level 3 contingency reserve meets the expectations of the stop loss carrier and is supported by a policy adopted by the WFCAs Board of Directors.

<b>December 31,2011</b>	<b>Amount</b>
IBNR Reserve	\$2,579,000
Cash Reserve	\$3,328,931
Contingency Reserve	<u>\$ 644,171</u>
Total	\$ 6,552,102

NOTE 10 - LEASES

a. Operating Leases

The WFCAs Health Care Program was not a lessee in any contract during 2011.

b. Capital Leases

The WFCAs Health Care Program was not involved in any lease agreement during 2011 for the purpose of acquiring capital assets.

c. Office Space Leases

The WFCAs Health Care Program leased office space to two state agencies during 2011. Lease agreements are negotiated to cover a 5 year period. The current leases are up August 31, 2011. One of the tenant state agencies has announced its intent to move out of the Forum Building when the current lease expires.

Gross lease revenues for the year ended December 31, 2011 amounted to \$107,544  
 Future annual gross lease revenues for the Health Care Program are estimated to be:

<u>Year</u>	
2012	56,700
2013	102,316
2014	104,465
2015	106,554
2016	108,685

NOTE 11 – PENSION PLANS

In 1989, it was determined by the state Department of Retirement Systems that WFCAs employees should not be enrolled in the Public Employees Retirement (PERS 2) System. Contributions to the state retirement system were refunded and the proceeds used to establish a Qualified Money Purchase Pension Program (Defined Contribution Plan) with General American Life Insurance Company. As the employer, the Association is the sole contributor to this defined contribution pension plan. In addition, Association employees are required to increase their retirement contributions by participating in a qualified retirement program such as a 457 Plan-Deferred Compensation or a Roth IRA. Association employees are eligible to participate in the State’s Deferred Compensation System administered by the Department of Retirement Systems.

The Association’s pension plan is a defined contribution plan and falls under the jurisdiction of the Department of Labor, Employee Benefits Security Administration. The Plan is a qualified pension plan that meets federal statutory requirements provided in the Employee Retirement Income Security Act of 1974 (ERISA) and the requirements of the Internal Revenue Service (IRS). This is an employer contribution pension plan that does not allow for employee contributions. The plan year for the Money Purchase Pension Plan is January 1<sup>st</sup> through December 31<sup>st</sup>.

In order to be eligible to participate in the WFCAs Pension Plan, employees must be career employees working full-time (no less than 32 hours per week). Part-time employees are not eligible to participate. Vesting occurs after completing 500 hours on the job in the first six months of employment. Vesting increases in twenty percent annual increments until 100 percent vesting in the pension plan occurs at the end of the employee’s fifth year. All of the Washington Fire Commissioners Association employees currently participate in the Association pension plan.

Retirees and Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members Vested	5
Active Plan Members Non-vested	0
<b>Total</b>	<b>6</b>

The WFC Health Care Program currently funds one full-time employee and a portion of another employee in the Associations Money Purchase Pension Plan (Defined Contribution Plan).

Funding Policy

The WFC Board of Directors determines the contribution rate to be deposited in the Association's Money Purchase Pension Plan. The required employer contribution rate expressed as a percentage of current-year covered salaries as of December 31, 2011, is as follows:

<b>Self-Funded</b>	<b>Pension Rate</b>
WFC Health Care Program	6.00%

The monthly employer contribution is six percent of gross salaries. Annual employer pension contributions for 2011 amounted to \$6,600. Employee contributions are prohibited.

NOTE 12 – RETIREMENT AUGMENTATION

In 1986, the Internal Revenue Service (IRS) classified the Association as a private, non-profit organization and therefore not qualified to participate in the Social Security system. The Association disagreed with the classification but in response to the IRS classification, requested that all prior contributions to the Social Security Administration be refunded. The Social Security contributions were refunded and reinvested in disability coverage and a one-time contribution to Flexible Annuity (Traditional) Individual Retirement Accounts (IRA) for eligible Association employees.

NOTE 13 – SELF-INSURANCE

The WFC Health Care Program does not act on behalf of local fire districts regarding Unemployment Compensation and Worker’s Compensation. As employers, local fire districts are responsible for addressing unemployment compensation and workers compensation issues with their employees.

NOTE 14 – ACCOUNTING CHANGES

Prior to 2010, the WFC Health Care Program accounted for revenues and expenses on a cash basis. The Office of the state Risk Manager adopted 85-62 WAC rules effective October 1, 2010 that require joint self-insured health and welfare benefit programs to account for and report revenues and expenses on a full accrual basis. This report meets this reporting requirement.

## WFCA Insurance Rate Stabilization Reserve Account

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2010

The following notes are an integral part of the accompanying WFCA Health Care Program financial statements.

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

The accounting policies of the WFCA Insurance Rate Stabilization Reserve Account 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 Fire Commissioners Association is a non-profit association created by fire districts. Chapter 52.12 RCW provides for the creation of the association to encourage uniformity and coordination to achieve more efficient and economical operation of associated fire districts. The conditions and qualifications for membership in the association and the rights and privileges of the classes of membership are prescribed in the bylaws of the association.

There are three classes of members: Fire Districts, Active Commissioner Members and Associate Members. An associate member is an individual or organization granted associate member status by the Board of Directors. Associate members can be private individuals or organizations supporting the activities of fire districts and the Association. Private funds and public funds are accounted for separately and under no circumstances co-mingled. General Association revenues and expenses and Health Care Program revenues and expenses are accounted for separately and under no circumstances co-mingled. Case law characterizes the Association as a quasi-municipal corporation.

The WFCA Health Care Insurance Rate Stabilization Reserve Account also referred to as the WFCA Health Care Program was created in 1981 by a resolution passed by the Washington Fire Commissioners Association Board of Directors for the benefit of member fire districts. In accordance with Section 52.12.031(4) RCW, member fire districts through the articles of association are authorized to select a chairman, secretary, and other officers as they may determine, and may employ and discharge agents and employees as the officers deem convenient to carry out the purposes of the association.

Fire district members of the Association determined it was in their collective best interest to purchase health care through the Association. The pooling of resources allowed fire districts to jointly benefit from volume purchasing and lower administrative overhead. The WFCA Board of Directors was tasked with providing and managing a health care program to cover employee health and medical claims through premiums paid by employer fire districts, regional fire authorities and municipal fire departments. The WFCA Health Care Program is not intended to function as an insurance company for fire districts, regional fire authorities and municipal fire departments. Rather, it is a means of

combining the administration of claims and of obtaining lower insurance rates for member organizations. Premiums billed to the fire districts, regional fire authorities and municipal fire departments are determined annually based on an average of at least the prior twelve months of actual premiums paid. Annual premium funding and accumulated fund balances cover all program expenses. There are no assessments levied on member organizations. The ultimate liability for unpaid claims and program expenses is the responsibility of the Washington Fire Commissioners Association Board of Directors.

Membership in the WFCOA Health Care Program is voluntary however, in order to be eligible to enroll in the Program participants must be dues paying members or associate members of the Washington Fire Commissioners Association. Member organizations of the Health Care Program must provide 31-days notice of termination from the Program if they choose not to renew. Fire Districts, Regional Fire Authorities and Municipal Fire Departments that are members or associate members of the Association and are not enrolled in the Health Care Program may enroll in the Health Care Program throughout the Plan Year. For Plan Year 2010, 124 member organizations participated in the WFCOA Health Care Program.

b. Basis of Accounting

The accounting records of the WFCOA Insurance Rate Stabilization Reserve Account are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The WFCOA Insurance Rate Stabilization Reserve Account 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 the GASB Statement 30, *Risk Financing Omnibus*, the 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 the 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 WFCOA Health Care Program has elected not to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the governmental Accounting Standards Board (GASB).

The recording of member premium revenues and medical claims expenses occurs in the financial accounting system maintained by the Health Care Program's Third-Party Administrator. The Third-Party Administrator uses the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases by the WFCOA Health Care Program are either expensed or amortized depending on the cost, use and type of capital asset. All program capital expenses whether short-term or long-term are accounted for in the fund.



The principal operating revenues of the WFC Health Care Program are from health care premiums paid by member fire districts and regional fire authorities. No municipal fire departments were enrolled in the Health Care Program in 2010.

Operating expenses include medical claims, vision claims, prescription drug claims, premiums due for dental expense claims, fees charged by the third-party administrator to process member premiums and claims, excess insurance premiums, subscription fees, 24-hour Careline expenses and broker fees. Administrative expenses include: Health Care Committee expenses, staff salaries and benefits, and office equipment and supplies.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the WFC Health Care Program considers all demand deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All WFC Health Care Program investments meet the requirements set forth in Section 48.62.111 RCW. The year-ending cash balance was \$14,897,856. During Fiscal Year 2010, the WFC Health Care Program earned interest on its excess cash balances in the Local Government Investment Pool managed by the Office of the State Treasurer and in South Sound Bank. Interest earnings from all accounts amounted to \$51,618.55 for the fiscal period. Once earned the interest proceeds are available to be withdrawn at any time.

The third-party administrator (TPA) holds deposits made by member organizations when member premium contributions are submitted to cover more than one month of medical claims expenses. Net deposits held by the TPA as of December 31, 2010 amounted to \$521,351.

d. Capital Assets

The Washington Fire Commissioners Association and the WFC Health Care Program jointly own 92.1 percent of the James R Larsen, Forum Building. The Washington Association of Fire Chiefs owns the remaining 7.9 percent of the building. The WFC Health Care Program owns the adjacent parking lot used by building tenants and visitors. No mortgage payments remain on the property. The 2010 assessed value of the property and adjacent parking lot owned by the Health Care Program is \$1,991,550.

The historical value of the WFC Health Care Program's portion of the James R Larsen, Forum Building and land is \$426,078. Of that amount, \$248,225 is the historical value of the building. Additionally, the Health Care Program purchased the adjacent lot for \$130,891 which is used for vehicle parking. The total historical value of all real property owned by the Health Care Program is \$550,190. The straight line method of depreciation is used based on a 40-year useful life for the building.

e. Receivables

The majority of receivables deemed collectable for 2010 are attributable to unpaid subrogation payments, and unpaid stop loss carrier reimbursement. The Statement of Net Assets lists the 2010 receivables. Of the \$684,667 identified receivables, subrogation payments amounted to \$221,264 and stop loss recoveries owed to the WFC Health Care Program amounted to \$316,896. Unpaid member premiums, refunds, rebates and subsidy payments collectively accounted for the remaining \$146,507 in receivables. All member premiums and stop loss carrier reimbursements are initially collected by the program's third-party administrator and then remitted to the WFC Health Care Program for deposit.

f. Inventories

The WFC Health Care Program provides Medical Plan Identification Cards and booklets for members enrolled in self-funded plans and provides administrative reference guides and plan booklets to fire district human resources and administrative staff. Extra copies are kept on hand by the third-party administrator. During 2010, \$9,916 was spent on identification cards and program reference material. Minimal inventory is held throughout the year by the third-party administrator.

g. Investments

During 2010, the WFC Health Care Program had no holdings in stocks, bonds or securities of any type. The Association and the Health Care Program ownership of the James R. Larsen, Forum Building does yield a return from the leasing of office space. The fund balances in the Local Government Investment Pool and South Sound Bank earn simple interest on the unused account balances.

h. Compensated Absences

Paid absences are recognized and accumulated for vacation and sick leave as follows:

<b>Vacation Leave:</b>		<b>Sick Leave:</b>
Year 1	5 days	1 Day per month
Years 2-5	10 days	
Years 6-10	15 days	
Years 11-15	21 days	
Years 16+	22 days	

Vacation and sick leave apply to full-time career employees only. Vacation time is credited and paid on a pro rata basis to the nearest full day upon termination of employment. Accrued vacation time in excess of 30 working days is forfeited and not compensated. Any unused sick leave at the time of termination of employment or retirement is forfeited without being partially or totally reimbursed.

i. Unamortized Debt Expenses

The WFC Health Care Program has no outstanding bonds or long-term debt.

j. Unpaid Claims Liabilities

The WFC Health Care Program, Board of Directors is responsible for funding any outstanding claims liabilities of the program. Member organizations pay premiums on a monthly basis and there are no additional assessments of member organizations during the year. Program reserves are sufficient to cover any unforeseen financial requirements. Methods for calculating reserves to cover unpaid claims liabilities are prescribed by the state risk manager in WAC 82.65. Reserves above the levels required by state rule are established by Board of Directors policy.

The claims reserve amounts reflected in the Current Liabilities section of the Statement of Net Assets are the result of an actuarial review and calculation. In actual practice, the reserve amounts are recalculated on a quarterly basis based on existing Board policy. The policy requires an 8-week average of claims paid over the prior 12 months plus third-party administrative fees to process the unpaid claims. A second level of reserves is calculated using the 8-week average of paid claims over the prior 12 months and the third level involves setting aside a reserve amount that equals the difference between the estimated annual claims expense and 125 percent of the aggregate claims amount as calculated by the reinsurance carrier.

The 8-week average of claims paid methodology also meets the requirements of WAC 82-65. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed on both actual and historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they occur. On December 31, 2010, the WFC Health Care Program had restricted reserves totaling \$9,539,545 to cover any outstanding claims liability.

k. Reinsurance

The WFC Health Care Program contracts with a stop loss carrier to reduce its financial exposure to extraordinary medical expense claims due to unforeseen health events, serious illness or injury. Reinsurance protects the WFC Health Care Program from potential financial insolvency by covering losses above certain threshold amounts. Explanatory Note 4 contains the reinsurance coverage amounts. The Health Care Program is responsible for medical expenses until the reinsurance policy threshold amount is reached and exceeded. The WFC Health Care Program does not report reinsured risk as a liability unless there is strong evidence that the stop loss carrier will not be able to meet its contractual obligations. This has not been an issue since the inception of the self-funded Health Care Program in 1999.

l. Unearned Member Premium Contributions

Fire districts may pay premiums for more than one month at a time. Member premium contributions are collected in advance, held on deposit and recognized as revenue in the month for which coverage is provided. Premium levels are based on the estimated annual funding requirements of the enrolled members in the program. On December 31, 2010, the third-party administrator had future member premium contributions on deposit of \$956,517.

m. Claims Reserves

Self-funded claims are charged against premium income in the month the service occurred and the premium income was received. The 2010 Statement of Net Assets reflects the results of an actuarial calculation of incurred but not reported (IBNR) or paid (IBNP) self-funded medical claims liability of \$2,535,000 and related unallocated loss adjustment expenses of \$87,000. In addition, the WFCOA Board of Directors maintains another \$6,917,545 in reserve to insure coverage any unforeseen self-funded program expenses (See Note 8).

The WFCOA Health Care Program maintains three levels of self-funded reserves to cover potential unpaid medical, vision and prescription drug claims liability that exceeds the actuaries estimate.

The first level of reserves covers IBNR claims which is an amount equal to an average 8 weeks of medical, vision and prescription drug claims based on claims paid in the most recent 12 months drug claims plus the estimated third-party administrator (TPA) run-out fee as calculated according to the TPA's run-out fee schedule (unallocated loss adjustment expenses). The second level of reserve is the cash reserve which is an amount equal to an average 8 weeks of medical, vision and prescription drug claims based on claims paid in the most recent 12 months. The third level of reserve is the contingency reserve which is an amount that is the difference between the projected aggregate stop loss liability for the plan year and the projected claim funding generated from premiums charged to participating fire districts. The calculation is 1.25 percent times the total projected annual premiums equals the aggregate stop loss claims liability for the plan year. The difference between the two equals the contingency reserve. These reserve amounts are recalculated and reviewed quarterly by the WFCOA Health Care Committee.

n. Reserve for Unallocated Loss Adjustment Expenses

As part of the restricted reserve amount, the WFCOA Health Care Program includes an estimate of the administrative costs that would be incurred at the time the claims were processed and to process claims incurred but not reported or paid when the expense became known.

o. Exemption from Federal and State Taxes

Income of publicly funded risk pools is excluded from gross income under Section 115(1), as provided in Revenue Ruling 90-74.

The self-funded portion of the WFC Health Care Program is exempt from insurance premium taxes, from fees assessed under chapter 48.02 RCW, from chapters 48.32 and 48.32A and from business and occupation taxes imposed under chapter 82.04 RCW.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The WFC Health Care Program had no violations of finance related legal or contractual provisions during 2010.

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

Funds in excess of the immediate operational requirements are deposited in South Sound Bank or the Local Government Investment Pool (LGIP). The WFC Health Care Program bank deposits are entirely covered by collateral bank reserves and federal depository insurance (FDIC). The Local Government Investment Pool deposits funds in depositories that meet collateral requirements and are approved by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2010, the WFC Health Care Program had the following account balances:

<b>Financial Institution</b>	<b>Balance</b>
Cash in Local Government Investment Pool	\$8,568,757
Cash in Bank (Checking Account)	\$2,545,847
Cash in Bank (Savings Account)	<u>\$3,783,252</u>
Total	\$14,897,856

The WFC Health Care Program made no direct investments in Certificates of Deposits, securities, commercial paper or any other investment vehicle during 2010 but did earn interest on its account balances in South Sound Bank and the Local Government Investment Pool.

Local Government Investment Pool – Deposits in the LGIP are invested in accordance with securities and deposits authorized by state statutes: RCW 39.58, RCW 39.59 RCW and 43.84.080. The LGIP invests in obligations of the United States government, obligations of United State’s government agencies, obligations of government sponsored corporations, banker’s acceptance s purchased on the secondary market meeting certain rating requirements form Nationally Recognized Statistical Rating Organizations, commercial paper, certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission and obligations of the state of

Washington or its political subdivisions. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities. To the extent possible, both market and credit risk is minimized.

To further ensure safety and liquidity of LGIP funds, the fund's investment portfolio total daily balance is subject to further restrictions including predetermined percentages of liquidity, diversification and percentages of different government investment vehicles, diversification and percentages of different non-governmental securities. The duration of investment vehicle maturities is also limited based on a weighted average maturity of the portfolio not to exceed 60-days and a weighted average life maturity not to exceed 120-days. Repurchase and reverse repurchase agreements are subject to an additional set of restrictions.

The Office of the State Treasurer in conjunction with the LGIP Advisory Committee oversees and approves policies governing the LGIP. The Office of the State Auditor audits the accounts and inspects the books for compliance with state laws and the LGIP Investment Policy. An outside auditor independently audits the LGIP financial statements for final approval.

Bank Accounts – To support the self-funded activities, the WFC Health Care Program maintains a checking account and claims payment account in South Sound Bank. Both accounts are interest bearing. The checking account is used to pay for program expenses: payroll, Health Care Committee travel and per diem, health care workshops and seminars and other program support expenses. The claims payment account is used to wire funds between the WFC Health Care Program and the third-party administrator for the receipt of premium revenues and the payment of medical, vision and prescription drug expenses.

b. Investments

No investments (stocks, bonds, etc.) were purchased during 2010.

NOTE 4 – RISK FINANCING LIMITS

The WFC Health Care Program self-insures the medical, prescription drug and vision claims of its covered members up to certain limits upon which the program's excess reinsurance policy is activated.

The self-insured limits maintained by the WFCA Health Care Program are:

<b>Plan Option 1/</b>	<b>Member Deductible</b>	<b>Member Co-Pay 2/</b>	<b>Self-Insured Retention 3/</b>	<b>Excess Limit</b>
Traditional	\$0	0%	\$250,000	\$250,001
PPO-Plus	\$0	10%	\$250,000	\$250,001
PPO-100	\$100	20%	\$250,000	\$250,001
PPO-300	\$300	20%	\$250,000	\$250,001
High Deductible	\$1,500	20%	\$250,000	\$250,001
Retiree	\$350	20%	\$250,000	\$250,001

1/ Employee Only.

2/ Individual co-payment percentage for most, but not all medical services covered.

3/ The WFCA Health Care Program pay medical claims expenses up to \$250,000 per individual. A corridor payment covering an additional \$100,000 in claims is paid by WFCA before reinsurance coverage begins after the first \$350,000 in claims is paid.

The WFCA Health Care Program staff, committee members and Board of Directors are covered by private liability insurance policies purchased by the Washington Fire Commissioners Association.

**NOTE 5 – MEMBER’S SUPPLEMENTAL ASSESSMENTS AND CREDITS**

Member organizations make monthly premium contributions as a condition of participating in the WFCA Health Care Program. Financial management and solvency of the Insurance Rate Stabilization Reserve Account is the responsibility of the Washington Fire Commissioners Association Board of Directors. Board of Director Policy requires that the WFCA Health Care Program operate with a fund balance that exceeds the outstanding member claims at any time during the plan year. The Insurance Rate Stabilization Reserve Account fund balance is maintained at a level that avoids the need for special assessments on member organizations to cover medical claims expenses not anticipated in the budget.

**NOTE 6 – LONG-TERM DEBT AND LIABILITIES**

a. Long-Term Debt

The WFCA Health Care Program has no outstanding long-term debt as of December 31, 2010.

b. Notes Payable

The WFCA Health Care Program has no outstanding notes payable on December 31, 2010.

c. Changes in Liabilities

During the year ended December 31, 2010, the following changes occurred in liabilities:

	<b>Beginning Balance 01/01/2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/2010</b>	<b>Due Within One Year</b>
Compensated Absences*	\$4,285.73	\$4,285.73	0	\$8,571.46	0
Total long-term liabilities	\$4,285.73	\$4,285.73	0	\$8,571.46	0

\*Unused accumulated sick leave for Health Care Program staff during 2010.

NOTE 7 – CAPITAL ASSETS

a. Capital Assets

Purchase of the James R. Larsen Forum building was completed in 1991. Ownership of the building is shared by the Washington Fire Commissioners Association, the WFC Health Care Program and the Washington Fire Chiefs Association. The WFC Health Care Program purchased the adjacent parking lot in 1994. As a long-term capital asset, the office building is assumed to have a useful life of 40 years. In 2010, the Health Care Program's portion of the land and building was assessed at \$1.98 million. Equipment is depreciated if it has an initial, individual cost of more than \$5,000 and a useful life of 3 to 7 years depending on the type and use. During 2010, no equipment was being depreciated.

Capital assets are recorded at historical cost. The table below reflects only the Health Care Program portion and excludes the portions of the building owned by the Association Operating Program and the Washington Association of Fire Chiefs. Capital asset activity for the WFC Health Care Program for the year ended December 31, 2010 was as follows:

<b>Asset Type</b>	<b>Beg. Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Non-Depreciable Assets-Land	301,965			301,965
Depreciable Assets-Buildings	248,225			248,225
Total Capital Assets	550,190			550,190
Accumulated Depreciation	(117,906)	(6,206)		(124,112)
Total Capital Assets net of Accumulated Depreciation	432,284	(6,206)		426,078



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

<u>Asset</u>	<u>Years</u>
Buildings	40
Equipment	3-7

b. Impaired Capital Assets

The WFCA Health Care Program had no impairments to capital assets during 2010.

NOTE 8 – RESTRICTED NET ASSETS

The Office of Financial Management, State Risk Management Office sets the reserve requirements for public self-funded health and welfare programs in Washington Administrative Code (WAC). WAC 82-650-040 Standards for solvency—program funding requirements requires either an independent actuarial assessment of outstanding claims or the use of a formula based on historical claims experience. The WFCA Health Care Program uses both an actuarial assessment and an historical claims reserve amount calculation. The table below reflects all restricted reserves to meet self-funded medical claims expenses as of December 31, 2010.

<b>December 31,2010</b>	<b>Amount</b>
IBNR Reserve	\$2,535,000
Unallocated Loss Adjustment Expense	\$ 87,000
Restricted Reserves (Board Policy)	<u>\$6,917,545</u>
Total	<u>\$9,539,545</u>

Note: The WFCA Health Care Program maintains a larger operating reserve than is required by the state Risk Manager. Board policy requires program reserves in an amount equal to (a) eight weeks of Incurred but not Reported (IBNR) medical claims expenses and related administrative expenses plus, (b) eight weeks of medical claims expenses plus, (c) funding equal to the aggregate stop loss insurance policy amount of 125 percent of annual expected claims costs. The reserve balance that is required by Board policy totaled \$9,539,545 as of December 31, 2010.

NOTE 9 - LEASES

a. Operating Leases

The WFCA Health Care Program was not a lessee in any contract during 2010.

b. Capital Leases

The WFCA Health Care Program was not involved in any lease agreement during 2010 for the purpose of acquiring capital assets.

c. Office Space Leases

The WFCOA Health Care Program leased office space to two state agencies during 2010. Lease agreements are negotiated to cover a 5 year period. The current leases are up August 31, 2011. One of the tenant state agencies has announced its intent to move out of the Forum Building when the current lease expires.

Gross lease revenues for the year ended December 31, 2010 amounted to \$151,168. Future annual gross lease revenues are estimated to be:

	<u>Year</u>
2011	155,000
2012	155,000
2013	155,000
2014	155,000
2015	155,000

NOTE 10 – PENSION PLANS

In 1989, it was determined by the state Department of Retirement Systems that WFCOA employees should not be enrolled in the Public Employees Retirement (PERS 2) System. Contributions to the state retirement system were refunded and the proceeds used to establish a Qualified Money Purchase Pension Program (Defined Contribution Plan) with General American Life Insurance Company. As the employer, the Association is the sole contributor to its employees' pension plan. Per the pension plan's governing documents, employees are prohibited from making additional contributions to their retirement accounts through this program.

However, in addition to the Money Purchase Pension Plan, association employees are required to participate in a secondary qualified retirement program such as a 457 Plan-Deferred Compensation Plan or a Roth IRA. Association employees are eligible to participate in the State's Deferred Compensation System administered by the Department of Retirement Systems or a Roth IRA.

The Association's pension plan falls under the jurisdiction of the Department of Labor, Employee Benefits Security Administration and must meet the federal statutory requirements as provided for in the Employee Retirement Income Security Act of 1974 (ERISA) and the requirements of the Internal Revenue Service (IRS). The plan year for the Money Purchase Pension Plan is January 1<sup>st</sup> through December 31<sup>st</sup>.

In order to be eligible to participate in the WFCOA Pension Plan, employees must be career employees working full-time (no less than 32 hours per week). Part-time employees are not eligible to participate. Vesting occurs after completing 500 hours on the job in the first six months of employment. Vesting increases in twenty percent annual increments until 100 percent

vesting in the pension plan occurs at the end of the employee’s fifth year. All of the Washington Fire Commissioners Association employees currently participate in the Association pension plan.

Retirees and Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members Vested	5
Active Plan Members Non-vested	0
<b>Total</b>	<b>6</b>

The WFCFA Health Care Program currently funds one full-time employee and a portion of another employee in the Associations Money Purchase Pension Plan (Defined Contribution Plan).

Funding Policy

The WFCFA Board of Directors determines the contribution rate to be deposited in the Associations Money Purchase Pension Plan. The required employer contribution rate expressed as a percentage of current-year covered salaries as of December 31, 2010, is as follows:

Self-Funded	Pension Rate
WFCFA Health Care Program	6.00%

The monthly employer contribution is six percent of gross salaries. Annual employer pension contributions for 2010 amounted to \$5,688.

NOTE 11 – RETIREMENT AUGMENTATION

In 1986, the Internal Revenue Service (IRS) classified the Association as a private, non-profit organization and therefore not qualified to participate in the Social Security system. The Association disagreed with the classification but in response to the IRS classification, requested that all prior contributions to the Social Security Administration be refunded. The Social Security contributions were refunded and reinvested in disability coverage and a one-time contribution to Flexible Annuity (Traditional) Individual Retirement Accounts (IRA) for each eligible Association employee.

NOTE 12 – SELF-INSURANCE

The WFCFA Health Care Program does not act on behalf of local fire districts regarding Unemployment Compensation and Worker’s Compensation. As employers, local fire districts are responsible for addressing unemployment compensation and workers compensation issues with their employees.

NOTE 13 – ACCOUNTING CHANGES

Prior to 2010, the WACA Health Care Program accounted for revenues and expenses on a cash basis. The Office of the state Risk Manager adopted 85-62 WAC rules that require joint self-insured health and welfare benefit programs to account for and report revenues and expenses on a full accrual basis effective October 1, 2010. This report meets this reporting requirement.

**WFCA Insurance Rate Stabilization Reserve Account**

**REQUIRED SUPPLEMENTARY INFORMATION**

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

The schedule below presents the annual medical claims liabilities for the Insurance Rate Stabilization Reserve Account through December 31, 2011. The Account establishes a liability for both reported and unreported medical services. The aggregate change in liabilities is shown below.

Two-Year Claims Development Information

	<u>2011</u>	<u>2010</u>
Required Contribution and Investment Revenue:		
Gross Earned	19,845,159	25,899,730
Ceded	<u>554,884</u>	<u>448,834</u>
Net Earned	19,290,275	25,450,896
 Unallocated Expenses	 797,910	 887,453
 Estimated Claims and Expenses End of Policy Year		
Incurred	17,149,848	17,119,257
Ceded	<u>2,935,403</u>	<u>877,957</u>
Net Incurred	14,214,445	16,241,300
 Net Paid (cumulative) as of End of Policy Year	 14,214,445	 16,241,300

**WFCA Insurance Rate Stabilization Reserve Account**  
**LIST OF PARTICIPATING MEMBERS**  
**2011**

**Schedule T-1**

Asotin County Fire District No 1	King County Fire Protection District No 2
Bainbridge Island Fire Department	King County Fire Protection District No 20
Benton County Fire District No 4	King County Fire Protection District No 25
Benton County Fire District No 6	King County Fire Protection District No 34
Benton County Fire Protection District No 1	King County Fire Protection District No 40
Benton County Fire Protection District No 2	King County Fire Protection District No 44
Chelan County Fire District No 1	King County Fire Protection District No 50
Chelan County Fire District No 3	King County Fire Protection District No 45
Chelan County Fire District No 5	Kitsap County Fire District No 18
Chelan County Fire Protection District No 7	Kittitas County Fire District No 2
Clallam County Fire Protection District No 2	Kittitas County Fire Protection District No 7
Clallam County Fire Protection District No 3	Klickitat County Fire District No 3
Clark County Fire and Rescue	Lacey Fire District No 3
Clark County Fire District No 10	Lewis County Fire District No 15
Clark County Fire District No 13	Lewis County Fire District No 2
Clark County Fire Protection District No 3	Lewis County Fire District No 6
Clark County Fire Protection District No 6	Lewis County Fire Protection District No 10
Clark County Fire Protection District No 5	Lewis County Fire Protection District No 14
Columbia County Fire District No 3	Lewis County Fire Protection District No 3
Cowlitz County Fire & Rescue	Lewis County Fire Protection District No 5
Cowlitz County Fire District No 6	Marysville Fire District
Cowlitz County Fire Protection District No 1	Mason County Fire District No 13
Cowlitz County Fire Protection District No 5	Mason County Fire District No 3
Douglas County Fire District No 2	Mason County Fire Protection District No 4
East County Fire & Rescue	Mason County Fire Protection District No 5
Franklin County Fire Protection District No 3	Mason County Fire Protection District No 6
Garfield County Fire Protection District No 1	McLane, Black Lake Fire Dept
Grant County Fire District No 10	North County Regional Fire Authority
Grant County Fire District No 3	North Highline Fire District
Grant County Fire District No 4	Okanogan County Fire Protection District No 6
Grant Fire Protection District No 8	Pacific County Fire District No 1
Grays Harbor Fire District No 5	Pend Oreille County Fire Prot District 2
Grays Harbor Fire Protection District No 2	Pend Oreille Fire District No 4
Island County Fire District No 2	Pierce County Fire District No 13
Island County Fire District No 3	Pierce County Fire District No 18
Island County Fire District No 5	Pierce County Fire District No 21
Jefferson County Fire Protection District No 1	Pierce County Fire District No 27
Jefferson County Fire Protection District No 3	Pierce County Fire Prot. District No 14
Jefferson County Fire Protection District No 4	Pierce County Fire Protection District No 10
King County Fire Protection District No 13	Prosser Fire District No 3

**WFOA Insurance Rate Stabilization Reserve Account  
LIST OF PARTICIPATING MEMBERS  
2011**

**Schedule T-1**

San Juan County Fire Protection District No 2	WA. Fire Commissioners Association
San Juan County Fire Protection District No 3	Retired Members
San Juan County Fire Protection District No 4	
San Juan County Fire Protection District No 5	
SE Thurston Fire Authority	
Skagit County Fire Protection District No 13	
Skagit County Fire Protection District No 8	
Skamania County Fire District No 4	
Snohomish County Fire District No 4	
Snohomish County Fire District No 5	
Snohomish County Fire District No 8	
Snohomish County Fire District No. 17	
Snohomish County Fire Prot District No 15	
Snohomish County Fire Protection District No 22	
Snohomish Fire District No 19	
Snohomish County Fire District No 7	
South Whatcom Fire Authority	
Spokane County Fire District 8	
Spokane County Fire District No 13	
Spokane County Fire District No 4	
Spokane County Fire Protection District No 9	
Spokane Fire District No 3	
Stevens County Fire District No 1	
Stevens County Fire District No 10	
Thurston County Fire Protection District No 13	
Thurston County Fire Protection District No 17	
Thurston County Fire Protection District No 7	
Thurston County Fire Protection District No 8	
Walla Walla County Fire District No 4	
Walla Walla County Fire Protection District No 5	
West Thurston Regional Fire Authority	
Whatcom County Fire District No 18	
Whatcom County Fire Protection District No 1	
Whatcom County Fire Protection District No 17	
Whatcom County Fire Protection District No 8	
Yakima County Fire District No 12	
Yakima County Fire District No 4	
Yakima Fire Protection District No 5	

**WFCA Insurance Rate Stabilization Reserve Account  
LIST OF PARTICIPATING MEMBERS  
2010**

**Schedule T-1**

ASOTIN COUNTY FIRE DISTRICT# 1	KING COUNTY FIRE DISTRICT #2
BENTON COUNTY FIRE DIST #1	KING COUNTY FIRE DISTRICT 20
BENTON COUNTY FIRE DIST #2	KING COUNTY FIRE DISTRICT #25
BENTON COUNTY FIRE DIST #4	KING COUNTY FIRE DISTRICT #28
BENTON COUNTY FIRE DIST #6	KING COUNTY FIRE DIST #34
CENTRAL WHIDBEY FIRE-RESCUE	KING COUNTY FIRE DIST #40
CHELAN COUNTY FIRE DIST #1	KING COUNTY FIRE DIST #44
CHELAN COUNTY FIRE DIST #3	KING COUNTY FIRE DIST #45
CHELAN COUNTY FIRE DIST #7	KING COUNTY FIRE DIST #50
CHELAN CTY FIRE DIST #5	KITSAP COUNTY FIRE DIST #10
CLALLAM COUNTY FIRE DIST #2	KITSAP COUNTY FIRE DIST #2
CLALLAM COUNTY FIRE DIST #3	KITTITAS COUNTY FIRE DIST #2
CLARK COUNTY FIRE & RESCUE	KITTITAS COUNTY FIRE DIST #2
CLARK COUNTY FIRE DIST #10	KITTITAS COUNTY FIRE DIST #7
CLARK COUNTY FIRE DIST #13	KLICKITAT FIRE DISTRICT #3
CLARK COUNTY FIRE DIST #5	LEWIS COUNTY FIRE DIST #10
CLARK COUNTY FIRE DISTIRCT 6	LEWIS COUNTY FIRE DIST #14
CLARK COUNTY FIRE DISTRICT #3	LEWIS COUNTY FIRE DIST #2
COLUMBIA COUNTY FIRE DIST 3	LEWIS COUNTY FIRE DIST #3
COWLITZ 2 FIRE & RESCUE	LEWIS COUNTY FIRE DIST #5
COWLITZ COUNTY FIRE DIST #5	LEWIS COUNTY FIRE DIST #8
COWLITZ COUNTY FIRE DIST #6	LEWIS COUNTY FIRE DISTRICT 15
COWLITZ FIRE DISTRICT #1	MARYSVILLE FIRE DISTRICT
DOUGLAS CO FIRE DIST #2	MASON COUNTY FIRE DIST #3
EAST COUNTY FIRE RESCUE	MASON COUNTY FIRE DIST #5
FRANKLIN COUNTY FIRE DIST #3	MASON COUNTY FIRE DIST #6
GARFIELD COUNTY FIRE DIST #1	MASON COUNTY FIRE DISTRICT 1
GRANT COUNTY FIRE DIST #3	MASON COUNTY FIRE DISTRICT 13
GRANT COUNTY FIRE DIST #4	NORTH COUNTY REGIONAL FIRE
GRANT COUNTY FIRE DIST #8	NORTH WHIDBEY FIRE & RESCUE
GRANT COUNTY FIRE DISTRICT 10	OKANOGAN COUNTY FIRE DIST #6
GRAYS HARBOR FIRE DIST #2	PACIFIC COUNTY FIRE DIST #1
GRAYS HARBOR FIRE DIST #5	PEND OREILLE COUNTY FIRE #2
ISLAND COUNTY FIRE DIST #1	PEND OREILLE FIRE DIST #3
ISLAND COUNTY FIRE DIST #	PEND OREILLE FIRE DIST #4
JEFFERSON COUNTY FIRE DIST #1	PIERCE COUNTY FIRE DIST 13
JEFFERSON COUNTY FIRE DIST #2	PIERCE COUNTY FIRE DIST #14
JEFFERSON COUNTY FIRE DIST #3	PIERCE COUNTY FIRE DIST #18
JEFFERSON COUNTY FIRE DIST #4	PIERCE COUNTY FIRE DIST #27
KENT REGIONAL FIRE AUTHORITY	PIERCE COUNTY FIRE DIST #8
KING COUNTY FIRE DISTRICT #11	PIERCE COUNTY FIRE DIST 21
KING COUNTY FIRE DISTRICT #17	PROSSER FIRE DISTRICT #3



**WFOA Insurance Rate Stabilization Reserve Account  
LIST OF PARTICIPATING MEMBERS  
2010**

**Schedule T-1**

SAN JUAN COUNTY FIRE DIST #3  
SAN JUAN COUNTY FIRE DIST #5  
SAN JUAN CTY FIRE DIST #4  
SAN JUAN FIRE DISTRICT #2  
SE THURSTON FIRE & EMS  
SKAGIT COUNTY FIRE DIST #13  
SKAGIT COUNTY FIRE DIST #8  
SKAGIT COUNTY FIRE DISTRICT #2  
SKAMANIA COUNTY FIRE DIST #4  
SNOHOMISH COUNTY FIRE DIST 17  
SNOHOMISH COUNTY FIRE DIST 19  
SNOHOMISH COUNTY FIRE DIST 28  
SNOHOMISH COUNTY FIRE DIST #3  
SNOHOMISH COUNTY FIRE DIST #4  
SNOHOMISH COUNTY FIRE DIST #7  
SNOHOMISH COUNTY FIRE DIST 22  
SNOHOMISH COUNTY FIRE DIST#5  
SNOHOMISH FIRE DISTRICT #15  
SNOHOMISH CTY FIRE DIST #8  
SOUTH KING FIRE & RESCUE  
SOUTH PIERCE FIRE & RESCUE  
SOUTH WHATCOM FIRE AUTH  
SPOKANE COUNTY FIRE DIST #13  
SPOKANE COUNTY FIRE DIST #3  
SPOKANE COUNTY FIRE DIST #4  
SPOKANE COUNTY FIRE DIST #8  
SPOKANE COUNTY FIRE DIST #9  
SPOKANE FIRE DISTRICT #13  
STEVENS COUNTY FIRE DIST #1  
THURSTON COUNTY FIRE DIST #13  
THURSTON COUNTY FIRE DIST #17  
THURSTON COUNTY FIRE DIST #3  
THURSTON COUNTY FIRE DIST #5  
THURSTON COUNTY FIRE DIST #7  
THURSTON COUNTY FIRE DIST #8  
THURSTON COUNTY FIRE DIST #9  
WALLA WALLA CO FIRE DIST 4  
WALLA WALLA CO FIRE DIST 5  
WEST THURSTON REGIONAL  
WHATCOM CO FIRE DIST #17  
WHATCOM CO FIRE DIST #18  
WHATCOM COUNTY FIRE DIST #4  
WHATCOM COUNTY FIRE DIST #8

WOODINVILLE FIRE & LIFE SAFETY  
YAKIMA COUNTY FIRE DIST #12  
YAKIMA COUNTY FIRE DIST #4  
YAKIMA COUNTY FIRE DIST #5  
WA FIRE COMMISSIONERS ASSN  
TREVES & COMPANY  
RETIRED MEMBERS

OFM SCHEDULE OF EXPENSES Schedule T-2

WFCB Insurance Rate Stabilization Reserve Account  
For the Fiscal Year Ended December 31, 2011

<b>Claims &amp; Reserve Expenses (Self-Insured)</b>	\$15,767,780
<b>Contracted Services:</b>	
Insured Carriers (Medical, Dental)	3,743,441
Third Party Administrator Fees	373,665
Actuarial	2,325
Audit Expenses	
State Risk Manager Fee	4,474
Provider Network Fees	143,283
Prescription Drug Administration Fees	1,208
Brokerage Fees	51,664
Legal Fees	1,660
Excess Coverage Fees	554,884
Utilization Review Fees	18,044
Careline	6,926
Website	<u>4,565</u>
Subtotal Contracted Service	\$4,906,139
<b>Program Support Expenses:</b>	
Salaries, Benefits & Travel	158,515
Hope Health Newsletter	5,668
Supplies & Materials	7,768
Committee Expenses	5,629
Seminars/Workshops	7,958
Miscellaneous	<u>4,045</u>
Total Program Support	\$189,583
<b>Other:</b>	
Office Equipment	513
Depreciation	<u>6,206</u>
Subtotal Other Expenses	\$6,719
<b>Total Operating Expenses</b>	<b><u>\$20,870,221</u></b>

**OFM SCHEDULE OF EXPENSES**

**Schedule T-2**

**WFCB Insurance Rate Stabilization Reserve Account  
For the Fiscal Year Ended December 31, 2010**

<b>Claims &amp; Reserve Expenses (Self-Insured Medical)</b>	<b>\$18,420,975</b>
<b>Contracted Services:</b>	
Insured Carriers (Medical, Dental)	4,084,806
Third Party Administrator Fees	442,325
Actuarial	2,850
Audit Expenses	5,534
State Risk Manager Fee	4,474
Provider Network Fees	151,750
Prescription Drug Administration Fees	2,433
Brokerage Fees	47,576
Legal Fees	2,610
Excess Coverage Fees	448,834
Utilization Review Fees	21,671
Careline	14,420
Website	<u>4,590</u>
<b>Subtotal Contracted Service</b>	<b>\$5,233,873</b>
<b>Program Support Expenses:</b>	
Salaries, Benefits & Travel	151,033
Hope Health Newsletter	4,565
Supplies & Materials	11,915
Committee Expenses	8,822
Seminars/Workshops	<u>7,626</u>
<b>Total Program Support</b>	<b>\$183,961</b>
<b>Other:</b>	
Office Equipment	3,259
Depreciation	<u>6,206</u>
<b>Subtotal Other Expenses</b>	<b>\$9,465</b>
<b>Total Operating Expenses</b>	<b><u>\$23,848,274</u></b>



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

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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**  
**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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