

Washington State Auditor's Office
Financial Statements Audit Report

Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1011013

Issue Date
December 30, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 30, 2013

Board of Directors
Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account
Olympia, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2012 through December 31, 2012**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	6

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2012 through December 31, 2012**

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 Insurance Rate Stabilization Reserve Account, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Account's basic financial statements, and have issued our report thereon dated December 19, 2013. 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 audit 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.

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

December 19, 2013

Independent Auditor's Report on Financial Statements

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2012 through December 31, 2012**

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 Insurance Rate Stabilization Reserve Account, Thurston County, Washington, as of and for the year ended December 31, 2012, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Insurance Rate Stabilization Reserve Account, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2012, the changes in its financial position, or, where applicable, its cash flows for the year 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.

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 11 and claims development information on page 28 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 Pool's basic financial statements as a whole. The List of Participating Members and Department of Enterprise Services 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 December 19, 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

December 19, 2013

Financial Section

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information – 2012

SUPPLEMENTAL INFORMATION

List of Participating Members (Schedule T-1) – 2012
Department of Enterprise Services Schedule of Expenses (Schedule T-2) – 2012

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, 2012. Summary Calendar Year 2011 financial information is provided for comparative purposes as part of the MD&A Financial Analysis.

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

- Using unexpended member premium contributions accumulated in 2011, the WFCFA Health Care Program returned \$1,474,919 to member fire service organizations through a one month "Premium" Holiday implemented in March 2012.
- The self-funded portion of the WFCFA Health Care Program's overall cash position improved during Calendar Year 2012. Net cash assets increased by \$648,088 or 3.6 percent from the beginning cash balance of \$17,842,954 to the ending cash balance of \$18,491,042.
- Calendar Year 2012 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 87.0 percent for the fiscal period.
- Of the \$16,780,672 program funds, \$9,185,940 or 54.7 percent was restricted to meet and exceed state mandated reserve requirements and \$7,180,966 was unrestricted and available to meet anticipated Affordable Care Act costs as well as future program needs.
- Individual large claims of \$50,000 or greater remained at 37 cases in 2012, the same number as 2011. The average value of 2012 large claims decreased to \$102,507 when compared to the 2011 average value of \$184,787.

Insured Plans

Group Health Cooperative

- Premiums rates for active employees enrolled in 2012 increased 18.0 percent over the prior year.
- Premiums rates for retirees enrolled in 2012 decreased by 4.1 percent from the prior year.

Kaiser Foundation of the Northwest

- Premiums rates for active employees enrolled in 2012 increased by 0.8 percent over the prior year.
- Premiums rates for retirees enrolled in 2012 also increased by 0.8 percent over the prior year.

Washington Dental Services/Delta Dental

- Monthly PPO Incentive Plan premiums for 2012 remained the same as 2011.
- Monthly PPO Basic Plan premiums for 2012 remained the same as 2011.
- Gross premium funding received by WDS for CY 2012 was \$2,057,980 of which \$238,726 was set aside for administrative purposes and claims reserves and \$1,622,741 was paid to providers for member dental claims expenses.
- Paid claims experience compared to net premium funding received for Calendar Year 2012 resulted in a favorable experience ratio of 89.2 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 \$5,944.
- Employers provide funding for life insurance coverage in various increments up to a maximum of \$100,000.
- 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

The WFCA began reporting Insurance Rate Stabilization Account revenues and expenses on an accrual accounting basis to the Office of the State Auditor in 2010. 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 WFCA 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 2012 for the self-funded medical plans, \$0.863 was spent on medical services and contracted program support. The unexpended \$0.137 was used to avoid premium increases in 2012 and to provide a one month premium holiday in March 2012. The remainder was saved to improve the financial position of the Health Care Program. Gross premium funding from member organizations totaled \$20,952,225 for Fiscal Year 2012.

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 0.27 percent interest and generated \$21,518 in earnings. Funds held in the South Sound Bank checking Account earned 0.20 percent interest and generated \$1,916 in earnings. Funds held in the South Sound Bank Wire In, Wire Out Account earned 0.20 percent interest and generated \$10,487 in earnings (See Note 3-Deposits and Investments). The WFCAs Insurance Rate Stabilization reserve Account held no investment instruments (i.e., Certificates of Deposit, stocks, bonds etc.) during 2012.

The Washington Fire Commissioners Association and the WFCAs 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 WFCAs 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 had been leased to state agencies. The building and property is owned outright however, the office space was vacant for much of 2012. The lease agreement with the state was for a five year period which expired September 2011. Current lease agreements signed in 2012 range from 2 to 10 years in duration.

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 WFCAs Health Care Program's capital assets is \$550,190 (See Note 8-Capital Assets).

For Fiscal Year 2012, the rental of office space owned by the Health Care Program returned gross revenues of \$5,190. Insurance, operating and maintenance expenses attributable to the Health Care Program totaled \$39,978 and \$24,194 was paid in property taxes. Real Estate Agent commissions associated with securing replacement tenants was \$17,804. A negative capital return of \$76,786 resulted due to the loss of tenants for much of 2012.

The WFCAs 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 WFCAs Health Care Program's three primary financial statements (Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position 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 Position, the Statement of Revenues, Expenses and Changes in Fund Net Position and the Statement of Cash Flows are provided below. The more detailed financial statements follow.

Condensed Comparative Financial Information

NET POSITION

	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>Change</u>	<u>% Change</u>
Current Assets	19,888,763	21,804,840	(1,916,077)	(8.8%)
Capital Assets	413,766	419,972	(6,206)	(1.5%)
Total Assets	20,302,529	22,224,812	(1,922,283)	(8.6%)
Current Liabilities	3,521,857	6,985,317	(3,463,460)	(49.6%)
Invested in Capital Assets	413,766	419,972	(6,206)	(1.5%)
Restricted Net Position	9,185,940	6,552,102	2,633,838	40.2%
Unrestricted Net Position	7,180,966	8,267,421	(1,086,455)	(13.1%)
Total Net Position	16,780,672	15,239,495	1,541,177	10.1%

REVENUES, EXPENSES and CHANGES IN FUND NET POSITION

	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>Change</u>	<u>% Change</u>
Total Operating Revenues	20,952,225	23,518,729	(2,566,504)	(10.9%)
Total Non-Operating Revenues	39,111	139,975	(100,864)	(72.1%)
Total Revenues	20,991,336	23,658,704	(2,667,368)	(11.3%)
Total Operating Expenses	19,367,340	20,870,221	(1,502,881)	(7.2%)
Total Non-Operating Expenses	82,819	32,487	50,332	154.9%
Total Expenses	19,450,159	20,902,708	(1,452,549)	(6.9%)
Changes in Net Position	1,541,177	2,755,996	(1,214,819)	(44.1%)
Beginning Net Position 1/1/12	15,239,495	12,483,499	2,755,996	22.1%
Ending Net Position 12/31/12	16,780,672	15,239,495	1,541,177	10.1%

The overall financial position of the WFC Health Care Program improved during 2012 as shown in the above condensed comparative statements.

The Condensed Comparative Statement of Net Position

The total assets decreased by \$1.9 million or 8.6 percent as of December 31, 2012 from the prior year ending position. Total liabilities as of December 31, 2012 decreased by \$3.5 million or 49.6 percent due to the receipt of stop loss reimbursements for incurred medical expenses. The total net position of the WFCAs Health Care Program increased in 2012 by \$1.5 million or 10.1 percent.

The Condensed Comparative Statement of Revenues, Expenses and Changes in Fund Net Position

Revenues for CY 2012 declined by \$2.7 million or 11.3 percent when compared to 2011 revenues. Operating expenses declined by \$1.5 million or 7.2 percent. The decrease in medical expenses was attributable to decreased utilization of medical services and stop loss reimbursement from the prior year. The ending net position as of December 31, 2012 was \$1.5 million or 10.1 percent higher than at the end of 2011.

Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account
STATEMENT OF NET POSITION
December 31, 2012

ASSETS

Current Assets: (Note 1c)

Cash and Cash Equivalents	\$18,491,042
Member Deposits Held By TPA	1,032,355
Receivables	
Member Contributions	16,128
Stop-Loss and Subrogation Recoveries	225,813
Prescription Drug Recoveries	115,752
RDS Subsidy Payments	7,673
Subtotal Receivables	365,366
Total Current Assets	19,888,763

Capital Assets: (Note 8)

Land (Note 1d)	301,965
Building (Net of Accumulated Depreciation)	111,801
Total Non Current Assets	413,766

TOTAL ASSETS

\$20,302,529

LIABILITIES & NET POSITION

Current Liabilities

Carrier Payments/Post Cut-Off Payables	\$16,150
Unearned Member Premiums (Note 11)	1,032,333
Claims Processed But Not Yet Funded (Note 1j)	170,219
Claims Reserves (Note 1m, 1n):	
IBNR/Open Claims (Case Reserves)	2,199,000
Unallocated Loss Adjustment Expense	80,000
Employee Leave Liability	24,155

TOTAL LIABILITIES

3,521,857

Net Position

Net Investment in Capital Assets	413,766
Restricted Net Position	9,185,940
Unrestricted Net Position	7,180,966

TOTAL NET POSITION

16,780,672

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2012

OPERATING REVENUES

Member Premium Contributions - Self-Insured	\$15,666,240
Member Premium Contributions - Insured	5,285,985
TOTAL OPERATING REVENUES	<u>20,952,225</u>

OPERATING EXPENSES

Medical, Drug, Vision Claims Expenses - Self-Insured	12,963,866
Medical, Drug, Vision, Dental Claims - Insured Premiums	3,664,629
Health Care Premium Holiday	1,474,919
Stop Loss Carrier Fee	857,600
Third-Party Administrative Fees	326,932
Provider Network Fees	65,389
Insurance Consulting Fees	58,779
Utilization Review Fee	19,196
Wellness Web Portal Expense	8,479
CareLine	3,080
PBM Admin Fees	-
Marketing & Promotions	3,847
Professional Services	2,736
State Oversight Fees	-
Staff Compensation and Travel	157,420
Program Supplies and Materials	28,592
Health Care Committee Expenses	8,577
Workshops/Seminar Expenses	6,980
Website Maintenance Expense	4,565
Hope Health Newsletter	5,548
Office Equipment	-
Claim Reserves (Note 1m)	(309,000)
Unallocated Loss Adjustment Expenses	9,000
Depreciation (Note 7)	6,206
TOTAL OPERATING EXPENSES	<u>19,367,340</u>

OPERATING INCOME **1,584,885**

NONOPERATING REVENUES (EXPENSES)

Interest Income	33,921
Building Lease Income	5,190
Total NonOperating Revenue	<u>39,111</u>
General LGIP Expense	(843)
Forum Building Expense	(81,976)
Total Nonoperating Expenses	<u>(82,819)</u>
TOTAL NET NONOPERATING REVENUES	<u>(43,708)</u>

CHANGE IN NET POSITION **1,541,177**

TOTAL NET POSITION, Beginning **15,239,495**

TOTAL NET POSITION, Ending **\$16,780,672**

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from members	\$23,012,804
Stop Loss Reimbursement for large claims	3,047,942
RDS Subsidy Received	40,964
Payments made on self-funded medical, vision claims	(18,385,992)
Payments made for premium holiday	(1,474,919)
Payments made for insured carriers	(3,625,313)
Payments made for contract services	(673,657)
Payments made for excess insurance coverage	(857,600)
Payments made for payroll expenses	(153,049)
Payments in support of program activities	<u>(35,499)</u>
Net Cash Provided (Used) by Operating Activities	<u>895,681</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Building Office Leases	5,190
Building Expenses	<u>(81,976)</u>
Net Cash Provided (used) by Capital and Related Financing Activities	<u>(76,786)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	33,921
LGIP administration fee	<u>(843)</u>
Net Cash Provided (used) by Investing Activities	<u>33,078</u>

Increase (Decrease) in Cash and Cash Equivalents 851,973

Cash and Cash Equivalents, Beginning 18,671,424

Cash and Cash Equivalents, Ending \$19,523,397

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

Operating Income (Loss)	\$1,584,885
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	2,768,050
Increase (Decrease) in Accounts Payable	(120,996)
Increase (Decrease) in Unearned Member Premiums	241,397
Increase (Decrease) in Claims Processed But Not Yet Funded	(3,292,303)
Increase (Decrease) in Claims Reserves	(300,000)
Increase in Employee Leave Liability	<u>8,442</u>
Net Cash Provided by Operating Activities	<u><u>\$895,681</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

WFOA Insurance Rate Stabilization Reserve Account

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2012

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the WFOA 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 WFOA Health Care Insurance Rate Stabilization Reserve Account also referred to in this report as the WFOA 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 WFOA 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 WFOA 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 WFCFA 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 2012, 117 member organizations participated in the WFCFA Health Care Program.

b. Basis of Accounting

The accounting records of the WFCFA 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 presented financial statements (including notes) are in compliance with applicable Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) consistent with reflect this and consecutive statements.

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 WFCFA 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 WFCFA 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 2012.

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, Wellness Portal 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 \$18,491,042. During Fiscal Year 2012, 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 \$33,921 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, 2012 amounted to \$1,032,355.

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 2012 assessed value of the property and adjacent parking lot owned by the Health Care Program is \$1,350,650 which reflects a decline in assessed property value of \$540,300 or 28.2 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 2012 are attributable to unpaid subrogation payments, and unpaid stop loss carrier reimbursement. The Statement of Net Assets lists the 2012 receivables. Of the \$365,366 identified receivables, subrogation payments amounted to \$169,801 and stop loss recoveries owed to the WFC Health Care Program amounted to \$56,012. Unpaid member premiums, refunds, rebates and subsidy payments collectively accounted for the remaining \$139,553 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 WFCOA 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 2012, \$9,680 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 2012, the WFCOA 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:

Vacation Leave:		Sick Leave:
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 WFCOA Health Care Program has no outstanding bonds or long-term debt.

j. Unpaid Claims Liabilities

The WFCOA 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 Position 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, 2012, the WFOA Health Care Program had restricted reserves totaling \$9,185,140 to cover any unforeseen outstanding claims liability.

k. Reinsurance

The WFOA 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 WFOA 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 WFOA 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, 2012, the third-party administrator had future member premium contributions on deposit of \$1,032,333.

m. Claims Reserves

Self-funded claims are charged against premium income in the month the service occurred and the premium income was received. The 2012 Statement of Net Position reflects the results of an actuarial calculation of incurred but not paid (IBNP) self-funded medical claims liability of \$2,199,000 and related unallocated loss adjustment

expenses of \$80,000. The WFCB Board of Directors maintains additional reserves beyond the amount calculated by the actuary to address any extraordinary financial circumstances (See NOTE 9).

The WFCB 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 WFCB Health Care Committee. For purposes of year-end financial reporting, the WFCB 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 WFCB 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 WFCB 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 WFCB Health Care Program had no violations of finance related legal or contractual provisions during 2012.

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 WFCA 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, 2012, the WFCA Health Care Program had the following account balances:

Financial Institution	Balance
Cash in Local Government Investment Pool	\$ 11,608,300
Cash in Bank (Checking Account)	\$ 1,140,123
Cash in Bank (Savings Account)	\$ 5,738,394
Cash in Bank (Savings Account)	\$ 4,225
Total	\$ 18,491,042

The WFCA Health Care Program made no direct investments in Certificates of Deposits, securities, commercial paper or any other investment vehicle during 2012 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. During 2012, a additional bank account was opened to deposit building office lease revenues and to pay building 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:

Plan Option 1/	Member Deductible	Member Co-Pay 2/	Self-Insured Retention 3/	Excess Limit
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 WFC 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 WFC 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 WFC Health Care Program has no outstanding long-term debt as of December 31, 2012.

b. Notes Payable

The WFC Health Care Program had no outstanding notes payable on December 31, 2012.

c. Changes in Liabilities

During the year ended December 31, 2012, the following changes occurred in employee leave balance liability:

	Beginning Balance 01/01/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Compensated Absences*	\$15,713	\$8,442	0	\$24,155	0
Total Liability	\$15,713	\$8,442	0	\$24,155	0

*Health care staff accumulated sick and annual leave.

NOTE 7 – SHORT-TERM DEBT

The WFC Health Care Program did not set up or use a line of credit with any financial institution during 2012. 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 WFCA Health Care Program and the Washington Fire Chiefs Association. The WFCA 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 \$1.5 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, 2012 was as follows:

Asset Type	Beg. Balance	Additions	Deletions	Ending Balance
Non-Depreciable Assets-Land	301,965			301,965
Depreciable Assets-Buildings	248,225			248,225
Total Capital Assets	550,190			550,190
Accumulated Depreciation	(130,218)	(6,206)		(136,424)
Total Capital Assets net of Accumulated Depreciation	419,972	(6,206)		413,766

NOTE 9 – RESTRICTED NET POSITION

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 WFCA Health Care Program annually obtains an actuarial assessment of outstanding year-end claims and related administrative expenses. In actual practice, the WFCA 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 WFCA premium funding. The Level 3 contingency reserve meets the expectations of the stop loss carrier and is supported by a policy adopted by the WFCA Board of Directors.

December 31,2012	Amount
IBNP Reserve	\$ 2,279,000
Cash Reserve	\$ 2,485,160
Contingency Reserve	<u>\$ 4,421,780</u>
Total	\$ 9,185,940

NOTE 10 - LEASES

a. **Office Space Leases**

The WFCA Health Care Program leased office space to new tenants during 2012. Space reconfigurations and office renovations were required to accommodate the new tenants. Lease agreements with the current tenants cover a 2 to 5 year period.

Net lease revenue for the year ended December 31, 2012 amounted to \$5,190. Future annual gross lease revenues for the Health Care Program are estimated to be:

	<u>Year</u>
2013	\$ 102,316
2014	\$ 104,465
2015	\$ 106,554
2016	\$ 108,685
2017	\$ 110,858

NOTE 11 – PENSION PLANS

In 1989, it was determined by the state Department of Retirement Systems that WFCA 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 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 1st through December 31st.

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
Total	6

The WFCOA Health Care Program currently funds one full-time employee and a portion of another employee.

Funding Policy

The WFCOA 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, 2012, is as follows:

Self-Funded	Pension Rate
WFCOA Health Care Program	6.00%

The monthly employer contribution is six percent of gross salaries. Annual employer pension contributions for 2012 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 WFCAs 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 WFCAs Health Care Program accounted for revenues and expenses on a cash basis and reported to the Office of the State Risk Manager. Effective October 1, 2010, joint self-insured health and welfare benefit programs are required to annually account for and report revenues and expenses on a full accrual basis subject to audit by the State Auditor.

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, 2012. The Account establishes a liability for both reported and unreported medical services. The aggregate change in liabilities is shown below.

Three-Year Claims Development Information

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required Contribution and Investment Revenue:			
Gross Earned	18,899,481	19,845,159	25,899,730
Ceded	<u>857,600</u>	<u>554,884</u>	<u>448,834</u>
Net Earned	18,041,881	19,290,275	25,450,896
Unallocated Expenses	700,120	797,910	887,453
Estimated Claims and Expenses			
End of Policy Year			
Incurred	14,277,553	17,149,848	17,119,257
Ceded	<u>225,813</u>	<u>2,935,403</u>	<u>877,957</u>
Net Incurred	14,051,740	14,214,445	16,241,300
Net Paid (cumulative) as of End of Policy Year	14,051,740	14,214,445	16,241,300

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

Schedule T-1

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

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

Schedule T-1

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 County 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 County Fire District No 3
Stevens County Fire District No 1
Thurston County Fire Protection District No 3
Thurston County Fire Protection District No 5
Thurston County Fire Protection District No 7
Thurston County Fire Protection District No 8
Thurston County Fire Protection District No 9
Thurston County Fire Protection District No 13
Thurston County Fire Protection District No 17
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 County Fire Protection District No 5
WA. Fire Commissioners Association
Retired Members

**WFCB Insurance Rate Stabilization Reserve Account
For the Fiscal Year Ended December 31, 2012**

Claims Expenses (Self-Funded Medical)	14,138,785
Contracted Services:	
Insured Carriers (Medical, Dental, Life/AD&D)	3,664,629
Stop Loss Carrier Fees	857,600
Third Party Administrator Fees	326,932
Provider Network Fees	65,389
Insurance Consulting Fees	58,779
Utilization Review Fees	19,196
Careline Service Fee	3,080
Wellness Portal	8,479
Hope Health Newsletter	5,548
Professional Services	2,736
Website Maintenance Expense	4,565
	5,016,933
Subtotal Contracted Services	
Program Support Expenses:	
Salaries, Benefits & Travel	157,420
Committee Expenses	8,577
Seminars/Workshops	6,980
Program Supplies & Materials	28,592
Marketing & Promotional	3,847
Depreciation	6,206
	211,622
Subtotal Program Support	
Total Operating Expenses	19,367,340



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens 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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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Quality Assurance
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