



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

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

Thurston County

For the period January 1, 2013 through December 31, 2013

Published November 26, 2014

Report No. 1013033





**Washington State Auditor
Troy Kelley**

November 26, 2014

Board of Directors
Washington Fire Commissioners Association
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

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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, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the Account's basic financial statements, and have issued our report thereon dated November 13, 2014. 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.

In addition, we noted certain matters that we have reported to the management of the Account in a separate letter dated November 13, 2014.

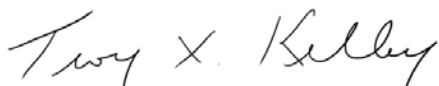
COMPLIANCE AND OTHER MATTERS

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

November 13, 2014

Independent Auditor's Report on Financial Statements

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the Account's basic financial statements as listed on page 9.

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, 2013, 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, 2013, 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 10 through 14 and claims development information on pages 31 through 33 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.

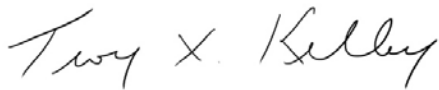
Supplementary and Other Information

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 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

November 13, 2014

Financial Section

**Washington Fire Commissioners Association
Insurance Rate Stabilization Reserve Account
Thurston County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information – 2013

SUPPLEMENTAL INFORMATION

List of Participating Members – 2013

DES Schedule of Expenses – 2013

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, 2013. Summary Calendar Year 2012 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

- The self-funded portion of the WFCFA Health Care Program's overall cash position improved 15.5 percent during Calendar Year 2013. Net cash assets increased by \$2,869,259 from the beginning cash balance of \$18,494,226. The ending cash balance for 2013 was \$21,363,485.
- Calendar Year 2013 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 \$19,040,201 ending total net position, \$18,632,641 was cash with \$9,804,236 or 52.6 percent set aside to insure program solvency and \$8,828,405 being available to meet Affordable Care Act costs as well as future program needs.
- Individual large claims of \$50,000 or greater increased by 5 claims to 42 cases in 2013. The average value of 2013 large claims decreased by \$15,422 to \$87,085 per case when compared to the 2012 average value of \$102,507.

Insured Plans

Group Health Cooperative

- Premiums rates for active employees enrolled in 2013 increased 7.3 percent over the prior year.
- Premiums rates for retirees enrolled in 2013 increased by 7.4 percent over the prior year.

Kaiser Foundation of the Northwest

- Premiums rates for active employees enrolled in 2013 increased by 16.9 percent over the prior year.
- Premiums rates for retirees enrolled in 2013 also increased by 16.9 percent over the prior year.

Washington Dental Services/Delta Dental

- No increase, monthly PPO Incentive Plan premiums for 2013 remained the same as 2012.
- No increase, monthly PPO Basic Plan premiums for 2013 remained the same as 2012.
- Gross premium funding received by WDS for CY 2013 was \$1,999,513 of which \$247,940 was set aside for administrative purposes and claims reserves and \$1,501,974 was paid to providers for member dental claims expenses.
- Paid claims experience compared to net premium funding received for Calendar Year 2013 resulted in a favorable experience ratio of 86.1 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 \$7,782.
- 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 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 an 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. Parker, Smith and Feek 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 received directly by the Association and accounts for expenses related to Health Care Committee activities and staff responsibilities supporting the Health Care Program.

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 2013 for the self-funded medical plans, \$0.87 was spent on medical services and contracted program support. The unexpended \$0.13 was used to avoid premium increases in 2014 and to improve the financial position of the Health Care Program. Gross premium funding from member organizations totaled \$23,782,509 for Fiscal Year 2013.

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 0.136 percent interest and generated \$19,581 in earnings. Funds held in the South Sound Bank checking Account earned 0.19 percent interest and generated \$1,598 in earnings. Funds held in the South Sound Bank Wire In, Wire Out Account earned 0.19 percent interest and generated \$8,497 in earnings (See Note 3-Deposits and Investments). Capital facility (building account) revenues earned interest of 0.19 percent generating earnings of \$21.06. The WFCAs Insurance Rate Stabilization reserve Account held no investment instruments (i.e., Certificates of Deposit, stocks, bonds etc.) during 2013.

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. The building and property is owned outright. 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 one state agency, two nonprofit Associations and four private businesses 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 2013, the rental of office space owned by the Health Care Program returned gross revenues of \$100,337. Insurance, operating and maintenance expenses attributable to the Health Care Program totaled \$54,360 and \$18,352 was paid in property taxes. A net positive capital return of \$27,625 or 6.6 percent resulted in 2013.

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>12/31/2013</u>	<u>12/31/2012</u>	<u>Change</u>	<u>% Change</u>
Current Assets	22,723,511	19,891,947	2,831,564	14.2%
Capital Assets	407,560	413,766	(6,206)	-1.5%
Total Assets	23,131,071	20,305,713	2,825,358	13.9%
Current Liabilities	4,090,870	3,521,857	569,013	16.2%
Invested in Capital Assets	407,560	413,766	(6,206)	-1.5%
Unrestricted	18,632,641	16,370,090	2,302,216	13.8%
Total Net Position	19,024,201	16,783,856	2,262,551	13.5%

REVENUES, EXPENSES and CHANGES IN FUND NET POSITION

	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>Change</u>	<u>% Change</u>
Total Operating Revenues	23,782,509	20,952,225	2,830,284	13.5%
Total Non-Operating Revenues	130,034	39,111	90,923	232.5%
Total Revenues	23,912,543	20,991,336	2,921,207	13.9%
Total Operating Expenses	21,578,837	19,367,340	2,211,497	11.4%
Total Non-Operating Expenses	74,177	82,819	(8,642)	-10.4%
Total Expenses	21,653,014	19,450,159	2,202,855	11.4%
Changes in Net Position	2,259,529	1,541,177	718,352	46.6%
Beginning Net Position 1/1/2013	16,780,672	15,239,495	1,541,177	10.1%
Ending Net Position 12/31/2013	19,040,201	16,780,672	2,259,529	13.5%

The overall financial position of the WFC Health Care Program improved during 2013 as shown in the above condensed comparative statements.

The Condensed Comparative Statement of Net Position

The total assets increased by \$2.8 million or 13.9 percent as of December 31, 2013 from the prior year ending position of \$20.3 million. Total liabilities as of December 31, 2013 increased by \$0.57 million or 16.2 percent due to an increase in Claims Processed But Not Yet Funded and an increase in estimated unreported open claims. The ending net position of the WFCA Health Care Program increased in 2013 by \$2.3 million or 13.5 percent.

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

Operating revenues for CY 2013 increased by \$2.8 million or 13.5 percent when compared to 2012 operating revenues. Operating expenses increased by \$2.2 million or 11.4 percent. Medical claims expenses and an increase in claims reserves were the major contributors to the increase in 2013 operating expenses. The ending net position as of December 31, 2013 was \$2.3 million or 13.5 percent higher than at the end of 2012.

Washington Fire Commissioners Association Insurance Rate Stabilization Reserve Account

STATEMENT OF NET POSITION

December 31, 2013

	<u>2013</u>
ASSETS	
<u>Current Assets:</u> (Note 1c)	
Cash and Cash Equivalents	\$21,363,485
Member Deposits Held By TPA	960,277
Receivables	
Member Contributions	11,853
Stop-Loss and Subrogation Recoveries	207,688
Prescription Drug Recoveries	165,323
RDS Subsidy Payments	13,817
WDS/Mercer Refunds	1,068
Subtotal Receivables	<u>399,749</u>
Total Current Assets	<u>22,723,511</u>
<u>Capital Assets:</u> (Note 8)	
Land (Note 1d)	301,965
Building (Net of Accumulated Depreciation)	<u>105,595</u>
Total Non Current Assets	<u>407,560</u>
TOTAL ASSETS	<u><u>\$23,131,071</u></u>
LIABILITIES & NET POSITION	
<u>Current Liabilities</u>	
Carrier Payments/Post Cut-Off Payables	\$21,098
Unearned Member Premiums	960,297
Claims Processed But Not Yet Funded (Note 1j)	385,575
Claims Reserves (Note 1m, 1n):	
IBNR/Open Claims (Case Reserves)	2,595,000
Unallocated Loss Adjustment Expense	99,000
Employee Leave Liability	29,900
TOTAL LIABILITIES	<u>4,090,870</u>
<u>Net Position</u>	
Net Investment in Capital Assets	407,560
Unrestricted Cash	18,632,641
TOTAL NET POSITION	<u>19,040,201</u>

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, 2013

	<u>2013</u>
OPERATING REVENUES	
Member Premium Contributions - Self-Insured	\$18,447,418
Member Premium Contributions - Insured	<u>5,335,091</u>
TOTAL OPERATING REVENUES	23,782,509
OPERATING EXPENSES	
Medical, Drug, Vision Claims Expenses - Self-Insured	15,274,279
Medical, Drug, Vision, Dental Claims - Insured Premiums	4,022,441
Health Care Premium Holiday	-
Stop Loss Carrier Fee	985,849
Third-Party Administrative Fees	408,717
Provider Network Fees	64,087
Insurance Consulting Fees	84,980
Utilization Review Fee	18,232
Wellness Web Portal Expense	8,281
Marketing & Promotions	1,250
Professional Services	78,143
Staff Compensation and Travel	158,072
Program Supplies and Materials	5,968
Health Care Committee Expenses	6,392
Workshops/Seminar Expenses	10,548
Website Maintenance Expense	6,022
Hope Health Newsletter	5,517
Claim Reserves (Note 1m)	396,000
Unallocated Loss Adjustment Expenses	19,000
State Oversight Fees	18,853
Depreciation (Note 7)	<u>6,206</u>
TOTAL OPERATING EXPENSES	21,578,837
OPERATING INCOME	2,203,672
NONOPERATING REVENUES (EXPENSES)	
Interest Income	29,697
Building Lease Income	<u>100,337</u>
Total NonOperating Revenue	<u>130,034</u>
General LGIP Expense	(1,464)
Forum Building Expense	<u>(72,713)</u>
Total Nonoperating Expenses	<u>(74,177)</u>
TOTAL NONOPERATING REVENUES	55,857
CHANGE IN NET POSITION	2,259,529
TOTAL NET POSITION, Beginning	16,780,672
TOTAL NET POSITION, Ending	<u>\$19,040,201</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statement of Cash Flows
For the Year Ended December 31, 2013

	2013	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$23,641,687	
Stop Loss Reimbursement for large claims	56,016	
RDS Subsidy Received	26,692	
Payments made on self-funded medical, vision claims	(15,371,731)	
Payments made for premium holiday		
Payments made for insured carriers	(3,599,899)	
Payments made for contract services	(836,386)	
Payments made for excess insurance coverage	(985,849)	
Payments made for payroll expenses	(150,325)	
Payments in support of program activities	<u>(35,697)</u>	<u>(35,499)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,744,508</u>	<u>895,681</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Building Office Leases	100,337	
Building Expenses	<u>(72,713)</u>	<u>(81,976)</u>
Net Cash Provided (used) by Capital and Related Financing Activities	<u>27,624</u>	<u>(76,786)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	29,697	
LGIP administration fee	<u>(1,464)</u>	
Net Cash Provided (used) by Investing Activities	<u>28,233</u>	<u>33,078</u>
 Increase (Decrease) in Cash and Cash Equivalents	 <u>2,800,365</u>	 <u>851,973</u>
 Cash and Cash Equivalents, Beginning	 <u>19,523,397</u>	 <u>18,671,424</u>
 Cash and Cash Equivalents, Ending	 <u><u>\$22,323,762</u></u>	
 RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$2,203,672	
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	(34,383)	
Increase (Decrease) in Accounts Payable	4,948	
Increase (Decrease) in Unearned Member Premiums	(72,036)	
Increase (Decrease) in Claims Processed But Not Yet Funded	215,356	
Increase (Decrease) in Claims Reserves	415,000	
Increase in Employee Leave Liability	5,745	
Net Cash Provided by Operating Activities	<u><u>\$2,744,508</u></u>	

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

WFCA Insurance Rate Stabilization Reserve Account

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2013

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 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 2013, 119 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) statements and standards.

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 2013.

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 \$21,363,485. During Fiscal Year 2013, 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 \$29,697 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, 2013 amounted to \$960,277.

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 2013 assessed value of the property and adjacent parking lot owned by the Health Care Program is \$1,332,000 which reflects a decline in assessed property value of \$18,650 or 1.4 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 2013 are attributable to unpaid subrogation payments, and unpaid stop loss carrier reimbursement. The Statement of Net Assets lists the 2013 receivables. Of the \$399,749 identified receivables, subrogation payments amounted to \$181,010 and stop loss recoveries owed to the WFC Health Care Program amounted to \$26,678. Unpaid member premiums, refunds, rebates and subsidy payments collectively accounted for the remaining \$192,061 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 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 2013, \$5,657 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 2013, the WFC 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 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. 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 200.110.040(1) and (2). A fund balance is maintained above any amount required by the state.

For purposes of maintaining sufficient funding, reserve amounts are calculated quarterly based on internal Board policy. Board 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.

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 the December 31, 2013 Statement of Net Position, the WFC Health Care Program had a cash balance of \$18,632,641 to cover any unforeseen 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, 2013, the third-party administrator had future member premium contributions on deposit of \$960,297.

m. Claims Reserves

Self-funded claims are charged against premium income in the month the service occurred and the premium income was received. The 2013 Statement of Net Position reflects the results of an actuarial calculation of incurred but not paid (IBNP) self-funded medical claims liability of \$2,595,000 and related unallocated loss adjustment expenses of \$99,000. The WFC Board of Directors maintains additional reserves beyond the amount calculated by the actuary to address any extraordinary financial circumstances (See NOTE 9).

The WFC 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 WFC Health Care Committee. For purposes of year-end financial reporting, the WFC 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 WFC 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 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 2013.

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).

Article 12 Section 3 of the Washington Fire Commissioners Association Articles of Association and Bylaws requires Board approval of banks, trust companies and other depositories prior to making deposits. The WFCB Board of Directors complies with the statutory requirements contained in Chapter 39.58 RCW.

As of December 31, 2013, the WFCB Health Care Program had the following account balances:

Financial Institution	Balance
Cash in Local Government Investment Pool	\$ 11,626,416
Cash in Bank (Checking Account)	\$ 1,257,712
Cash in Bank (Savings Account)	\$ 8,452,017
Cash in Bank (Savings Account)	\$ 27,340
Total	\$ 21,363,485

The WFCB Health Care Program made no direct investments in Certificates of Deposits, securities, commercial paper or any other investment vehicle during 2013 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 States 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 2013, an additional bank account was opened to deposit building office lease revenues and to pay building expenses.

b. Investments

As of December 31, 2013, the WFC Health Care Program had no investments in stocks, bonds, treasuries etc.

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, 2013.

b. Notes Payable

The WFC Health Care Program had no outstanding notes payable on December 31, 2013.

c. Changes in Liabilities

During the year ended December 31, 2013, the following changes occurred in employee leave balance liability:

	Beginning Balance 01/01/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Compensated Absences*	\$24,155	\$5,745	0	\$29,900	0
Total Liability	\$24,155	\$5,745	0	\$29,900	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 2013. 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 of approximately \$1.2 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 the straight-line calculation 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, 2013 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	(136,424)	(6,206)		(142,630)
Total Capital Assets net of Accumulated Depreciation	413,766	(6,206)		407,560

NOTE 9 – NET POSITION

Generally Accepted Accounting Principles (GAAP) narrowly defines restrictions on cash at the end of a fiscal period. While the Statement of Net Position shows \$18,632,641 in cash, there are contingent obligations on those cash assets. The Department of Enterprise Services, State Risk Management Office sets reserve requirements for public self-funded health and welfare programs in Washington Administrative Code (WAC). WAC 200-110-040 (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 200-110-040 (2) states that in lieu of the requirements in WAC 200-110-040 (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 WFCOA Board of Directors.

December 31, 2013	Amount
IBNP Reserve	\$ 2,595,280
Cash Reserve	\$ 2,338,147
Contingency Reserve	\$ 4,870,809
	<u>\$ 8,828,405</u>
Total	\$18,632,641

NOTE 10 - LEASES

a. **Office Space Leases**

The WFCOA 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 10 year period.

Net lease revenue for the year ended December 31, 2013 amounted to \$27,624. Future annual gross lease revenues for the Health Care Program are estimated to be:

<u>Year</u>	
2014	\$ 107,445
2015	\$ 110,668
2016	\$ 113,988
2017	\$ 117,408
2018	\$ 120,930

NOTE 11 – 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 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, 2013, 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 2013 amounted to \$6,699. 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 WFCOA 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 – UNPAID CLAIMS LIABILITIES

The WFC Health Care Program establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expense, both allocated and unallocated (See NOTE 1m).

The Board of Directors maintains additional reserves beyond the estimated claims liability calculated by the actuary to ensure funding of any unforeseen medical claims expenses the WFC Health Care Program might experience.

WFCA Insurance Rate Stabilization Reserve Account
REQUIRED SUPPLEMENTARY INFORMATION

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

1. Four-Year Claims Development Information

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

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

**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 self-insured portion of the Insurance Rate Stabilization Reserve Account through December 31, 2013. The Account establishes a liability for both reported and unreported medical services. The aggregate change in liabilities is shown below.

Four-Year Claims Development Information

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required Contribution and Investment Revenue:				
Gross Earned	18,504,739	15,705,351	23,658,704	21,567,865
Ceded	<u>985,849</u>	<u>857,600</u>	<u>554,884</u>	<u>448,834</u>
Net Earned	17,518,890	14,847,751	23,103,820	21,119,031
 Unallocated Expenses	 875,062	 700,120	 797,910	 887,453
 Estimated Claims and Expenses				
End of Policy Year				
Incurred	15,890,886	14,991,530	17,184,383	16,779,460
Ceded	<u>207,688</u>	<u>225,813</u>	<u>2,969,938</u>	<u>538,160</u>
Net Incurred	15,683,198	14,765,717	14,214,445	16,241,300
 Net Paid (cumulative) as of				
End of Policy Year	15,683,198	14,765,717	14,214,445	16,241,300

Note: Annual Gross earned Contribution and Investment Revenue amounts have been adjusted to only reflect self-funded premium revenues. This adjustment will properly match self-funded medical and related expenses to self-funded premium contributions and related interest earnings. Prior reports included premium revenue used to purchase private carrier medical and dental plans offered by the WFCA.

Reconciliation of Claims Liabilities

The schedule below presents the changes in claims liabilities for the past year for the pool. The fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims expenses. The following represents changes in those aggregate liabilities:

Self-Funded Medical Plan Claims Liabilities

	<u>2013</u>	<u>2012</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	2,279,000	2,579,000
Incurred Claims and Claim Adjustment Expenses		
Provision for Insured Events of the Current Year	15,683,198	14,765,717
Increases in Provision for Insured Events in Prior Years	169,280	141,000
Total Incurred claims and Claim Adjustment Expenses	18,131,478	17,485,717
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	15,683,198	14,765,727
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	466,000	680,000
Total Payments	16,149,198	15,445,427
Total Unpaid Claims and Claim Adjustment Expenses at End of the Year	2,694,280	2,279,000

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

Schedule T-1

ASOTIN COUNTY FIRE DISTRICT 1	KING COUNTY FIRE DIST #40
BENTON COUNTY FIRE DIST #1	KING COUNTY FIRE DIST #44
BENTON COUNTY FIRE DIST #2	KING COUNTY FIRE DIST #45
BENTON COUNTY FIRE DIST #4	KING COUNTY FIRE DIST #50
BENTON COUNTY FIRE DIST #6	KITSAP COUNTY FIRE DIST #18
CENTRAL WHIDBEY FIRE-RESCUE	KITSAP COUNTY FIRE DIST #2
CHELAN COUNTY FIRE DIST #1	KITTITAS COUNTY FIRE DIST #2
CHELAN COUNTY FIRE DIST #3	KITTITAS COUNTY FIRE DIST #7
CHELAN COUNTY FIRE DIST #7	KLICKITAT FIRE DISTRICT #3
CHELAN CTY FIRE DIST #5	LEWIS COUNTY FIRE DIST #10
CLALLAM COUNTY FIRE DIST #2	LEWIS COUNTY FIRE DIST #14
CLALLAM COUNTY FIRE DIST #3	LEWIS COUNTY FIRE DIST #2
CLARK COUNTY FIRE & RESCUE	LEWIS COUNTY FIRE DIST #3
CLARK COUNTY FIRE DIST #10	LEWIS COUNTY FIRE DIST #5
CLARK COUNTY FIRE DIST #13	LEWIS COUNTY FIRE DIST #6
CLARK COUNTY FIRE DIST #5	LEWIS COUNTY FIRE DIST #8
CLARK COUNTY FIRE DIST #6	LEWIS COUNTY FIRE DISTRICT #15
CLARK COUNTY FIRE DISTRICT #13	MARYSVILLE FIRE DISTRICT
CLARK COUNTY FIRE DISTRICT #3	MASON COUNTY FIRE DIST #11
COLUMBIA COUNTY FIRE DIST 3	MASON COUNTY FIRE DIST #3
COWLITZ 2 FIRE & RESCUE	MASON COUNTY FIRE DIST #6
COWLITZ COUNTY FIRE DIST #5	MASON COUNTY FIRE DISTRICT #13
COWLITZ COUNTY FIRE DIST #6	MASON COUNTY FIRE DISTRICT #4
COWLITZ FIRE DISTRICT #1	NORTH WHIDBEY FIRE & RESCUE
DOUGLAS CO FIRE DIST #2	OKANOGAN COUNTY FIRE DIST #6
EAST COUNTY FIRE RESCUE	PACIFIC COUNTY FIRE DIST #1
FRANKLIN COUNTY FIRE DIST #3	PEND OREILLE COUNTY FIRE #2
GARFIELD COUNTY FIRE DIST #1	PIERCE COUNTY FIRE DIST #10
GRANT COUNTY FIRE DIST #3	PIERCE COUNTY FIRE DIST #13
GRANT COUNTY FIRE DIST #4	PIERCE COUNTY FIRE DIST #18
GRANT COUNTY FIRE DIST #8	PIERCE COUNTY FIRE DIST #27
GRANT COUNTY FIRE DISTRICT 10	PIERCE COUNTY FIRE DIST 21
GRAYS HARBOR FIRE DIST #2	PROSSER FIRE DISTRICT #3
JEFFERSON COUNTY FIRE DIST # 2	SAN JUAN COUNTY FIRE DIST #3
JEFFERSON COUNTY FIRE DIST #1	SAN JUAN CTY FIRE DIST #4
JEFFERSON COUNTY FIRE DIST #3	SAN JUAN FIRE DISTRICT #2
JEFFERSON COUNTY FIRE DIST #4	SE THURSTON FIRE & EMS
KING COUNTY FIRE DIST #11	SKAGIT COUNTY FIRE DIST #13
KING COUNTY FIRE DIST #13	SKAGIT COUNTY FIRE DIST #8
KING COUNTY FIRE DIST #2	SKAMANIA COUNTY FIRE DIST #4
KING COUNTY FIRE DIST #20	SNOHOMISH COUNTY FIRE DIST #17
KING COUNTY FIRE DIST #25	SNOHOMISH COUNTY FIRE DIST #19
KING COUNTY FIRE DIST #34	SNOHOMISH COUNTY FIRE DIST #28

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

Schedule T-1

SNOHOMISH COUNTY FIRE DIST #4
SNOHOMISH COUNTY FIRE DIST #7
SNOHOMISH COUNTY FIRE DIST 21
SNOHOMISH COUNTY FIRE DIST 22
SNOHOMISH COUNTY FIRE DIST#5
SNOHOMISH CTY FIRE DIST #8
SNOHOMISH FIRE DISTRICT #15
SOUTH WHATCOM FIRE AUTHORITY
SOUTH WHIDBEY FIRE / EMS
SPOKANE COUNTY FIRE DIST #13
SPOKANE COUNTY FIRE DIST #3
SPOKANE COUNTY FIRE DIST #4
SPOKANE COUNTY FIRE DIST #8
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 COUNTY FIRE DIST 4
WALLA WALLA COUNTY FIRE DIST 5
WEST THURSTON REGIONAL
WHATCOM COUNTY FIRE DIST #1
WHATCOM COUNTY FIRE DIST #14
WHATCOM COUNTY FIRE DIST #17
WHATCOM COUNTY FIRE DIST #18
WHATCOM COUNTY FIRE DIST #8
YAKIMA COUNTY FIRE DIST #12
YAKIMA COUNTY FIRE DIST #4
YAKIMA COUNTY FIRE DIST #5
WA FIRE COMMISSIONERS ASSN
BUDD BAY CPA
RETIRED MEMBERS

DES SCHEDULE OF EXPENSES

Schedule T-2

**WFCB Insurance Rate Stabilization Reserve Account
For the Fiscal Year Ended December 31, 2013**

Claims Expenses (Self-Funded Medical)	15,274,279
Contracted Services:	
Insured Carriers (Medical, Dental, Life/AD&D)	4,022,441
Stop Loss Carrier Fees	985,849
Third Party Administrator Fees	408,717
Provider Network Fees	64,087
Utilization Review Fees	18,232
Wellness Portal	8,281
Brokerage/Consulting Fees	84,980
Professional Fees	78,143
State Oversight Fees	18,853
Website Expense	6,022
	<hr/>
Subtotal Contracted Services	5,695,605
Program Support Expenses:	
Salaries, Benefits & Travel	158,072
Committee Expenses	6,392
Seminars/Workshops	10,548
Hope Health Newsletter	5,517
Supplies	5,968
Marketing & Promotional	1,250
Claim Reserves	396,000
Unallocated Loss Adjustment Expenses	19,000
Depreciation	6,206
	<hr/>
Subtotal Program Support	608,953
Total Operating Expenses	21,578,837

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
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