

Washington State Auditor's Office
Financial Statements Audit Report

**Washington State Transit Insurance
Pool
Thurston County**

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008818

Issue Date
December 24, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 24, 2012

Board of Directors
Washington State Transit Insurance Pool
Olympia, Washington

Report on Financial Statements

Please find attached our report on the Washington State Transit Insurance Pool's financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Thurston County
January 1, 2011 through December 31, 2011**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Washington State Transit Insurance Pool
Thurston County
January 1, 2011 through December 31, 2011**

Board of Directors
Washington State Transit Insurance Pool
Olympia, Washington

We have audited the basic financial statements of the Washington State Transit Insurance Pool, Thurston County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated December 11, 2012.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 11, 2012

Independent Auditor's Report on Financial Statements

Washington State Transit Insurance Pool Thurston County January 1, 2011 through December 31, 2011

Board of Directors
Washington State Transit Insurance Pool
Olympia, Washington

We have audited the accompanying basic financial statements of the Washington State Transit Insurance Pool, Thurston County, Washington, as of and for the years ended December 31, 2011 and 2010, as listed on page 5. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Transit Insurance Pool, as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and Claims Development Information on pages 29 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 the audit of the basic financial statements. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements. The Schedule of Labor Relations Consultant, Schedule T-1 Public Entity Risk Pool List of Participating Members and Schedule T-2 OFM Schedule of Expense 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 11, 2012

Financial Section

Washington State Transit Insurance Pool Thurston County January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2011 and 2010
Comparative Statement of Revenues, Expenses and Changes in Net Position – 2011
and 2010
Comparative Statement of Cash Flows – 2011 and 2010
Notes to the Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information – 2011

SUPPLEMENTAL INFORMATION

Schedule of Labor Relations Consultant – 2011
Schedule T-1 Public Entity Risk Pool List of Participating Members – 2011
Schedule T-2 OFM Schedule of Expense – 2011

MANAGEMENT DISCUSSION ANALYSIS

As the management of the Washington State Transit Insurance Pool (WSTIP), we offer readers of WSTIP's financial statements this narrative overview and analysis of the financial activities of WSTIP for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the following document.

Financial Highlights

- Total assets grew by \$3,639,167 in 2011 to \$30,197,736, a 13.70% increase.
- Favorable loss development in claim years 2010 and 2011 caused an upward adjustment in our total net position at year end. The 2011 year end estimated net asset position of WSTIP was \$18,964,962 as compared to \$16,330,696 at year end 2010. This represents a \$2,634,266 change, 16.13% increase.
- For the year 2011, WSTIP had operating income of \$2,209,696 as compared to an operating income in 2010 of \$241,612, primarily because of favorable actuarial adjustments for loss development in 2010 and 2011.
- Interest and dividend income for 2011 was \$424,570 as compared to 2010 Interest and Dividend Income of 570,642. The decrease was due mainly to a worse ROI (Return on Investment) on WSTIP funds located at the County Investment Pool (TCIP) because of the significant worldwide deterioration in potential interest generating investment vehicles for public entities.
- Total expenses for 2011 were \$8,804,819 as compared to \$10,105,457 for 2010. This is due mainly to a significant actuarial adjustment with the 2011 year end study and the closing of a large 2008 reinsurance claim.
- Total claims liabilities for 2011 were \$10,894,803 as compared to \$9,942,442 for 2010. This is a \$952,361 increase. The increase in claims liabilities is mainly due to the adding our 25th member effective January 1st 2011 who suffered a significant claim in this first year as a WSTIP member.

Three Year Comparative Summary

Description	2011	2010	2009
Assets			
Other Assets	\$29,813,119	\$26,163,817	\$25,469,349
Capital Assets	384,617	394,753	407,216
Total Assets	\$30,197,736	\$26,558,570	\$25,876,565
Liabilities			
Other Liabilities	\$11,232,474	\$10,111,813	\$10,247,597
Long-Term Liabilities	105,468	116,060	110,526
Total Liabilities	11,232,774	10,227,874	10,358,123
Net Assets			
Invested in Capital Assets Net of Related Debt	\$384,617	\$394,753	\$407,216
Unrestricted Net Assets	18,580,345	15,935,943	15,111,226
Total Net Assets	\$18,964,962	\$16,330,696	\$15,518,442
Revenues			
Member Assessments	\$10,899,471	\$10,214,682	\$8,321,754
Program Revenues	115,044	132,387	137,495

Total Operating Revenues	\$11,014,515	\$10,347,069	\$8,459,249
Interest and Dividend Income	\$424,570	\$570,642	\$1,019,020
Total Revenues	\$11,439,085	\$10,917,711	\$9,478,269
Operating Expenses			
Operating Expenses	\$1,691,837	\$1,661,484	\$1,523,327
Claims Paid on Current Losses	7,004,046	6,403,868	4,867,274
Adjustment to Prior Years' Claims Reserves	(2,604,562)	(376,608)	706,599
Unallocated Loss Adjustment Expense	340,782	316,526	237,658
Excess Insurance Premiums	1,792,669	1,650,603	1,733,993
Depreciation Expense	10,135	12,463	16,044
Insurance Services Expense	569,912	437,121	357,875
Total Expenses	\$8,804,819	\$10,105,457	\$9,442,770
Changes Net Assets	2,634,266	812,254	35,499
Beginning Net Assets	16,330,696	15,518,442	15,482,943
Ending Net Assets	\$18,964,962	\$16,330,696	\$15,518,442

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to WSTIP's basic financial statements. WSTIP operates as a single proprietary fund, more specifically as an enterprise fund, in accounting for members' participation in the public entity self-insurance pool. WSTIP's basic financial statements are comprised of two components, the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The financial statements are designed to provide readers with a broad overview of WSTIP's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of WSTIP's assets and liabilities, with the difference reported as equity. WSTIP retains equity as a means to reach certain surplus target goals and as a reserve account to address those loss years where claims development is different than what was actuarially projected. Losses in any membership year are a contractual obligation of the members of the respective year and appear as a receivable on the financial statements.

The statements of revenues, expenses and changes in fund equity present information on all of the agency's revenues and expenses.

The statements of cash flows present information on cash flow provided by and used in activities. The activities are classified into one of four categories: operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided

in the financial statements. The notes to the financial statements can be found on pages 11 thru 24 of this report.

Other Information

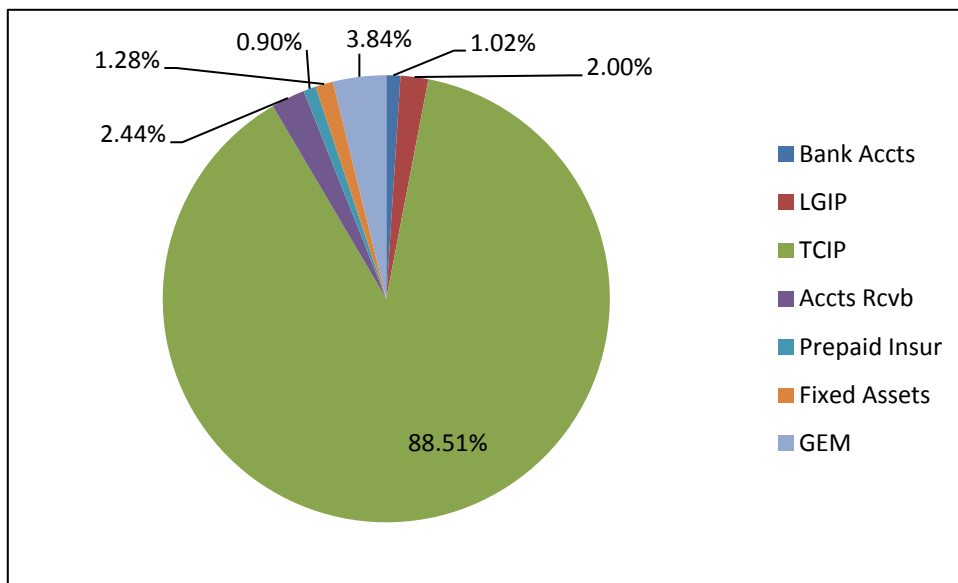
In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning claim development, earned assessments and unallocated expenses. Required supplementary information can be found on page 25 of this report.

Following the required supplementary information, are the supplemental schedules. Combining schedules of the three basic financial statements are presented by individual membership year. In addition, there is a schedule of cash and investments and a schedule of actual and budget for the 2011 membership year.

Financial Analysis

By far, the largest portion of WSTIP's assets (88 percent) is its cash and investments in the Thurston County Investment Pool and the State Investment Pool (LGIP). WSTIP uses these assets to pay claim liabilities, purchase reinsurance, provide surplus for its claim operations and pay for administrative overhead.

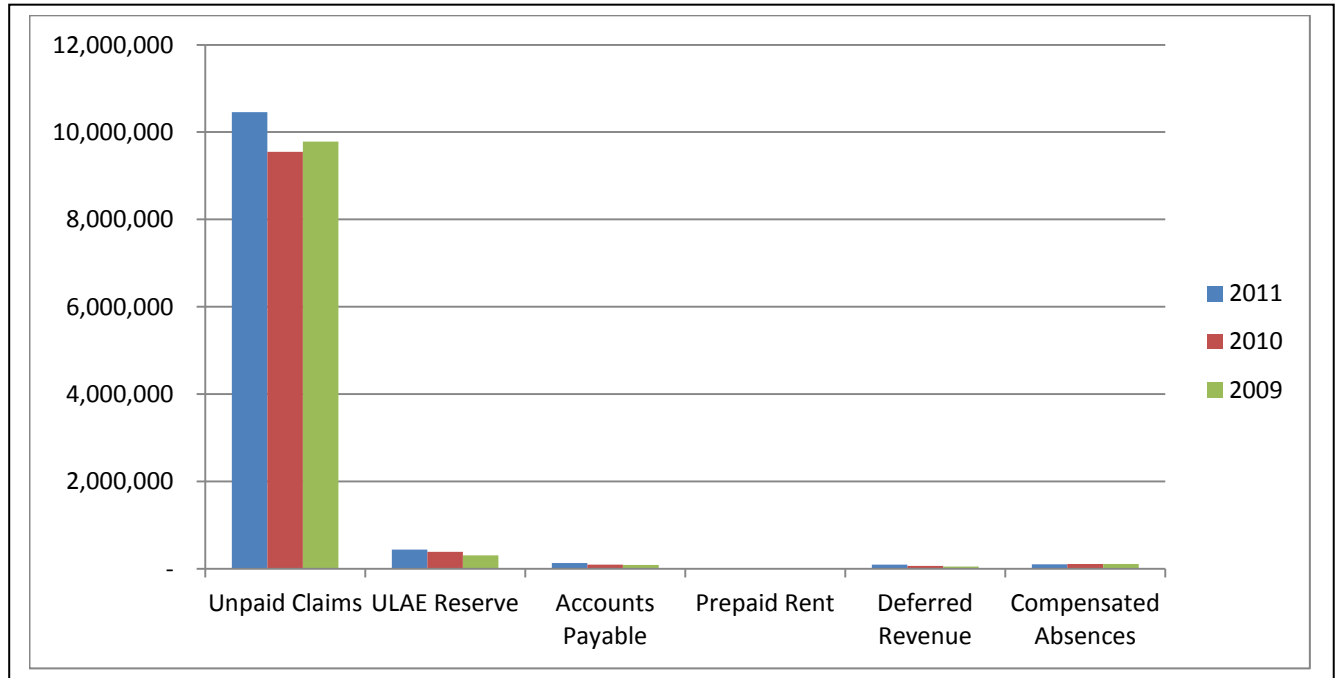
WSTIP ASSET MIX



WSTIP also owns a building which is currently valued at \$479,000. WSTIP also is a capitol contributor to Governmental Entities Mutual (GEM) with an estimated surplus account of \$1,263,276. GEM is a captive insurance company owned by 17 governmental insurance pools located throughout the United States. It is domiciled in Washington DC.

The bulk of WSTIP liabilities reside with the member claims. Twice a year the WSTIP Actuary conducts an actuarial review of WSTIP claims to assess and project claim liabilities by loss year. At year end 2011, claims liabilities were projected to be \$10,894,803 as compared to \$9,942,442 at year end 2010. Claims liabilities are 96.99% of the total liabilities for WSTIP at year end 2011 as compared 97.21% of total liabilities for year end 2010.

WSTIP Liability Mix



Agency Activities

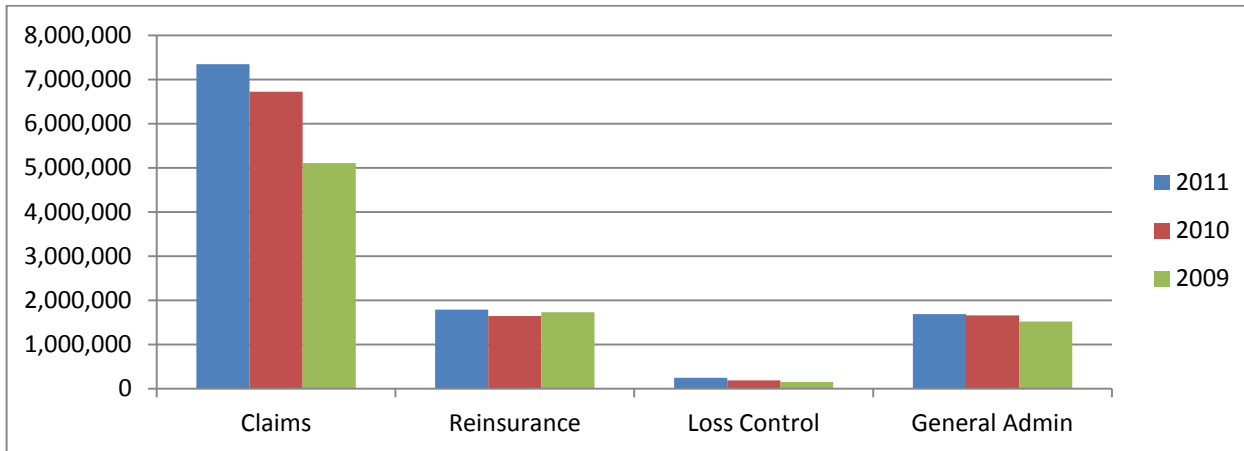
WSTIP's revenues are generated primarily through membership contributions and non-operating revenues including interest income. Operating expenses are in three categories: loss and loss adjustment expense, reinsurance/excess insurance and administrative expenses. The loss fund levels for payment of loss and loss adjustment were established based on estimated miles by mode (fixed route, vanpool, administration and demand response) and are retroactively adjusted for actual miles driven and actual claims experience. WSTIP engages an independent actuary to assist the agency in determining loss fund levels and reserve adequacy.

Budgetary Highlights

Each year the Board of Directors adopts an operating budget in December. The budget is reviewed on a monthly basis by the WSTIP Executive Committee. The Pool's Executive Director is authorized to make mid-year adjustments to both the operations and capital budgets, so long as such adjustments do not increase the total budget amounts. Below is a statement of revenues and expenses for 2011:

Description	Jan – Dec 2011
Operating Revenues	11,014,515
Operating Expenses	8,804,819
Non-Operating Revenues (Expenses)	424,570
Change in Net Assets	2,634,266

Major Expense Comparison (2011 to 2009)



Non-operating revenue decreased 25% from 2010 to 2011 mainly because interest income generated by the Pool's funds at the State Investment Pool and the Thurston County Investment Pool was significantly less than forecasted due to worldwide adverse economic conditions that have continued since 2008.

- Occupancy Costs increased 72% from 2010 to 2011 because WSTIP needed to maintain a recently updated HVAC system and had to do other minor ground keeping measures to preserve and maintain its building investment.
- The self insurance claims fund for WSTIP increased 9% from 2010 to 2011 because WSTIP's 25th member joined effective January 1, 2011.
- Administrative services increased 139% from 2010 to 2011 primarily because WSTIP retained a temporary employee from July 2011 to year end due to a regular employee resigning at mid year for other opportunities.
- Loss Control services increased 30% from 2010 to 2011 primarily because WSTIP was finishing development of a driver record monitoring service for its members.

Capital Assets

As mentioned above, The Pool owns a building currently valued at \$479,000. The Pool purchased \$85,188 of software, software licenses and computer hardware in 2011. This follows its regularly scheduled practice of updating its information services infrastructure based on its information services strategic information plan approved by the WSTIP Board. The Pool also dedicates \$15,000 a year from its equity to a building reserve fund to save for any improvements or updates it needs to make to the building it owns. The balance of this fund at year end was \$51,317.

Future Factors

WSTIP Management believes the overall financial position of the Pool increased in 2011 due to favorable loss development in loss years 2011 and 2010 as indicated in the year end actuarial study. Significant factors that could impact the future of the Pool include the reinsurance market, the investment market and adverse claims loss development. All of these factors were considered in preparing the Pool's budget for the 2012-2013 fiscal years.

Request for Information

This financial report is designed to provide a general overview of WSTIP's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Allen F. Hatten, Executive Director
Washington State Transit Insurance Pool
2629 12th Court SW, Olympia, Washington 98502

COMPARATIVE STATEMENT OF NET POSITION
For the years ended December 31, 2011 and 2010

		2011	2010
ASSETS			
Current Assets:			
	Cash and Cash Equivalents – Unrestricted	\$14,902,996	\$24,226,783
	Cash and Cash Equivalents – Restricted	12,631,802	0
	Member Assessments Receivable	26,104	6,758
	Reinsurance Recoverable	708,980	500,000
	Prepayments	279,961	274,333
	TOTAL CURRENT ASSETS	28,549,843	25,007,874
Noncurrent Assets:			
	Capital Assets (Net of Accumulated Depreciation)	384,617	394,753
	Equity in GEM (Note 8)	1,263,276	1,155,943
	TOTAL NONCURRENT ASSETS	1,647,893	1,550,696
	TOTAL ASSETS	\$30,197,736	\$26,558,570
LIABILITIES			
Current Liabilities:			
	Unpaid Claims Liability	\$10,454,803	\$9,552,443
	ULAE Reserve	440,000	390,000
	Accounts Payable	134,293	100,572
	Deferred Revenue	98,210	68,799
	TOTAL CURRENT LIABILITIES	11,127,306	10,111,814
Noncurrent Liabilities:			
	Compensated Absences	105,468	116,060
	TOTAL NONCURRENT LIABILITIES	105,468	116,060
	TOTAL LIABILITIES	11,232,774	10,227,874
NET POSITION			
	Invested in Capital Assets, Net of Related Debt	384,617	394,753
	Unrestricted Building Reserve	51,317	82,489
	Unrestricted Surplus	18,529,028	15,853,454
	TOTAL NET POSITION	18,964,962	16,330,696
	TOTAL NET POSITION AND LIABILITIES	\$30,197,736	\$26,558,570

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2011 and 2010

OPERATING REVENUES		2011	2010
	Member Assessments	\$10,899,471	\$10,214,682
	Program Revenues	115,044	132,387
	Total Operating Revenues	11,014,515	10,347,069
OPERATING EXPENSES			
	Claims Paid on Current Losses	7,004,046	6,403,868
	Adjustment to Prior Years' Claim Reserve	(2,604,562)	(376,608)
	Unallocated Loss Adjustment Expense	340,782	316,526
	Excess Insurance Premiums	1,792,669	1,650,603
	Depreciation Expense	10,135	12,463
	Operating Expenses	1,691,837	1,653,541
	Insurance Services:		
	Brokerage Fee	103,845	129,806
	Other Insurance Services	466,067	315,258
	Total Operating Expenses	8,804,819	10,105,457
	OPERATING INCOME (LOSS)	2,209,696	241,612
NONOPERATING REVENUES (EXPENSES):			
	Interest and Dividend Income	424,570	570,642
	CHANGES IN NET POSITION	2,634,266	812,254
	TOTAL NET POSITION, January 1	16,330,696	15,518,442
	TOTAL NET POSITION, December 31	\$18,964,962	\$16,330,696

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Members	\$ 10,880,125	\$ 10,207,925
Cash Payments to Suppliers for Goods and Services	(7,952,694)	(9,601,247)
Cash Payments to Employees for Services	(1,004,058)	(999,479)
Increase (Decrease) in Claim Reserve	952,361	(152,553)
Other Operating Revenues	115,044	132,387
Net Cash Provided (Used) by Operating Activities	2,990,778	(412,967)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Non Capital & Related Financing Activities	0.00	0.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Capital & Related Financing Activities	0.00	0.00
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from Sales of Investments		
Equity in GEM	(107,333)	26,633
Interest Received	424,570	570,642
Net Cash Provided (Used) by Investing Activities	317,237	597,275
Increase (Decrease) in Cash and Cash Equivalents	3,308,015	184,308
Cash and Cash Equivalents, January 1	24,226,783	24,042,475
Cash and Cash Equivalents, December 31	\$27,534,798	\$24,226,783

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**COMPARATIVE RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED USED BY OPERATING ACTIVITIES
For the years ended December 31, 2011 and 2010**

	2011	2010
OPERATING INCOME:	2,209,696	\$241,612
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	10,135	12,463
(Increase) Decrease in member assessments receivable	(19,346)	7,269
(Increase) Decrease in insurance recoverables	(208,980)	(500,000)
(Increase) Decrease in other prepaid expenses	(5,628)	(44,562)
Increase (Decrease) in claim reserves	952,361	(152,553)
Increase (Decrease) in payables	33,721	6,907
Increase (Decrease) in other liabilities	(10,592)	3,672
Increase (Decrease) in Deferred Revenue	29,411	11,725
Increase due to difference between cash balance report in 2009 on the Statement of Net Assets and Statement of Cash Flows.		500
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$2,990,778	\$ (412,967)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The Pool did not borrow under any capital lease, receive any contribution of capital assets from governments, or have an increase in the fair value of investments during 2011.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**WASHINGTON STATE TRANSIT INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General

The Washington State Transit Insurance Pool (WSTIP) was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member Transit Systems programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months notice. Any member who withdraws will not be allowed to rejoin the Pool for a period of 36 months. Transit authorities applying for membership in the Pool may do so on approval of a simple majority vote of the Board of the Pool. The Pool underwriting and rate-setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. Current Pool members are the following:

Asotin County Transit, Clarkston; Ben Franklin Transit, Richland; Clallam Transit System, Port Angeles; Columbia County Transit, Dayton; Cowlitz County Transit, Longview; Community Transit, C-Tran, Vancouver; Everett, Everett Transit, Grant Transit, Ephrata; Grays Harbor Transportation Authority, Hoquiam; Intercity Transit, Olympia; Jefferson Transit, Port Townsend; Kitsap Transit, Bremerton; Pacific Transit System, Raymond; Pierce Transit, Lakewood; Link Transit, Wenatchee; Island Transit, Coupeville; Mason Transit, Shelton; Pullman Transit, Pullman; Skagit Transit, Burlington; Spokane Transit, Spokane; Twin Transit, Centralia; Valley Transit, Walla Walla; Whatcom Transit, Bellingham and Yakima Transit, Yakima.

Per WSTIP Resolution 2-99, the WSTIP Board of Directors created an Associate membership category for the WSTIP Organization. **This membership category ended December 31st 2008.** Associate members could have purchased all WSTIP services including data warehousing, reinsurance and loss control services. Associate members did not participate in the self-insurance program/risk layer and could not vote and/or participate in Executive Sessions. Associate members must have been a public transit system owned and operated by a local governmental entity. The three associate members were **Pierce Transit**, Tacoma; **C-TRAN**, Vancouver; and the **Ohio Transit Risk Insurance Pool (OTRP)**, serving transit agencies in the State of Ohio.

OTRP joined as the first associate member on January 1, 2001, and participated in the data-warehouse program only. OTRP did not participate in any risk/loss sharing or group purchase of reinsurance. On July 1, 2001, Pierce Transit (Pierce County Transit) and C-TRAN (Clark County Transit) joined the Washington State Transit Insurance Pool as Associate Members. Pierce Transit and C-TRAN are Washington State transit agencies. Pierce Transit joined WSTIP to utilize the WSTIP database program and buy liability reinsurance through WSTIP. Pierce Transit carried a \$1 million deductible. C-TRAN joined WSTIP to buy liability reinsurance through WSTIP. C-TRAN carried a \$2 million deductible.

At the end of 2011, WSTIP had twenty five full members. C-Tran became the 25th full member of WSTIP effective January 1, 2011.

b. Basis of Accounting and Presentation

The accounting records of the Pool are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The Pool implemented GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the 2009 financial statements. The Pool also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement 10, *Accounting And Financial Reporting For Risk Financing And Related Insurance Issues*, as amended by the GASB Statement 30, *Risk Financing Omnibus*, the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*, and GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In 1999 the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The presented financial statements (including notes) reflect this and consecutive statements.

The Pool uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the Enterprise fund. The Pool has not implemented "private sector" guidance issued after November 30, 1989.

c. Capital Assets And Depreciation [See Note 9.](#)

d. Accounts Receivable

Accounts receivable at December 31, 2011 and 2010, are as follows:

2011	TOTAL		2010	TOTAL
C-Tran	50		Anna--Broadhead	116
Clallam Trans	265		Ben Franklin Tran	2,500
Community	10,220		Community	100
GEM RE	708,980		Des Moines Area Regional Trans. Authority	5
Grant Transit	23		Dial-A-Ride - Snohomish County	5
Island Trans	23		JAMIE--Collier	7
Kitsap Transit	1,705		Joanne KERRIGAN	0
Pierce Trans	50		Lewiston Transit System	75
Spokane Transit	3,592		MARKEL	500,000
WA State DOT	5,588		PAULShinners	3
Whatcom Transit	1,080		People for People-Moses Lake	5
William E. Phelps	1,552		STEPHANIE Guettinger	5
WSTA	1,524		T.C. Transportation Services	5
Yakima Transit	432		WA State DOT	2,105
			William E. Phelps	587
			WSTA	1,240
TOTAL	735,084		TOTAL	506,757

e. Investments [See Note 3.](#)

f. Compensated Absences

Compensated absences are absences for which employees will be paid, such as general leave and holidays. The Pool records unpaid leave for compensated absences as an expense and liability when incurred.

General leave pay, which may be accumulated up to 690 hours and is payable upon resignation, retirement or death.

g. Unpaid Claims Liabilities

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

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited as expenses in the periods in which they are made.

h. Reinsurance

The Pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Pool as the direct insurer of the risks reinsured. The Pool reports reinsured risks as liabilities and show a reinsurance offset for any of those reinsured risks. The amount deducted from claims liabilities as of December 31, 2011, and December 31, 2010, for reinsurance was \$708,980.00 and \$500,000.00 respectively. Premiums ceded to reinsurers during 2011 and 2010 were \$1,792,669 and \$1,650,603 respectively. (See Note 11)

i. Member Assessments And Unearned Member Assessments

Member's 2011 contribution rates were based on their estimated exposures of miles and employees at the following rates: Fixed Route = \$0.0811/mile; Dial-A-Ride = \$0.0811/mile; Van Pool = \$0.0811/mile; Non-revenue = \$0.0811 and 288.020 per employee for general liability and public official's coverage. Further adjustments are made on a retrospective basis to the period year's actual miles, experience factors, actuarial calculations, deductibles and UM/UIM options.

j. Reserve for Claims

Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims incurred, but not reported. The estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

k. Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross

income under IRS Section 115(1). Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

I. Cash and Cash Equivalents

For purposes of the Statement of Cash Flow, WSTIP considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

m. Budget and Spending Controls

An annual budget is prepared by the Executive Director and presented to the Board of Directors for adoption by Resolution prior to the start of the business year. The budget serves as a planning and control document. An actual cost/revenue report compared to the annual budget amounts is presented to the Executive Committee on a monthly basis, and to the Board of Directors on a quarterly basis, so that all members are made aware of any variations from the budget. The Pool's Executive Director is authorized to make mid-year adjustments to both the operations and capital budgets, so long as such adjustments do not increase the total budget amounts.

n. Reserve for Unallocated Loss Adjustment Expenses

The reserve for unallocated loss adjustment expenses represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not reported. Management estimates this liability at the end of each year based upon cost estimated provided by the third party administrator. The change in the liability each year is reflected in current earnings.

NOTE 2 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the Pool's funds (except as noted below) are in obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, (the Thurston County Investment Pool,) (bankers' acceptances,) certificates of deposit with Washington State banks, savings and loan institutions, or other investments allowed by Chapter 39.59 RCW. (Investments of (pension/nonexpendable) trust funds are not subject to the preceding limitations.)

All temporary investments are stated at fair market value. Other property and investments are shown on the balance sheet at fair market value.

(A portion of the property consists of real estate held for the production of rental income)

The Pool's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

WSTIP investments at the end of Year 2011 and Year 2010 are outlined below:

	<u>2011 Carrying Amount</u>	<u>2011 Market Value</u>	<u>2010 Carrying Amount</u>	<u>2010 Market Value</u>
Thurston County Investment Pool	26,626,480	26,626,480	23,428,062	23,428,062
State Investment Pool (LGIP)	602,804	602,804	601,636	601,636
Total Investments	27,229,284	27,229,284	24,029,698	24,029,698

99% of all WSTIP cash investments are with the Thurston County Investment Pool (TCIP) and the State Investment Pool (LGIP). Due to the liquidity of TCIP and LGIP, those investments are shown as cash equivalents on the financial statements. Although heavily concentrated with TCIP and LGIP, due to the

nature of these financial vehicles, Pool management does not believe there is any significant custodial, credit, interest rate, or concentration of risk associated with their investments.

NOTE 3 - SELF-INSURED RETENTION

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

Fiscal Year 2002

For fiscal year 2002, the pool's per occurrence retention limit is \$250,000 for General and Auto liability plus a \$250,000 aggregate corridor, \$250,000 for Public officials liability, \$5,000 for Boiler and Machinery, \$5,000 for EDP, \$25,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Physical damage. Through a combination of fund balance designated at December 31, 2000, and member assessments earned at January 1, 2001, the pool committed assets of **\$1,996,855** specifically for the purpose of funding this retention for fiscal year 2001.

Fiscal Year 2003

For fiscal year 2003, the pool's per occurrence retention limit is \$500,000 for General & Auto liability and public officials, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$50,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Physical damage. Through a combination of fund balance designated at December 31, 2001, and member assessments earned at January 1, 2002, the pool committed assets of **\$2,549,924** specifically for the purpose of funding these retentions for fiscal year 2002.

Fiscal Year 2004

For fiscal year 2004, the pool's per occurrence retention limit is \$600,000 for General & Auto liability and Public Officials, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. Auto Physical Damage coverage was self funded by the Pool from January 1, 2004, to December 31, 2004, with limits of \$250,000 per occurrence. Through a combination of fund balance designated at December 31, 2003, and member assessments earned at January 1, 2004, the pool committed assets of **\$2,740,594** specifically for the purpose of funding these retentions for fiscal year 2004.

Fiscal Year 2005

For fiscal year 2005, the pool's per occurrence retention limit is \$600,000 for General & Auto liability and Public Officials, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. Auto Physical Damage coverage was self funded by the Pool from January 1, 2005, to June 30, 2005, with limits of \$250,000 per occurrence. From July 1, 2005, to December 31, 2005, the Auto Physical Coverage retention was \$100,000. Through a combination of fund balance designated at December 31, 2004, and member assessments earned at January 1, 2005, the pool committed assets of **\$3,551,479** specifically for the purpose of funding these retentions for fiscal year 2005.

Fiscal Year 2006

For fiscal year 2006, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$100,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2005, and member assessments earned at January 1, 2006, the pool committed assets of **\$3,787,072** specifically for the purpose of funding these retentions for fiscal year 2006.

Fiscal Year 2007

For fiscal year 2007, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$100,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2006, and member assessments earned at January 1, 2007, the pool committed assets of **\$4,312,346** specifically for the purpose of funding these retentions for fiscal year 2007.

Fiscal Year 2008

For fiscal year 2008, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials with a quota share relationship on the \$3 million X \$1 million layer where WSTIP retains 33% and GEM retains 67%, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$100,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2007, and member assessments earned at January 1, 2008, the pool committed assets of **\$5,395,939** specifically for the purpose of funding these retentions for fiscal year 2008.

Fiscal Year 2009

For fiscal year 2009, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials with an aggregate corridor of \$500,000 on the 1 million X \$1 million layer, \$5,000 for Boiler and Machinery, \$10,000 for Crime, \$100,000 for Property with Flood and Earthquake aggregate at \$100,000 or 5% of loss and \$100,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$100,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2008, and member assessments earned at January 1, 2009, the pool committed assets of **\$5,104,932** specifically for the purpose of funding these retentions for fiscal year 2009.

Fiscal Year 2010

For fiscal year 2010, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials with an aggregate corridor of \$500,000 on the 1 million X \$1 million layer, \$10,000 for Crime, \$100,000 for Property with a 24 hour waiting period on all perils and coverage's and \$100,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$100,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2009, and member assessments earned at January 1, 2010, the pool committed assets of **\$6,720,394** specifically for the purpose of funding these retentions for fiscal year 2010.

Fiscal Year 2011

For fiscal year 2011, the pool's per occurrence retention limit is \$1,000,000 for General & Auto liability and Public Officials with a quota share relationship on the \$3 million X \$1 million layer where WSTIP retains 17% and GEM retains 83%, \$10,000 for Crime, \$250,000 for Property with a 24 hour waiting period on all perils and coverage's and \$250,000 for Auto Comprehensive. The Auto Physical Coverage retention was \$250,000 with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2010, and member assessments earned at January 1, 2011, the pool committed assets of **\$7,344,828** specifically for the purpose of funding these retentions for fiscal year 2011.

NOTE 4 - EXCESS INSURANCE CONTRACTS

The pool maintains excess/reinsurance insurance contracts with several insurance carriers that provide various limits of coverage over the pool's self-insured retention limits. The limits provided by these excess and reinsurance contracts are as follows:

Reinsurance/Insurance Contract Limits	2011	2010
Liability Reinsurance*		
Comprehensive Liability	\$12,000,000	\$12,000,000
Automobile Liability	\$12,000,000	\$12,000,000
Public Officials Liability (annual aggregate)	\$12,000,000	\$12,000,000

*All members except Community Transit and Everett Transit

Community Transit and Everett Transit have an additional (\$8 million in excess of \$12,000,000 for a total of \$20,000,000 on general and auto liability)

Crime (excluding WSTIP staff)		
Employee Dishonesty	\$1,000,000	\$1,000,000
Forgery and Alterations	\$1,000,000	\$1,000,000
Theft Disappearance and Destruction	\$1,000,000	\$1,000,000

Crime (for WSTIP staff)		
Employee Dishonesty	\$1,000,000	\$1,000,000
Forgery and Alterations	\$1,000,000	\$1,000,000
Theft Disappearance and Destruction	\$1,000,000	\$1,000,000

Property:

All Risk Property Coverage (for all members)	\$350,000,000	\$350,000,000
Limited to: Earthquake	\$25,000,000	\$25,000,000
Flood (excluding Zone A)	\$50,000,000	\$50,000,000
Flood – Zone A annual aggregate	\$10,000,000	\$10,000,000
Auto Physical Damage	Actual Cash Value	\$250,000
(all members have a \$2,500 deductible except Pierce Transit, C-Tran and Spokane Transit. Pierce Transit and C-Tran are at \$10,000 and Spokane Transit has \$25,000)	Pool SIR \$250,000	

Boiler and Machinery	\$100,000,000	\$100,000,000
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NOTE 5 - MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Board of Director's approved Resolution 5-94 wherein it establishes the methodology of allocating the individual member's experience during a specific period of time for a prospective assessment to members based on actual claims experience. Effective 1/1/95.

NOTE 6 - PENSION PLAN

All Washington State Transit Insurance Pool full-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Administrative Services Division, P.O. Box 48380, Olympia, WA 98504-8380.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age

55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%**
Employee	NA	4.64%	***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The Washington State Transit Insurance Pool (WSTIP) and its employees made the required contributions. WSTIP's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$0.00	\$29,983.57	\$14,273.79
2010	\$0.00	\$25,354.18	\$12,126.96
2009	\$0.00	\$28,800.10	\$15,247.68

NOTE 7 - DEFERRED COMPENSATION PLAN

All of the WSTIP employees participate in a 401(A) Defined Contribution Plan and can choose to participate in one of two 457 Deferred Compensation retirement plans offered through ICMA or DCP. The ICMA 401 (A) Plan is in lieu of social security. The employer contributes 6.20% of the employee's gross monthly salary to the 401(A) plan and the employee contributes 9.20% of their gross monthly salary to the 401(A) plan. Outlined below is the December 31, 2011 and December 31, 2010 Employer and Employee contributions to the ICMA 401 A plan.

ICMA 401 A Plan

Year	Employer	Employee
2011	\$50,115	\$81,867
2010	\$49,039	\$78,912

WSTIP employees participate in the Washington State 457 Deferred Compensation Program (DCP). DCP is a tax sheltered voluntary retirement plan administered by the Washington State Department of Retirement Systems. All full-time, part-time, career seasonal, or regular schedule Washington State employees are eligible to join DCP; as well as any elected or appointed State officials. Employees of political subdivisions may participate subject to employer adoption of the plan. Participants authorize their employer to postpone – or defer – a part of their income before taxes are calculated, and have that money invested in their DCP account. WSTIP is not the owner of the 457 plan assets, the plan assets and liabilities are not reported in the WSTIP financial statements.

NOTE 8 - GEM

WSTIP along with eleven other intergovernmental risk pools, incorporated the Government Entities Mutual, Inc. (GEM), a captive insurance company, on January 1, 2003. WSTIP's initial investment in GEM was \$500,000. In 2005, WSTIP contributed an additional \$250,000 to GEM. WSTIP accounts for GEM using the equity method of accounting.

For each member, GEM maintains a separate surplus account for capital surplus contributions and a policy year account for underwriting results and administrative expenses. Investment income or losses are allocated to members based on the balances in each member's policy year account on an annual basis. WSTIP's proportionate share of income from GEM of \$107,333.00 and (\$26,633) is included in WSTIP's investment income for 2011 and 2010, respectively. Each GEM member's financial liability is limited to its contributed capital. As of December 31, 2011, GEM's membership had grown to eighteen pools. WSTIP's equity position in GEM was \$1,263,276 as of December 31, 2011 and \$1,155,943 as of December 31, 2010. As of December 31, 2011 GEM had estimated member equity of \$25,331,000 and \$22,447.00 as of December 31, 2010. For information on GEM please contact GEM CEO John Foehl at john.foehl@gemre.com or go to their web site at <http://www.gemre.com/about-us/reporting.php> to obtain financial information on GEM.

NOTE 9 – CAPITAL ASSETS**2011**

			<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated						
Land			\$ 91,010	\$ -	\$ -	\$ 91,010
Total capital assets not being depreciated			91,010			91,010
Capital assets being depreciated						
Buildings			387,990			387,990
Furnishings and Equipment			213,461			213,461
Total capital assets being depreciated			601,451			601,451
Less accumulated depreciation for						
Buildings			(89,947)	(9,948)		(99,895)
Furnishings and equipment			(207,761)	(187)		(207,948)
Total accumulated depreciation			(297,708)	(10,135)		(307,843)
Net capital assets being depreciated			303,743			293,608
Total Capital Assets, Net			\$ 394,753	\$ (10,135)	\$ -	\$ 384,618

2010

			<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated						
Land			\$ 91,010	\$ -	\$ -	\$ 91,010
Total capital assets not being depreciated			91,010			91,010
Capital assets being depreciated						
Buildings			387,990			387,990
Furnishings and Equipment			213,461			213,461
Total capital assets being depreciated			601,451			601,451
Less accumulated depreciation for						
Buildings			(79,999)	(9,948)		(89,947)
Furnishings and equipment			(205,246)	(2,515)		(207,761)
Total accumulated depreciation			(285,245)	(12,463)		(297,708)
Net capital assets being depreciated			316,206			303,743
Total Capital Assets, Net			\$ 407,216	\$ (12,463)	\$ -	\$ 394,753

(The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation.) (However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Pool capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.)

(An allowance for funds used during construction is capitalized as part of the cost of Pool capital assets. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.)

Depreciation is computed using the straight line method with useful lives as outlined below:

Buildings	39 years
Building Improvements	39 years
Equipment	5 to 10 years
Office Furnishings	7 years

(Initial depreciation on capital assets is recorded in the year subsequent to purchase.)(Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed.)

The pool's policy is to capitalize all asset additions greater than \$5,000 and with an estimated life of more than one year.

NOTE 10 – UNPAID CLAIMS LIABILITIES

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

The Pool establishes claims liabilities based on reserve data from member claims in the WSTIP Riskmaster Claims Database.

	2011	2010
Unpaid claims and claim adjustment expenses at beginning of year	\$9,942,443	\$ 10,094,996
Incurred claims and claim adjustment Expenses:		
Provision of insured events of current year (Includes ULAE)	6,167,127	6,037,769
Increase (or decrease) in provision for prior years	(1,170,737)	134,518
Total Incurred	\$14,938,833	\$16,267,283
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	\$1,076,657	\$824,764
Claims and claim adjustment expenses attributable to insured events of the prior years	2,967,373	5,500,076
Total Payments	\$4,044,030	6,324,840
Total unpaid claims and claim adjustment Expenses at end of the year	\$10,894,803	\$ 9,942,443

NOTE 11 – OPERATING AND NON-OPERATING REVENUES

Member assessments and program revenues are reported as operating revenue. Interest and dividend income and other revenues generated from non-operating sources are classified as non-operating.

NOTE 12 – RESTRICTED NET ASSETS

The pool's statement of net assets reports \$0 of restricted net assets, of which \$0 is restricted by enabling legislation. The pool has implemented GASB 46.

NOTE 13 – WASHINGTON ADMINISTRATIVE CODE (WAC 82.60)

WAC 82.60 revised 12/09 requires WSTIP to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 82.60.03001 total primary assets, cash and cash equivalents less non-claims liabilities, must be at least equal to the unpaid claims estimates at the expected level as determined by the actuary. Additionally, total primary assets and secondary assets must be at least equal to the unpaid claims estimate at the 70% confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

	2011	2010
Primary Asset Test		
Primary Assets	27,197,000	23,941,000
Unpaid Claims - Expected	10,895,000	9,942,000
Results	Pass	Pass
Primary and Secondary Test		
Secondary Assets	2,560,000	2,316,000
Primary and Secondary Assets	29,756,000	26,257,000
Unpaid Claims – 70% Confidence	12,632,000	11,370,000
Results	Pass	Pass

NOTE 14 – COMPENSATED ABSENCES

During FY 2011 compensated absences of WSTIP employees decreased by \$10,592

<u>Compensated Absences</u>	<u>Yr End 2010 Liability</u>	<u>2011 Additions</u>	<u>2011 Reductions</u>	<u>Year End 2011 Liability</u>
FY 2011	116,060	87,401	-97,993	105,468

Required Supplementary Information - Claims Development Information For The Year Ending December 31, 2011*

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

Fiscal and Policy Year Ended (in thousands of Dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Gross required contribution and investment revenues										
Ceded	4,106	5,648	6,800	7,860	7,982	8,401	9,147	9,341	10,785	11,217
Net earned	912	1,681	1,803	1,755	1,710	1,943	1,763	1,734	1,651	1,793
2. Unallocated operating expenses	3,194	3,967	4,997	6,105	6,272	6,458	7,384	7,607	9,134	9,424
3. Estimated Losses & Expenses End of Policy Year	1,196	1,134	1,256	1,370	1,331	1,687	2,132	1,897	2,111	2,272
Incurred	1,853	2,020	3,153	2,484	3,329	2,990	5,170	5,041	5,648	5,727
Ceded	264	18	1,256	245	85	23	1,467	837	191	4,411
Net Incurred	1,589	2,002	1,897	2,239	3,244	2,967	3,703	4,204	5,457	1,316
4. Paid (cumulative) as of:										
End of policy year	178	125	358	307	472	451	1,185	789	825	1,077
One year later	255	435	826	758	1,276	891	2,191	3,064	2,398	
Two years later	897	724	1,983	1,635	1,581	1,374	3,991	3,366		
Three years later	987	1,078	2,391	1,850	3,416	2,050	4,641			
Four years later	1,057	1,156	2,416	1,989	3,917	2,301				
Five years later	1,186	1,186	2,569	2,235	4,105					
Six years later	1,243	1,194	2,570	2,235						
Seven years later	1,247	1,194	2,570							
Eight years later	1,247	1,194								
Nine years later	1,252									
5. Re-Estimated Ceded Losses & Expenses	262	16	1,251	236	76	12	1,672	770	165	4,411
6. Re-estimated net incurred claims and expenses:										
End of policy year	1,853	2,020	3,153	2,484	3,329	2,990	5,170	5,041	5,648	5,727
One year later	1,628	1,569	2,715	2,371	3,768	2,325	5,356	4,946	5,364	
Two years later	1,424	1,361	2,653	2,186	3,957	2,462	5,350	4,788		
Three years later	1,203	1,224	2,810	2,138	4,341	2,718	5,069			
Four years later	1,237	1,246	2,546	2,230	4,623	2,600				
Five years later	1,245	1,212	2,591	2,251	4,689					
Six years later	1,264	1,193	2,580	2,241						
Seven years later	1,261	1,194	2,570							
Eight years later	1,281	1,194								
Nine years later	1,327									
7. Increase (decrease) in estimated net incurred claims and expenses for end of the policy year	(526)	(826)	(583)	(243)	1,360	(390)	(101)	(253)	(284)	0

* At policy year end 2010 our actuary started calculating estimated ceded ultimate loss

**SCHEDULE OF LABOR RELATIONS CONSULTANT
For the Year Ended December 31, 2011**

Has your government engaged labor relations consultants? YES

If yes, please provide the following information for each consultant(s):

Name of Firm	Summit Law Group
Name of Consultant	Kristen Anger
Business Address:	315 Fifth Avenue S Ste 1000, Seattle, WA 98104

Amount Paid To Consultant During Fiscal Year:

For Labor	\$932.50
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Terms and Conditions, As Applicable, Including	Not applicable
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Rate (E.G., Hourly, Etc) Maximum	\$250.00 per hour
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Compensation Allowed	As allowed by Executive Director, Board and Budget
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Duration Of Services	1/1 – 12/31/2011
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Services Provided	Employment Advice
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Certified Correct this 28th day of May, 2012 to the best of my knowledge and belief:

Signature: 

Name	Allen F. Hatten
Title	Executive Director Auditing Officer

SCHEDULE T-1
PUBLIC ENTITY RISK POOL LIST OF PARTICIPATING MEMBERS
WASHINGTON STATE TRANSIT INSURANCE POOL
AS OF DECEMBER 31, 2011

Participating Members

Asotin Transit	Kim Gates - Director
Ben Franklin Transit	Allen Walch - Director
Clallam Transit	Terry Weed– Director
Columbia County	Stephanie Guettinger - Director
Community Transit	Jeff Ristau– Director
Community Urban Bus	Corey Aldridge – Director
C-Tran	Diane O'Regan -Director
Everett Transit	Tom Hingson - Director
Grant Transit	Greg Wright –Director
Grays Harbor Transit	Mark Carlin – Director
Intercity Transit	Ben Foreman - Director
Island Transit	Barb Savary - Director
Jefferson Transit	Sarah Crouch - Director
Kitsap Transit	Paul Shinnors - Director
Link Transit	Lynn Bourton - Director
Mason Transit	Kathy Cook - Director
Pacific Transit	Tim Russ– Director
Pierce Transit	Terence Artz - Director
Pullman Transit	Bill Mullholland -Director
Skagit Transit	Dale O'Brien – Director
Spokane Transit	Lynda Warren - Director
Twin Transit	Rob LaFontaine – Director
Valley Transit	Ed McCaw - Director
Whatcom Transit	Pat Dunn – Director
Yakima Transit	Ken Mehin - Director

Elected

President	Mark Carlin, Grays Harbor Transit
Vice President	Ed McCaw Valley Transit
Secretary	Ben Foreman, Intercity Transit

Appointed Officers

Treasurer	Ben Foreman (Intercity Transit)
Auditor	Allen F. Hatten (WSTIP Executive Director)

Staff

Executive Director	Allen Hatten
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The following firms provide ongoing support services to WSTIP:

Broker	Alliant Insurance Services – Newport Beach, CA
Attorney	Ronald A. Franz – Burien, WA
Claims Adjuster	Self-Administered
Actuary	PriceWaterhouseCoopers – Seattle, WA
Accountant	McSwain & Company – Olympia, WA

SCHEDULE T-2
OFM SCHEDULE OF EXPENSES
WASHINGTON STATE TRANSIT INSURANCE POOL
FOR FISCAL YEARS ENDED DECEMBER 31, 2011 AND 2010

<u>DESCRIPTION</u>	<u>2011</u>	<u>2010</u>
CLAIMS- SELF INSURANCE FUND	7,344,828	\$6,720,394
EXCESS INSURANCE PREMIUMS	1,792,669	1,650,603
CONTRACTED SERVICES		
DRIVER RECORD MONITORING	64,939	0
PIERCE SUB CONTRACTED CLMS SRVC	117,952	94,332
ACTUARY	75,000	78,200
ADMINISTRATIVE SERVICES	34,050	14,252
BROKER FEES	103,845	129,806
CONTRACT WEB DESIGN	37,664	38,886
BACKUP SERVICES	1,500	13,787
INTEGRATED RISK MANAGEMENT	79,685	71,160
SOFTWARE COOP/IT SECURITY	19,556	32,812
CONTRACTED SERVICES	30,244	17,471
LEGAL AND ACCOUNTING	15,156	12,142
LOSS CONTROL SERVICES	246,381	189,091
AUDITS	28,299	36,490
ADMINISTRATIVE EXPENSES		
STAFF WAGES, TAXES & BENEFITS	1,004,058	999,479
STAFF CONFERENCES & TRAVEL	80,860	69,265
BOARD EXPENSES	94,515	99,838
INFORMATION SERVICES	85,188	87,979
COMMUNICATIONS	24,618	32,047
OCCUPANCY COSTS	60,360	35,017
OFFICE EXPENSES	49,314	44,601
DEPRECIATION	10,135	12,463
MISCELLANEOUS	8,564	1,950
TOTAL OPERATING EXPENSES	\$11,409,380	\$10,482,065



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work 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.

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Larisa Benson
James E. Brittain, CPA, CFE
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
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