Washington State Auditor's Office

Financial Statements Audit Report

Washington State Transit Insurance Pool

Thurston County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010976

Issue Date
December 23, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

December 23, 2013

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,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Washington State Transit Insurance Pool
Thurston County
January 1, 2012 through December 31, 2012

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

Washington State Transit Insurance Pool
Thurston County
January 1, 2012 through December 31, 2012

Board of Directors
Washington State Transit Insurance Pool
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 State Transit Insurance Pool, Thurston County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated December 17, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Pool'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 Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool'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 Pool's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from 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*.

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 Pool'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 Pool'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 X. Kelley

TROY KELLEY
STATE AUDITOR

December 17, 2013

Independent Auditor's Report on Financial Statements

Washington State Transit Insurance Pool
Thurston County
January 1, 2012 through December 31, 2012

Board of Directors
Washington State Transit Insurance Pool
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington State Transit Insurance Pool, Thurston County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pool'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 Pool'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 State Transit Insurance Pool, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and Claims Development Information on pages 21 through 22 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. 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 Schedule of Labor Relations Consultant, Schedule T-1 Public Entity Risk Pool List of Participating Members and Schedule T-2 OFM Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 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 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 Pool's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

December 17, 2013

Financial Section

Washington State Transit Insurance Pool
Thurston County
January 1, 2012 through December 31, 2012

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, 2012. 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 $2,554,579 in 2012 to $32,752,315 a 8.4% increase.
- Favorable loss development in claim year 2012 caused an upward adjustment in our total net position at year end. The 2012 year end estimated net asset position of WSTIP was $20,210,775 as compared to $18,964,962 at year end 2011. This represents a $1,245,813 change or 6.50% increase.
- For the year 2012, WSTIP had operating income of $815,784 as compared to an operating income in 2011 of $2,209,696, due to the lack of a significant favorable actuarial development in prior loss years.
- Interest and dividend income for 2012 was $430,029 as compared to 2011 interest and dividend Income of $424,570. This reflects continuing poor ROI (Return on Investment) on WSTIP funds located at the County Investment Pool (TCIP) which all public entities face because of continuing lack of potential interest generating investment vehicles.
- Total expenses for 2012 were $9,978,447 as compared to $8,804,819 for 2011. This is due mainly to a lack of any significant favorable actuarial adjustment in prior loss years and increased property reinsurance premiums.
- Total claims liabilities for 2012 were $12,282,298 as compared to $10,894,803 for 2011. This is a $1,387,495 increase. The increase in claims liabilities is mainly due to unfavorable loss development from claims in loss year 2011.

Three Year Comparative Summary

Description	2012	2011	2010
Assets			
Other Assets	$32,315,098	$29,813,119	$26,163,817
Capital Assets	437,217	384,617	394,753
Total Assets	$32,752,315	$30,197,736	$26,558,570
Liabilities			
Other Liabilities	$12,417,484	$11,127,306	$10,111,813
Long-Term Liabilities	124,056	105,468	116,060
Total Liabilities	12,541,540	11,232,774	10,227,874
Net Assets			
Invested in Capital Assets Net of Related Debt	$437,217	$384,617	$394,753
Unrestricted Net Assets	19,773,558	18,580,345	15,935,943
Total Net Assets	$20,210,775	$18,964,962	$16,330,696
Revenues			
Member Assessments	$10,662,805	$10,899,471	$10,214,682
Program Revenues	131,426	115,044	132,387

Total Operating Revenues	$10,794,231	$11,014,515	$10,347,069
Interest and Dividend Income	$430,029	$424,570	$570,642
Total Revenues	$11,224,260	$11,439,085	$10,917,711
Operating Expenses			
Operating Expenses	$1,825,394	$1,691,837	$1,661,484
Claims Paid on Current Losses	6,293,512	7,004,046	6,403,868
Adjustment to Prior Years’ Claims Reserves	(772,646)	(2,604,562)	(376,608)
Unallocated Loss Adjustment Expense	330,677	340,782	316,526
Excess Insurance Premiums	1,903,835	1,792,669	1,650,603
Depreciation Expense	11,291	10,135	12,463
Insurance Services Expense	386,384	569,912	437,121
Total Expenses	$9,978,447	$8,804,819	$10,105,457
Changes Net Assets	1,245,813	2,634,266	812,254
Beginning Net Assets	18,964,962	16,330,696	15,518,442
Ending Net Assets	$20,210,775	$18,964,962	$16,330,696

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 comparative statement of net position 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 comparative statement of revenues, expenses and changes in net position presents information on all of the agency's revenues and expenses.

The comparative statement of cash flows presents 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.

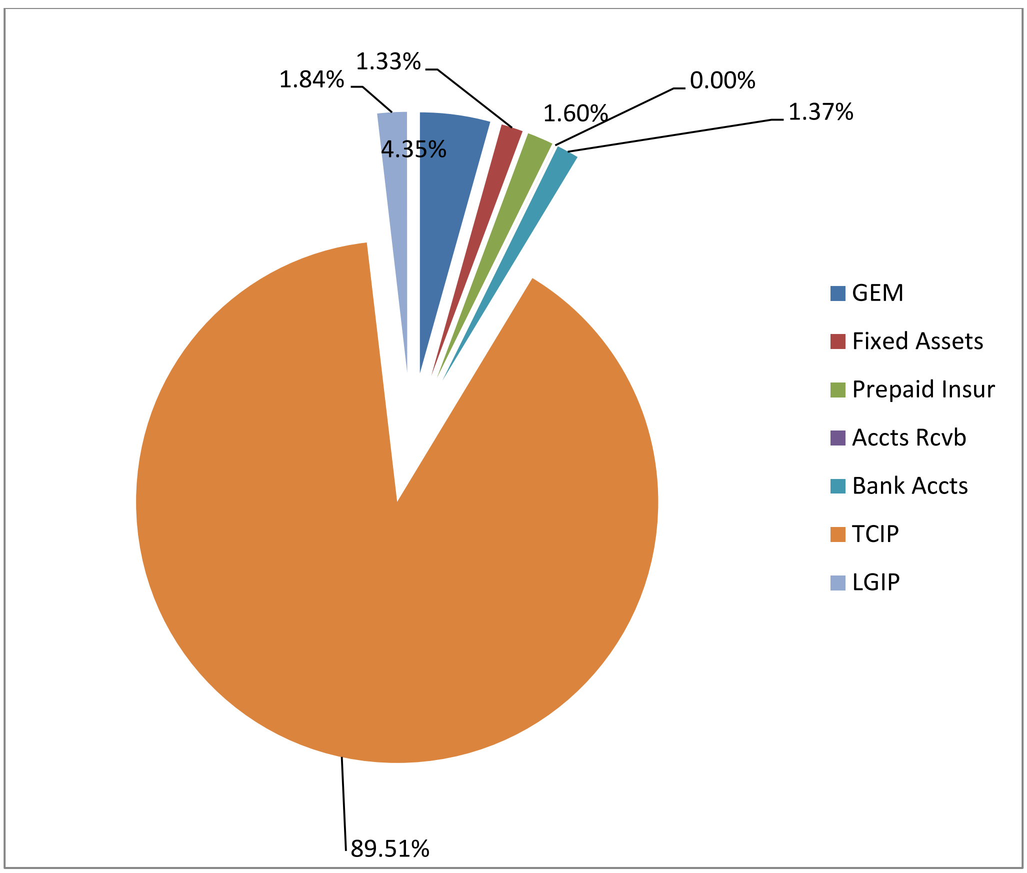
Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 thru 24 of this report.

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 2012 membership year.

Financial Analysis
By far, the largest portion of WSTIP's assets (91 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.

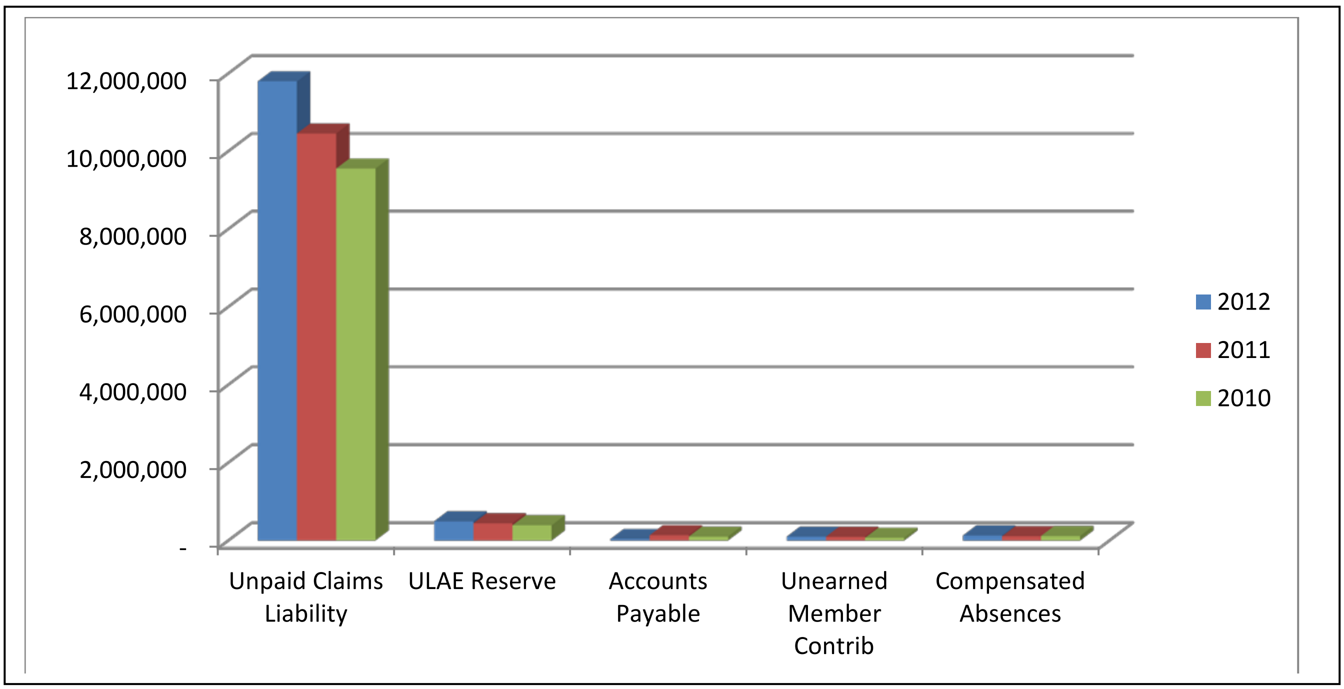
WSTIP ASSET MIX



WSTIP also owns a building which was purchased in 2001 for $479,000. WSTIP also is a capitol contributor to Governmental Entities Mutual (GEM) with an estimated surplus account of $1,423,405. 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 2012, claims liabilities were projected to be $12,282,298 as compared to $10,894,803 at year end 2011. Claims liabilities are 97.00% of the total liabilities for WSTIP at year end 2012 as compared 96.99% of total liabilities for year end 2011.

WSTIP Liability Mix



Agency Activities

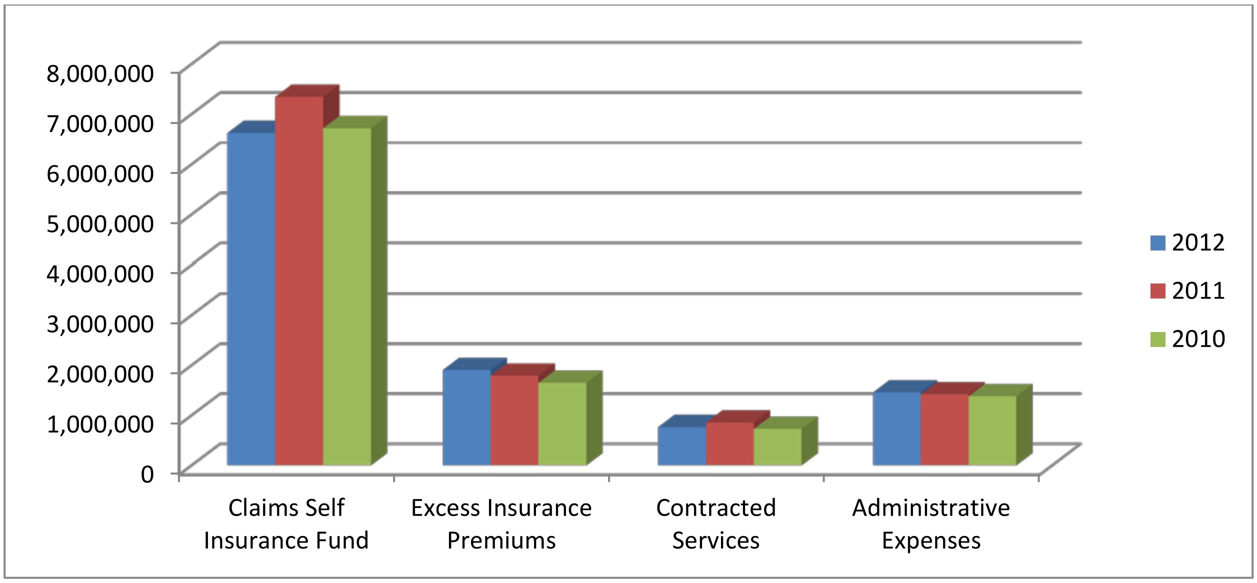
WSTIP's revenues are generated primarily through membership contributions and non-operating revenues including interest income. Operating expenses are in three categories: loss and loss adjustment expense, reinsurance/excess insurance and administrative expenses. The loss fund levels for payment of loss 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 2012:

Description	Jan – Dec 2012
Operating Revenues	10,794,231
Operating Expenses	9,978,447
Non-Operating Revenues (Expenses)	430,029
Change in Net Assets	1,245,813

Major Expense Comparison (2012 to 2010)



Interest income increased .012% from 2011 to 2012 because interest income generated by the Pool's funds at the State Investment Pool and the Thurston County Investment Pool generated marginally better returns than the previous year.

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- The self- insurance claims fund for WSTIP decreased 10% from 2011 to 2012 because several large members reduced their overall service levels to their customers thus reducing the Pool's overall exposure base which is based on miles driven.
- Excess insurance premiums increased 6% from 2011 to 2012 because WSTIP excess property insurance premiums were up significantly due to adverse property loss development and updated earthquake modeling by reinsurance underwriters which indicates that Washington State is at risk for extensive property damage if an earthquake occurs.
- Driver record monitoring costs increased 150% from 2011 to 2012 because we fully implemented this new program in 2012 and made it a mandatory requirement of membership in the Pool.
- Occupancy costs increased 18% from 2011 to 2012 because WSTIP continues to do maintenance and repairs to the building and the grounds surrounding it.

Capital Assets

As mentioned above, The Pool owns a building purchased at $479,000 in 2001. The Pool purchased $80,181 of software, software licenses and computer hardware in 2012. Leasehold improvements increased by $63,890 in 2012. 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 $48,599. The notes provide additional information that is essential to a full understanding of activities.

Future Factors

WSTIP Management believes the overall financial position of the Pool increased in 2012 due to favorable loss development in loss year 2012 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 2013-2014 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, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$30,367,094	$27,534,798
Member Assessments Receivable	1,436	26,104
Reinsurance Recoverable		708,980
Prepaid Expenses	523,163	279,961
TOTAL CURRENT ASSETS	30,891,693	28,549,843
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	437,217	384,617
Equity in GEM	1,423,405	1,263,276
TOTAL NONCURRENT ASSETS	1,860,622	1,647,893
TOTAL ASSETS	$32,752,315	$30,197,736
LIABILITIES		
Current Liabilities:		
Unpaid Claims Liability	$11,792,298	$10,454,803
ULAE Reserve	490,000	440,000
Accounts Payable	36,514	134,293
Unearned Member Assessments/Contributions	98,672	98,210
TOTAL CURRENT LIABILITIES	12,417,484	11,127,306
Noncurrent Liabilities:		
Compensated Absences	124,056	105,468
TOTAL NONCURRENT LIABILITIES	124,056	105,468
TOTAL LIABILITIES	$12,541,540	$11,232,774
NET POSITION		
Invested in Capital Assets, Net of Related Debt	437,217	384,617
Non-Restricted Building Reserve	48,599	51,317
Non-Restricted Net Position	19,724,959	18,529,028
TOTAL NET POSITION	20,210,775	18,964,962

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2012 and 2011

OPERATING REVENUES	2012	2011
Member Assessments	$10,662,805	$10,899,471
Program Revenues	131,426	115,044
Total Operating Revenues	10,794,231	11,014,515
OPERATING EXPENSES		
Incurred Loss/Loss Adjustment Expenses		
Claims Paid	6,293,512	7,004,046
Change in Unpaid Claims Liability	(772,646)	(2,604,562)
Unallocated Loss Adjustment Expense	330,677	340,782
Excess/Reinsurance Premiums	1,903,835	1,792,669
Depreciation Expense	11,291	10,135
General and Administrative Expenses	1,825,394	1,691,837
Insurance Services:		
Brokerage Fee	103,845	103,845
Other Insurance Services	282,539	466,067
Total Operating Expenses	9,978,447	8,804.819
OPERATING INCOME (LOSS)	815,784	2,209,696
NONOPERATING REVENUES (EXPENSES):		
Interest and Dividend Income	430,029	424,570
CHANGES IN NET POSITION	1,245,813	2,634,266
TOTAL NET POSITION, January 1	18,964,962	16,330,696
TOTAL NET POSITION, December 31	$20,210,775	$18,964,962

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Members	$10,687,474	$10,880,125
Cash Payments to Suppliers for Goods and Services	(8,564,814)	(7,952,694)
Cash Payments to Employees for Services	(1,012,090)	(1,004,058)
Increase (Decrease) in Claim Reserve	1,384,290	952,361
Other Operating Revenues	131,426	115,044
Net Cash Provided (Used) by Operating Activities	2,626,286	2,990,778
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Non Capital & Related Financing Activities	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(63,800)	0
Net Cash Provided (Used) by Capital & Related Financing Activities	(63,890)	0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from Sales of Investments		
Equity in GEM	(160,129)	(107,333)
Interest Received	430,029	424,570
Net Cash Provided (Used) by Investing Activities	269,900	317,237
Increase (Decrease) in Cash and Cash Equivalents	2,832,296	3,308,015
Cash and Cash Equivalents, January 1	27,534,798	24,226,783
Cash and Cash Equivalents, December 31	$30,367,094	$27,534,798

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, 2012 and 2011

	2012		2011
OPERATING INCOME:	$815,784		2,209,696
Adjustment to reconcile operating income to net cash			
provided (used) by operating activities:			
Depreciation expense	11,291		10,135
(Increase) Decrease in member assessments receivable	24,669		(19,346)
(Increase) Decrease in accounts receivable			
(Increase) Decrease in other prepaid expenses	(243,203)		(5,628)
(Increase) Decrease in insurance recoverables	708,980		(208,980)
Increase (Decrease) in claim reserves	1,387,495		952,361
Increase (Decrease) in payables	(97,780)		33,721
Increase (Decrease) in other liabilities	18,588		(10,592)
Increase (Decrease) in deferred revenue	462		29,411
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$2,626,286		$2,990,778

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 2012.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

WASHINGTON STATE TRANSIT INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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.

At the end of 2012, WSTIP had twenty five full members.

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, 2012 and 2011, are as follows:

2012	TOTAL		2011	TOTAL
Advanced Mobility	2		**C-Tran**	50
Clallam Trans	479		**Clallam Trans**	265
Columbia Co	44		**Community**	10,220
Grant Transit	116		**GEM RE**	708,980
Senior Services	5		**Grant Transit**	23
Spokane Transit	50		**Island Trans**	23
WA State DOT	225		**Kitsap Transit**	1,705
WSTA	515		**Pierce Trans**	50
			Spokane Transit	3,592
			WA State DOT	5,588
			Whatcom Transit	1,080
			William E. Phelps	1,552
			WSTA	1,524
			Yakima Transit	432
TOTAL	**1,436**		**TOTAL**	**735,084**

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, 2012, and December 31, 2011, for reinsurance was $0.00 and $708,980.00 respectively. Premiums ceded to reinsurers during 2012 and 2011 were $1,903,835 and $1,792,669 respectively. (See Note 11)

i. Member Assessments And Unearned Member Assessments

Member's 2012 contribution rates were based on their estimated exposures of miles and employees at the following rates: Fixed Route = $0.0800/mile; Dial-A-Ride = $0.0800/mile; Van Pool = $0.0800/mile; Non-revenue = $0.0800 and 242.71 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.

l. 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.

In 2011, cash and cash equivalents were reported as restricted and unrestricted. This was a temporary presentation for 2011 only. In 2012, cash and cash equivalents were reported as unrestricted.

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 statement of net position 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 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 2012 and Year 2011 are outlined below:

	2012 Carrying Amount	2012 Market Value	2011 Carrying Amount	2011 Market Value
Thurston County Investment Pool	29,315,158	29,315,158	26,626,480	26,626,480
State Investment Pool (LGIP)	603,982	603,982	602,804	602,804
Total Investments	29,919,140	29,919,140	27,229,284	27,229,284

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 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, 2002, and member assessments earned at January 1, 2003, the pool committed assets of **$2,549,924** specifically for the purpose of funding these retentions for fiscal year 2003.

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.

Fiscal Year 2012

For fiscal year 2012, 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, $500,000 for Property with a 24 hour waiting period on all perils and coverage's and $500,000 for Auto Comprehensive. Auto Physical Damage coverage was self-funded by the Pool from July 1, 2012, to December 31, 2012, with settlement based on fair market value. Through a combination of fund balance designated at December 31, 2011, and member assessments earned at January 1, 2012, the pool committed assets of **$6,624,189** specifically for the purpose of funding these retentions for fiscal year 2012.

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	2012	2011
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)	$1,000,000,000	$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	$10,000,000	$10,000,000
aggregate	Actual Cash Value	$250,000
Auto Physical Damage (all members have a $5,000 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 self funds	
Boiler and Machinery	$100,000,000	$100,000,000

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, 2012, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%	7.21%	7.21%**
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
2012	$0.00	$34,477	$16,776
2011	$0.00	$29,984	$14,274
2010	$0.00	$25,354	$12,127

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, 2012 and December 31, 2011 Employer and Employee contributions to the ICMA 401 A plan.

ICMA 401 A Plan

Year	Employer	Employee
2012	$49,147	$80,699
2011	$52,035	$81,867

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 $160,129.00 and 107,333.00 is included in WSTIP's investment income for 2012 and 2011, respectively. Each GEM member's financial liability is limited to its contributed capital. As of December 31, 2012, GEM's membership had grown to eighteen pools. WSTIP's equity position in GEM was $1,423,405 as of December 31, 2012 and $1,263,276 as of December 31, 2011. As of December 31, 2012 GEM had estimated member equity of $28,456,536 and $25,331,000 as of December 31, 2011. 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

2012

	Beginning Balance	Increase	Decrease	Ending Balance
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
Leasehold Improvements		63,890		63,890
Furnishings and Equipment	213,461			213,461
Total capital assets being depreciated	601,451			665,341
Less accumulated depreciation for				
Buildings	(99,895)	(9,948)		(109,843)
Leasehold Improvements		(1,155)		(1,155)
Furnishings and equipment	(207,948)	(188)		(208,136)
Total accumulated depreciation	(307,843)	(11,291)		(319,134)
Net capital assets being depreciated	293,608			346,207
Total Capital Assets, Net	$ 384,618	$ 52,599	$ -	$ 437,217

2011

	Beginning Balance	Increase	Decrease	Ending Balance
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

(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.

	2012	**2011**
Unpaid claims and claim adjustment expenses at beginning of year	$10,894,803	$9,942,443
Incurred claims and claim adjustment Expenses:		
Provision of insured events of current year (Includes ULAE)	5,484,000	6,167,127
Increase (or decrease) in provision for prior years	1,036,270	(1,170,737)
Total Incurred	**$17,415,073**	**$14,938,833**
Payments:		
Claims and claim adjustment expenses	$926,754	$1,076,657
attributable to insured events of the current year		
Claims and claim adjustment expenses	4,206,021	2,967,357
attributable to insured events of the prior years		
Total Payments	$5,132,775	$4,044,032
Total unpaid claims and claim adjustment		
Expenses at end of the year	**$12,282,298**	**$10,894,803**

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.

	2012	**2011**
Primary Asset Test		
Primary Assets	30,122,000	27,197,000
Unpaid Claims - Expected	12,282,000	10,895,000
Results	Pass	Pass
Primary and Secondary Test		
Secondary Assets	2,122,000	2,560,000
Primary and Secondary Assets	32,367,000	29,756,000
Unpaid Claims – 70% Confidence	14,209,000	12,632,000
Results	Pass	Pass

NOTE 14 – COMPENSATED ABSENCES

During FY 2012 compensated absences of WSTIP employees increased by $18,588

Compensated Absences	**Year End 2011 Liability**	**2012 Additions**	**2012 Reductions**	**Year End 2012 Liability**
FY 2012	$105,468	$84,271	$-65,683	$124,056

Required Supplementary Claims Development Information For The Year Ending December 31, 2012*

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 years 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 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)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Gross required contribution and investment revenues	5,648	6,800	7,860	7,982	8,401	9,147	9,341	10,785	11,217	10,933
Ceded	1,681	1,803	1,755	1,710	1,943	1,763	1,734	1,651	1,793	1,904
Net earned	3,967	4,997	6,105	6,272	6,458	7,384	7,607	9,134	9,424	9,029
2. Unallocated operating expenses	1,134	1,256	1,370	1,331	1,687	2,132	1,897	2,111	2,272	2,223
3. Estimated Losses & Expenses End of Policy Year										
Incurred	2,020	3,153	2,484	3,329	2,990	5,170	5,041	5,648	5,727	4,994
Ceded	18	1,256	245	85	23	1,467	837	191	4,411	190
Net Incurred	2,002	1,897	2,239	3,244	2,967	3,703	4,204	5,457	1,316	4,804
4. Paid (cumulative) as of:										
End of policy year	125	358	307	472	451	1,185	789	825	1,077	927
One year later	435	826	758	1,276	891	2,191	3,064	2,398	2,774	
Two years later	724	1,983	1,635	1,581	1,374	3,991	3,366	3,581		
Three years later	1,078	2,391	1,850	3,416	2,050	4,641	4,005			
Four years later	1,156	2,416	1,989	3,917	2,301	5,025				
Five years later	1,186	2,569	2,235	4,105	2,371					
Six years later	1,194	2,570	2,235	4,331						
Seven years later	1,194	2,570	2,235							
Eight years later	1,194	2,575								
Nine years later	1,194									

5. Re-Estimated Ceded Losses & Expenses	14	1,249	234	72	10	1,661	749	137	11,900	180
6. Re-estimated net incurred claims and expenses:										
End of policy year	2,020	3,153	2,484	3,329	2,990	5,170	5,041	5,648	5,727	4,994
One year later	1,569	2,715	2,371	3,768	2,325	5,356	4,946	5,364	6,783	
Two years later	1,361	2,653	2,186	3,957	2,462	5,350	4,788	5,975		
Three years later	1,224	2,810	2,138	4,341	2,718	5,069	4,509			
Four years later	1,246	2,546	2,230	4,623	2,600	5,154				
Five years later	1,212	2,591	2,251	4,689	2,640					
Six years later	1,193	2,580	2,241	4,673						
Seven years later	1,194	2,570	2,235							
Eight years later	1,194	2,575								
Nine years later	1,194									
7. Increase (decrease) in estimated net incurred claims and expenses for end of the policy year	(826)	(578)	(249)	1,344	(350)	(16)	(532)	327	1,056	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, 2012

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	$1,076.50
Terms and Conditions, As Applicable, Including	Not applicable
Rate (E.G., Hourly, Etc)	$250.00 per hour
Maximum Compensation Allowed	As allowed by Executive Director, Board and Budget
Duration Of Services	1/1 – 12/31/2012
Services Provided	Employment Advice

Certified Correct this 29th day of May, 2013 to the best of my knowledge and belief:

Signature: Allen F Hatten

Name Allen F. Hatten
Title Executive Director
Auditing Officer

SCHEDULE T-1
PUBLIC ENTITY RISK POOL LIST OF PARTICIPATING MEMBERS
WASHINGTONSTATE TRANSIT INSURANCE POOL
AS OF DECEMBER 31, 2012

Participating Members	
Asotin Transit	Kim Gates - Director
Ben Franklin Transit	Gloria Boyce- 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 Shinners - Director
Link Transit	Lynn Bourton - Director
Mason Transit	Danette Brannin - Director
Pacific Transit	Tim Russ– Director
Pierce Transit	Terence Artz - Director
Pullman Transit	Bill Mulholland -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	Ed McCaw, Valley Transit
Vice President	Ben Foreman Intercity Transit
Secretary	Ken Mehin, Yakima Transit

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

Staff	
Executive Director	Allen Hatten

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, 2012 AND 2011

	2012	2011
Claims Self Insurance Fund	6,624,189	7,344,828
Excess Insurance Premiums	1,903,835	1,792,669
CONTRACTED SERVICES		
Driver Recording Monitoring	162,266	64,939
Pierce Transit Sub Contracted Clms	0	117,952
Actuary	114,900	75,000
Administrative Services	27,227	34,050
Broker Fees	103,845	103,845
Contract Web Design	95	37,664
Backup Services	20,600	1,500
Integrated Risk Management	46,860	79,685
Software Coop/IT Security	2,817	19,556
Contracted Services	46,485	30,244
Legal and Accounting	13,501	15,156
Loss Control Services	205,635	246,381
Audits	19,593	28,299
ADMINISTRATIVE EXPENSES		
Staff Wages, Taxes and Benefits	1,012,090	1,004,058
Staff Conferences and Travel	82,203	80,860
Board Expenses	114,304	94,515
Information Services	80,181	85,188
Communications	24,887	24,618
Occupancy Costs	71,279	60,360
Office Expenses	52,154	49,314
Depreciation	11,290	10,135
Miscellaneous	10,857	8,564
TOTAL OPERATING EXPENSES	10,751,093	11,409,380

ABOUT THE STATE AUDITOR'S OFFICE

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

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

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
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