



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Washington State Transit Insurance
Pool

For the period January 1, 2018 through December 31, 2019

Published July 30, 2020

Report No. 1026701





**Office of the Washington State Auditor
Pat McCarthy**

July 30, 2020

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,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Washington State Transit Insurance Pool
January 1, 2018 through December 31, 2019**

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated July 21, 2020.

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Pool.

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 opinions 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

July 21, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington State Transit Insurance Pool January 1, 2018 through December 31, 2019

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 10.

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 opinions 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 opinions.

Opinions

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, 2019 and 2018, 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.

Matter of Emphasis

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Pool. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The Public Entity Risk Pool Lists of Participating Members and DES Schedules of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2020 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.



Pat McCarthy
State Auditor
Olympia, WA

July 21, 2020

FINANCIAL SECTION

Washington State Transit Insurance Pool January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2019 and 2018

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Comparative Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

Claims Development Information – 2019 and 2018

Reconciliation of Claims Liabilities by Type of Contract – 2019 and 2018

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2019 and 2018

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2019 and 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – 2019 and 2018

SUPPLEMENTARY AND OTHER INFORMATION

Public Entity Risk Pool List of Participating Members – 2019 and 2018

DES Schedule of Expenses – 2019 and 2018

Management Discussion and 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, 2019. 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 \$8,156,386 from \$45,557,558 at 12/31/2018 to 53,713,944 at 12/31/2019.
- WSTIP continues to meet the solvency standards established by the Washington Administrative Code (WAC) 200-100-03001.
- WSTIP's Net Position at December 31, 2019 is \$32,870,164. This is an increase of \$8,759,884 as compared to \$24,110,280 at December 31, 2019. This increase is primarily due to a large equity contribution from Members of \$2,500,000 as a portion of the 2019 contributions, and favorable claim development.
- Total claims liabilities decreased from \$20,064,078 at 12/31/2018 to \$19,729,258 at 12/31/2019. This decrease was due to favorable claim development.
- Total operating expenses decreased from \$14,786,863 at December 31, 2018 to \$10,109,939 at December 31, 2019. This decrease is the result of a favorable actuarial reduction in claim liability due to favorable claim outcomes in 2019.

Washington State Transit Insurance Pool 2019
Management Discussion and Analysis

Three Year Comparative Summary

	2019	2018	2017
Assets			
Other Assets	53,240,133	45,083,953	40,904,824
Capital Assets	473,811	473,605	456,942
Total Assets	\$53,713,944	\$45,557,558	\$41,361,766
Deferred Outflows of Resources			
Pension Related	\$83,724	\$80,361	\$99,992
Total Deferred Outflow of Resources	\$83,724	\$80,361	\$99,992
Liabilities			
Current Liabilities	\$8,047,571	\$8,234,826	\$8,340,536
Noncurrent Liabilities	\$12,658,690	\$13,094,075	\$10,295,751
Total Liabilities	\$20,706,261	\$21,328,901	\$18,636,287
Deferred Inflows of Resources			
Pension Related	\$221,243	\$198,738	\$127,964
Total Deferred Inflows of Resources	\$221,243	\$198,738	\$127,964
Net Position			
Net Investment in Capital Assets	\$473,811	\$473,605	\$456,942
Unrestricted Building Reserve	\$4,166	\$0	\$17,786
Unrestricted Technology Grant	\$179,093	\$0	\$0
Unrestricted Net Position	\$32,213,094	\$23,636,675	\$22,222,779
Total Net Position	\$32,870,164	\$24,110,280	\$22,697,507
Revenues			
Member Assessments	\$16,302,661	\$15,116,159	\$14,327,086
Program Revenues (Note 1.B)	\$1,032,040	\$530,113	\$643,944
Interest and Dividend Income	\$1,039,514	\$815,808	\$451,709
Change in Equity in GEM	\$495,608	\$162,622	\$111,946
Total Revenues	\$18,869,823	\$16,624,702	\$15,534,685
Expenses			
Administrative Expenses	\$2,228,121	\$2,343,675	\$2,063,061
Claims Paid on Current Losses	\$8,387,416	\$7,993,630	\$7,793,770
Change in Unpaid Claim Liability	\$(4,361,752)	\$712,763	\$1,685,521
Unallocated Loss Adjustment	\$421,754	\$439,891	\$448,776
Insurance Services	\$2,673,800	\$2,324,298	\$2,215,091
Depreciation Expense	\$20,627	\$17,632	\$15,923
Member Services Expense	\$401,053	\$403,878	\$656,415
Program Expenses (Note 1.B)	\$338,920	\$551,096	\$371,749
Total Operating Expenses	\$10,109,939	\$14,786,863	\$15,250,306
Change in Net Position	\$8,759,884	\$1,837,839	\$284,379
Beginning Net Position	\$24,110,280	\$22,697,507	\$22,413,128
Prior Period Adjustment GASB No. 75 (Note 17)	\$0	\$(425,066)	\$0
Ending Net Position	\$32,870,164	\$24,110,280	\$22,697,507

Overview of the Financial Statements

This discussion and analysis is 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 like a private-sector business.

The comparative statement of net position presents information on all WSTIP's assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. WSTIP retains equity 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 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.

Other Information

The Required Supplementary Information (RSI) contains other information the Governmental Accounting Standards Board (GASB) deems necessary, claim development, reconciliation of claims liability, membership and pension liability.

Financial Analysis

Sixty-four (64%) percent of WSTIP's assets are invested in the Thurston County Investment Pool (TCIP) and the State of Washington Local Government Investment Pool (LGIP); Twenty-eight percent (28%) is invested in US Treasuries. WSTIP uses these assets to pay claim liabilities, purchase reinsurance, provide surplus for its claim operations and pay for administrative overhead.

WSTIP owns a building which was purchased in 2001 for \$479,000. WSTIP also is a capital contributor to Governmental Entities Mutual (GEM) with a surplus account of \$2,044,010. 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 an independent Actuary conducts an actuarial review of WSTIP claims to assess and project claim liabilities by loss year. At 12/31/2019 claim liabilities were projected to be \$19,729,258 for 2019 as compared to \$20,064,078 for 2018. Claim liabilities are 95% of the total liabilities for WSTIP at 12/31/2019 as compared to 95% at 12/31/2018.

Washington State Transit Insurance Pool 2019
Management Discussion and Analysis

Statement of Revenues and Expenses January – December 2019	
Operating Revenues	\$17,334,701
Operating Expenses	\$10,109,939
Non-Operating Revenues (Expenses)	\$1,535,122
Change in Net Position	\$8,759,884

Agency Activities

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, demand response and non-revenue) and are retroactively adjusted for actual miles driven and actual claims experience. WSTIP engages an independent actuary to assist the agency in budget development, determining loss fund levels and reserve adequacy.

Future Factors

WSTIP Management believes the overall financial position of the Pool remains stable, strong and robust. Significant factors that could impact the future of the Pool include the reinsurance market, the investment market and adverse claims loss development. These factors were considered in preparing the Pool's budget for the 2020 fiscal year.

On March 23rd the Governor of the State of Washington issued a "Stay Home and Stay Healthy" order in response to the global outbreak of the SARS-Cov-2 virus. At this time the order has been extended through May 31st 2020. This even is causing major economic stresses, loss of tax revenue, and high unemployment. The long term impact is unknown at this time.

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:

Tracey Christianson, Executive Director
Washington State Transit Insurance Pool
P.O. Box 11219
Olympia, WA 98508

Washington State Transit Insurance Pool 2019
Financial Statements

Comparative Statement of Net Position as of December 31, 2019 and 2018

Assets		2019	2018
Current Assets			
Deposits and Investments (Note 2)		\$40,539,335	\$28,003,393
Accounts Receivable (Note 1d)		\$7,589	\$6,508
Interest Receivable		\$23,497	\$31,319
Prepaid Expense		\$693,455	\$629,478
Total Current Assets		\$41,263,876	\$28,670,698
Noncurrent Assets			
Capital Assets (Note 9) (Net of Accumulated Depreciation)		\$473,811	\$473,605
Deposits Held For Risk Pool Leadership Development Program (Note 16)		\$1,530	\$0
Investments (Note 2)		\$9,930,717	\$14,864,853
Equity in Government Entity Mutual (GEM), (Note 8)		\$2,044,010	\$1,548,402
Total Noncurrent Assets		\$12,450,068	\$16,886,860
Total Assets		\$53,713,944	\$45,557,558
Deferred Outflows of Resources			
Pension Related (Notes 1, 6)		\$83,724	\$80,361
Total Deferred Outflows of Resources		\$83,724	\$80,361
Liabilities			
Current Liabilities			
Accounts Payable		\$56,927	\$96,860
Prepaid Income		\$123,905	\$123,055
OPEB Liability, Current Portion		3,072	
Compensated Absences, Current Portion (Note 15)		\$99,660	\$103,441
Unpaid Claims Liability, Current Portion (Note 10)		\$7,764,007	\$7,911,470
Total Current Liabilities		\$8,047,571	\$8,234,826
Noncurrent Liabilities			
OPEB Liability (Note 14)		\$355,879	\$439,740
Compensated Absences (Note 15)		\$9,916	\$30,337
Owed to Risk Pool Leadership Development Program (Note 16)		\$1,530	\$1,791
Net Pension Liabilities (Note 6)		\$326,114	\$469,599
Unpaid Claims Liability (Note 10)		\$3,327,431	\$3,825,633
Unpaid Claims Liability, IBNR (Note 10)		\$7,903,820	\$7,591,975
Unallocated Loss Adjustment Expense (ULAE)		\$734,000	\$735,000
Total Noncurrent Liabilities		\$12,658,690	\$13,094,075
Total Liabilities		\$20,706,261	\$21,328,901
Deferred Inflows of Resources			
Pension Related (Note 6)		\$221,243	\$198,738
Total Deferred Inflows of Resources		\$221,243	\$198,738
Net Position			
Investment in Capital Assets		\$473,811	\$473,605
Unrestricted Building Reserve (Note 9)		\$4,166	\$0
Unrestricted Technology Grant Reserve		\$179,093	\$0
Unrestricted Net Position		\$32,213,094	\$23,636,675
Total Net Position		\$32,870,164	\$24,110,280

The accompanying notes are an integral part of these financial statements

Washington State Transit Insurance Pool 2019
Financial Statements

Comparative Statement of Revenues, Expenses, and Changes in Net Position

For the years ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Member Assessments	\$16,302,661	\$15,116,159
Program Revenues	\$1,032,040	\$530,113
Total Operating Revenues	\$17,334,701	\$15,646,272
Operating Expenses		
Insurance Services		
Excess / Reinsurance Premiums	\$2,572,600	\$2,324,298
Brokerage Fee	\$101,200	\$101,200
Total Insurance Services	\$2,673,800	\$2,425,498
Incurring Losses		
Claims Paid	\$8,387,416	\$7,993,630
	\$(4,361,752)	\$712,763
Change in Unpaid Claims Liability	\$421,754	\$439,891
Unallocated Loss Adjustment Expense (ULAE)	\$4,447,418	\$9,146,284
Total Incurred Losses	\$2,228,121	\$2,343,675
General and Administrative Expenses	\$401,053	\$302,678
Member Services Expenses	\$20,627	\$17,632
Depreciation Expense	\$338,920	\$551,096
Program Expenses	10,109,939	14,786,863
Total Operating Expenses	7,224,762	859,409
Operating Income (Loss)		
Nonoperating Revenues (Expenses)	\$1,039,514	\$815,808
Interest Income	\$495,608	\$162,622
Changes in Equity in GEM	\$1,535,122	\$978,430
Total Nonoperating Revenues and Expenses	\$8,759,884	\$1,837,839
Change in Net Position		
Total Net Position January 1	\$24,110,280	\$22,697,507
Prior Period Adjustment (Note 17)	0	\$(425,066)
Total Net Position, December 31	\$32,870,164	\$24,110,280

The accompanying notes are an integral part of these financial statements

Comparative Statement of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash Received from Members	\$16,802,640	\$15,116,159
Cash Payments to Suppliers for Goods and Services	\$(9,112,189)	\$(13,526,740)
Cash Payments to Employees for Services	\$(1,302,775)	\$(1,327,167)
Increase (Decrease) in Claim Reserve	\$(334,821)	\$2,433,308
Other Operating Revenues	\$532,061	\$530,113
Net Cash Provided (Used) by Operating Activities	\$6,584,916	\$3,225,673
Cash Flows from Investing Activities ¹		
Redemption (Purchase) of Long Term Treasury Notes	\$5,000,000	\$(14,847,668)
Interest Received	\$1,039,514	\$815,808
Less Interest Received on Long-Term Investments	\$(67,655)	\$(15,394)
Net Cash Provided (Used) by Investing Activities	\$5,971,859	\$(14,047,254)
Cash Flows from Capital and Related Financing Activities		
Purchases of Capital Assets	\$(20,834)	\$(34,295)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$(20,834)	\$(34,295)
Increase (Decrease) in Cash and Cash Equivalents	\$12,535,942	\$(10,855,876)
Cash and Cash Equivalents, January 1	\$28,003,393	\$38,859,269
Cash and Cash Equivalents, December 31	\$40,539,335	\$28,003,393

¹ A reclassification was made to the 2018 Statement of Cash Flows statement to reclassify long-term investments as non-current assets. No other statements were affected by this change in presentation.

The accompanying notes are an integral part of these financial statements

Comparative Reconciliation of Operating Income (Loss) To Net Cash

Provided (Used) by Operating Activities For the years ended December 31, 2019 and 2018

	2019	2018
Operating Income:	\$7,224,762	\$859,409
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$20,627	\$17,632
(Increase) Decrease in accounts receivable	\$(1,081)	\$144,998
(Increase) Decrease in interest receivable	\$7,822	\$0
(Increase) Decrease in other prepaid expenses	\$(63,977)	\$(152,529)
Increase (Decrease) in claim reserves	\$(334,821)	\$2,433,308
Increase (Decrease) in payables	\$(39,933)	\$(73,361)
Increase (Decrease) in other liabilities	\$(24,201)	\$78,311
Increase (Decrease) in prepaid income	\$850	\$0
(Increase) Decrease in deferred outflows of resources	\$(3,363)	\$19,631
Increase (Decrease) in deferred inflows of resources	\$22,505	\$70,774
Increase (Decrease) in net pension liability	\$(143,485)	\$(187,174)
Increase (Decrease) in OPEB liability	\$(80,789)	\$14,674
Net Cash Provided (Used) By Operating Activities	\$6,584,916	\$3,225,673

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The Pool did not borrow under any capital lease, receive any contribution of capital assets from governments during 2019.

Notes to the Financial Statements

For the Year Ended December 31, 2019

Note 1: Summary of Significant Accounting Policies

The financial statements of the Pool have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

a) Reporting Entity

The Washington State Transit Insurance Pool (WSTIP) was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.62 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 only at the end of a fiscal year by providing six month's written 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 three-fourths 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. At the end of 2019, WSTIP had twenty-five members:

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

b) Basis of Accounting and Presentation

The Pool uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Assets valued more than \$5,000 with a useful life greater than 12 months are capitalized and long-term liabilities are accounted for in the enterprise fund.

WSTIP's revenues are generated primarily through membership contributions and interest income.

c) Capital Assets and Depreciation: See Note 9.

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

d) Accounts Receivable

Accounts Receivable

	2019	2018
Benton County	\$837	\$1,608
C-Tran	\$180	\$45
Central Kitsap Fire & Rescue	\$210	\$208
City of East Wenatchee	\$18	\$20
Clallam Transit	-	\$45
Data Driven Safety	\$2,569	\$2,325
Island County	\$2,574	\$659
Mason County	\$673	\$634
Walla Walla County	\$374	\$717
Whatcom County	\$154	\$247
Total	\$7,589	\$6,508

e) 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.

f) Investments: See Note 2

g) 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. See Note 15.

h) 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 appropriate modifiers of experience. Adjustments to claims liabilities are charged or credited as expenses in the periods in which they are made. See note 10.

i) Reinsurance and Excess Insurance

The Pool uses reinsurance and excess insurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance and excess insurance permits recovery of a portion of losses from the carrier, 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.

j) Member Assessments and Unearned Member Assessments

Member's 2019 contribution rates were based on their estimated exposures of miles and employees at the following rates: Fixed Route, Demand Response, Administration and Vanpool miles at \$.1255 per mile and \$297.53 per employee for general liability and public official's coverage. Further adjustments

Washington State Transit Insurance Pool 2019 Financials Notes to the Financial Statements

are made on a retrospective basis to the prior year's actual miles, experience factors, actuarial calculations, deductibles and uninsured/underinsured motorist options.

k) Reserves 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 (IBNR). The estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

l) 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.

m) Budget and Spending Controls

An annual budget is prepared by the Executive Director and presented to the Board of Directors for adoption prior to January 1 of the following 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 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 (ULAE) 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 an independent actuary. The change in the liability each year is reflected in current earnings.

o) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. See note 6.

p) Deferred Outflows/Inflows of Resources – Pensions

Deferred inflows of resources for pensions are recorded when actual earnings on the pension plan investments exceed projected earnings. Deferred outflows of resources for pensions are recorded when projected earnings on the pension plan investments exceed actual earnings. These are amortized to pension expense using a systematic and rational method over a closed five-year period.

Deferred outflows and deferred inflows of resources for pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the Pool's proportionate share of net pension liability. These deferred outflows and deferred inflows are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

Pool contributions to the pension plans made after the measurement date are deferred outflows of resources and reduce net pension liability in the subsequent year.

q) Other Post-Employment Benefits

In 2018 WSTIP reported a liability for Other Post-Employment Benefits (OPEB) as required under GASB 75. For purposes of measuring the net OPEB liability, WSTIP used the Office of the State Actuary Alternative Measurement Method. See Note 14.

r) Technical Grant Reserve

In 2019 WSTIP budgeted \$250,000 in technology grants for the benefit of their members. The Pool utilized \$70,907 in grants in 2019. Per Board approval a Technology Grant Reserve Fund was established for the remaining grant funds in the amount of \$179,093.

Note 2: Deposits and Investments

Deposits and Investments are governed by the WSTIP Investment Policy passed by the Board of Directors September 27, 2018.

a) Deposits

Deposits with U.S. Bank at year end 2019 and 2018.

	Year End 2019	Year End 2018
Administration	\$539,017	\$403,003
Claims	\$293,333	\$ 31,328
Payroll	\$ 38,849	\$ 35,159
RDPL (see Note 16)	\$ 1,530	\$ 1,791
Total	\$873,729	\$471,281

Deposits are subject to custodial credit risk. This is the risk that, in event of a failure of a depository financial institution, WSTIP would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. WSTIP'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).

b) Investments

Investments are subject to interest rate risk is the risk WSTIP may face should interest rate variances affect the fair value of investments. WSTIP does not have a formal policy that addresses interest rate risk.

Investments in Local Government Investment Pool (LGIP)

WSTIP is a participant in the Local Government Investment Pool authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at

Washington State Transit Insurance Pool 2019 Financials Notes to the Financial Statements

amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Investments in Thurston County Investment Pool (TCIP)

WSTIP is a participant in the Thurston County Investment Pool, an external investment pool. WSTIP reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. Thurston County's investment policy is established by the Thurston County Treasurer's Office. The county external investment pool does not have a credit rating and had a weighted average maturity of three years at December 31, 2019.

70% of WSTIP's cash investments are with Thurston County Investment Pool (TCIP) and the Local Government Investment Pool (LGIP). Due to the liquidity of TCIP and LGIP, those investments are shown as cash equivalents on the financial statements.

Designated Securities Investment Portfolio

In 2018 WSTIP invested \$20,000,000 in four U.S. Treasury Notes held in a segregated investment account established per an agreement with the Thurston County Treasurer. One bond matured during 2019. The remaining three bonds held to Maturity investments are reported on the financial statements at their amortized cost of \$14,913,762 at December 31, 2019.

The amount maturing within one year or less and reported under current assets is \$4,983,046. The balance of \$9,930,717 is reported under noncurrent assets. The responsibility for managing the portfolio resides with WSTIP. These investments represent 30% of WSTIP's deposit and investments.

Investment Maturities

Investment Type	Fair Value	Book Value		
		3m – 1 year	1 – 5 years	6 – 10 years
Debt Securities:				
U.S. Treasuries	\$15,053,320	\$4,998,242	\$10,055,078	\$ -

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Notes to the Financial Statements

c) Summary of Deposit and Investment Balances

Reconciliation of WSTIP's deposits and investment book value balances at year end 2019 and 2018 is as follows:

	Year End 2019	Year End 2018
Deposits		
U.S Bank	<u>\$873,729</u>	<u>\$471,281</u>
Total Deposits	\$873,729	\$471,281
Investments		
Thurston County Investment Pool (TCIP)	\$34,042,421	\$21,912,158
Local Government Investment Pool (LGIP)	\$641,670	\$ 627,056
U.S. Treasuries ¹	<u>\$14,913,762</u>	<u>\$19,857,751</u>
Total Investments	<u>\$49,737,411</u>	<u>\$42,396,965</u>
Total Deposits and Investments	<u>\$50,471,582</u>	<u>\$42,868,246</u>

¹ Book value

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Note 3: Reinsurance / 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 for its members. The limits provided by these excess and reinsurance contracts are as follows:

Carrier – Liability	Layer
Governmental Entities Mutual	\$2.5 million in excess of \$2.5 million
Munich Re	\$10 million in excess of \$5 million
Lloyds of London	\$5 million in excess of \$15 million
Hallmark Insurance Company	\$5 million in excess of \$20 million
Carrier – Crime	Layer
National Union Fire	\$1 million \$10,000 deductible
Carrier – Blanket Pollution	Layer
XL Insurance (Three-year policy)	\$1 million \$100,000 deductible
Carrier – UST	
Great American	\$1 million per storage tank incident limit \$1 million aggregate per location \$25,000 deductible
Carrier – All Risk Property	
Alliant Public Entity Property Program	\$500 million per occurrence for all members combined with various sublimits \$250,000 deductible
Carrier – Auto Physical Damage	
Evanston	Replacement cost value for vehicles less than 10 years old and valued in excess of \$250,000 Fair market value for all other vehicles \$250,000 deductible
Carrier – Cyber Liability	
Beazley	\$25 million aggregate for all Beazley insureds \$2 million aggregate per member \$5,000 deductible per member (as of October 1)

Coverage for public officials liability, pollution and underground storage tanks (UST) are claim-made. All other coverages are occurrence based.

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

Note 4: Risk Financing Limits

The following tables reflects the risk financing limits on coverage policies issued and retained by WSTIP at December 31, 2019.

	Member Deductible	Self-Insured Retention	Excess Limit
Liability			
Auto Liability	\$0	\$2,500,000	\$25,000,000
Bodily Injury and Property Damage			
Public Officials Errors and Omissions	\$5,000		
Employment Practice Liability			
Crime / Blanket Employee Dishonesty	\$10,000	\$0	\$1,000,000
Personal Injury & Advertising Injury	\$0	\$2,500,000	\$25,000,000
Contractual Liability			
Vanpool Driver Medical Expense Protection		\$35,000	-
Underinsured Motorist (UIM) ¹		\$60,000	-
Property ²			
Boiler and Machinery	Varies by unit size ³	\$0	\$100,000,000
Auto Physical Damage (APD)			
Vehicles below \$250,000 in value or more than 10 years old	Varies by Member ⁴	\$250,000	Fair market value, up to \$250,000 per vehicle
Vehicles valued over \$250,000 and less than 10 years old			Replacement Cost, up to \$1,350,000 per vehicle
Building and Contents			\$500,000,000
Flood ⁵			
Flood Zones A&V	\$500,000	\$250,000	\$10,000,000
Flood Zones except A&V	\$500,000		\$50,000,000
Earthquake	5% subject to \$500,000 minimum per occurrence per unit	\$0	\$25,000,000
Combined Business Interruption, Rental Income, and Tuition Income			\$100,000,000

¹ UIM is mandatory for all vanpool programs, but the Member may elect to purchase UIM on other modes.

² Everett Transit and Pullman Transit do not purchase property coverage through WSTIP. Yakima and RiverCities Transit purchase auto physical damage coverage but not all risk property.

³ Boiler & Machinery deductible: \$250,000,000 for units under 750hp, 25,000 KW/KVA/Amp, or Boilers over 75,000 square feet of heating surface; \$350,000,000 for units over above limits

⁴ Members may select a higher deductible for property and auto physical damage. Deductibles for 2019 were: C-Tran \$10,000; Pierce Transit and Spokane Transit \$25,000, all other Members \$5,000

⁵ Annual Aggregate

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Cyber Liability and First Party Computer Security¹			
	Deductible	SIR	Excess Limit
Cyber Liability and First Party Computer Security	Prior to October 1 \$50,000 per occurrence for members with less than \$500M in TIV at time of loss \$100 per occurrence for members with TIV greater than \$500M in TIV at time of loss After October 1 - \$5,000 for all members	\$50,000	\$25,000,000 program aggregate \$2,000,000 each member aggregate
			All Aggregates Listed Below are Member Aggregates
BREACH RESPONSE COSTS			\$500,000 each member aggregate
FIRST PARTY LOSS			
Business Interruption			\$2,000,000 resulting from Security Breach \$500,000 resulting from System Failure Dependent Business Loss Resulting from Security Breach - \$750,000 Dependent Business Loss Resulting from System Failure - \$100,000
Cyber Extortion			\$2,000,000
Data Recovery Costs			\$2,000,000
LIABILITY			
Data & Network Liability			\$2,000,000
Regulatory Defense & Penalties			\$2,000,000
Payment Card Liabilities and Costs			\$2,000,000
Media Liability			\$2,000,000
eCRIME			
Fraudulent Instruction			\$75,000
Funds Transfer Fraud			\$75,000
Telephone Fraud			\$75,000
CRIMINAL REWARD			\$25,000
Consequential Reputational Loss			\$50,000
Computer Hardware Replacement Costs			\$75,000
Invoice Manipulation			\$100,000

During 2019 the Pool recovered \$202,146 from Markel for a 2018 Auto Physical Damage claim under an excess insurance policy. Through a combination of fund balance designated at December 31, 2019 and member assessments earned at January 1, 2019, the pool committed assets of \$9,163,403 specifically for the purpose of funding these retentions for the year 2019.

¹ Everett Transit, Pullman Transit, RiverCities Transit and Yakima Transit do not purchase Cyber Liability/First Party Computer Security

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Notes to the Financial Statements

Note 5: Member's Supplemental Assessments and Credits

The Board of Directors adopted an Assessment Allocation Policy, which was revised on September 28, 2018, establishing the methodology of allocating the individual member's experience during a specific period for a prospective assessment to members based on actual claims experience. The Interlocal Agreement (ILA) allows a supplemental assessment for revenue shortfalls. During year 2019, the Pool did not make a supplemental assessment.

Note 6: Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Report for Pensions* for 2019 and 2018.

Aggregate Pension Amounts – All Plans		
	2019	2018
Pension liabilities	\$(326,114)	\$(469,599)
Pension assets	\$0	\$0
Deferred outflows of resources	\$83,724	\$80,361
Deferred inflows of resources	\$(221,243)	\$(198,738)
Pension expense/expenditures	\$(7,183)	\$18,363

State Sponsored Pension Plans

All WSTIP's full-time and qualifying part-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 public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov or obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

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Contributions

The **PERS Plan 1** Member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 and 2018.

PERS Plan 1 - 2019		
Actual Contribution Rates	Employer	Employee*
January - August 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	.18%	
Total	12.83%	6.00%
September - December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	.18%	
Total	12.86%	6.00%

PERS Plan 1 - 2018		
Actual Contribution Rates	Employer	Employee*
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	.18%	
Total	12.70%	6.00%
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	.18%	
Total	12.83%	6.00%

No WSTIP employees are covered by PERS Plan 1; however, a portion of the PERS Plan 2/3 contributions is allocated by DRS to the PERS Plan 1 UAAL. The amounts allocated to PERS Plan 1 UAAL were \$45,866 for fiscal year 2019 compared to \$46,397 for 2018.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty

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disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3 - 2019		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
September – December 2019:		
PERS Plan 2/3	7.92%	7.9%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

PERS Plan 2/3 - 2018		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2019:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%
September – December 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

The portion of WSTIP's total actual contributions, calculated using the above rates, allocated to PERS Plan 2/3 and administrative expense was \$73,416 for fiscal year ended December 31, 2019 as compared to \$70,387 for

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Notes to the Financial Statements

fiscal year end 2018. WSTIP employees participate in PERS Plan 2/3; no employees were covered under PERS Plan 1.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- For all active members in TRS, increased the assumed salary growth for 2018 from 3.5 percent to 8.0 percent. This was done to reflect recent increases in state funding for basic education.
- Updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- Updated Cost-of-Living Adjustment (COLA) programming to reflect legislation signed during the 2018 Legislative Session (C151L18). This law provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5 percent increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30 2019 and June 30 2018 are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	2019 Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Asset Class	2018 Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents WSTIP's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what WSTIP's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	2019		
	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$308,006	\$245,949	\$192,106
PERS 2/3	\$614,831	\$80,165	\$(358,565)

	2018		
	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$308,006	\$245,949	\$192,106
PERS 2/3	\$614,831	\$80,165	\$(358,565)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, WSTIP reported a total pension liability of \$326,114 for its proportionate share of the net pension liabilities as follows:

	2019 Liability (or Asset)	2018 Liability (or Asset)
PERS 1	\$245,949	\$314,498
PERS 2/3	\$80,165	\$155,101

At June 30, 2019, WSTIP's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 06/30/19	Proportionate Share 06/30/18	Change in Proportion
PERS 1	.006396%	.007042%	(.0000646)%
PERS 2/3	.008253%	.009084%	(.0000831)%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

Pension Expense	Year end December 31, 2019	Year End December 31, 2018
PERS 1	\$(18,754)	\$23,216
PERS 2/3	\$11,571	\$(4,853)
Total	\$(7,183)	\$18,363

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019 WSTIP reported deferred outflows and inflows or resources related to pensions from the following sources:

PERS Plan 1 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (16,431)
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 22,777	\$ 0
TOTAL	\$ 22,777	\$ (16,431)

PERS Plan 2/3 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$22,967	\$ (17,235)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (116,687)
Changes of assumptions	\$2,053	\$ (33,634)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ (1,971)	\$ (37,255)
Contributions subsequent to the measurement date	\$37,898	\$0
TOTAL	\$60,947	\$ (204,812)

At December 31, 2018 WSTIP reported deferred outflows and inflows or resources related to pensions from the following sources:

PERS Plan 1 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (12,498)
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 22,777	\$ 0
TOTAL	\$ 22,777	\$ (12,498)

Washington State Transit Insurance Pool 2019 Financials
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PERS Plan 2/3 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$19,011	\$ (27,155)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (107,675)
Changes of assumptions	\$1,814	\$(44,141)
Changes in proportion and differences between contributions and proportionate share of contributions	\$3,207	\$ (19,770)
Contributions subsequent to the measurement date	\$56,328	\$0
TOTAL	\$80,361	\$ (198,738)

Deferred outflows of resources related to pensions resulting from WSTIP's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	2019 PERS Plan 1
2020	\$(3,627)
2021	\$(8,592))
2022	\$(3,066))
2023	\$(1,146))
2024	\$0
Thereafter	\$0
Total	\$ (16,431)

Year ended December 31:	2019 PERS Plan 2/3
2020	\$ (42,787)
2021	\$ (67,417)
2022	\$ (34,088)
2023	\$ (21,743)
2024	\$(11,909)
Thereafter	\$ (3,818)
Total	\$ (181,763)

Note 7: Deferred Compensation Plans

All WSTIP employees participate in a 401(A) Defined Contribution Plan (DCP) and can choose to participate in one of two 457 Deferred Compensation retirement plans offered through ICMA or the State's DCP program. 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, 2019 Employer and Employee contributions to the ICMA 401 A plan.

ICMA 401(A) Plan Contributions		
Year	Employer	Employee
2019	\$62,430	\$92,638
2018	\$63,123	\$93,655

WSTIP employees may 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: Government Entities Mutual (GEM)

WSTIP along with 11 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 \$495,608 is included in WSTIP's investment income for 2019. Each GEM member's financial liability is limited to its contributed capital. At December 31, 2019, GEM's membership included 17 pools. WSTIP's equity position in GEM was \$2,044,010 at December 31, 2019. At December 31, 2019, GEM had member equity of \$30,236,088.

As of 12/31/2019, GEM has 17 members. For information on GEM please contact GEM CEO Andrew Halsall at Andrew.Halsall@gemre.com or go to their web site at <http://www.gemre.com/about-us/reporting.php> to obtain financial information on GEM.

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

Note 9: Capital Assets

Capital Assets – Year Ended December 31, 2019				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$91,010	\$0	\$0	\$91,010
Total Capital Assets Not Being Depreciated	\$91,010	\$0	\$0	\$91,010
Capital Assets Being Depreciated				
Buildings	\$387,990	\$0	\$0	\$387,990
Leasehold Improvements	\$166,592	0	\$0	\$166,592
Furnishings and Equipment	\$251,033	\$20,834	\$0	\$271,867
Total Capital Assets Being Depreciated	\$805,615	\$20,834	\$0	\$826,449
Less Accumulated Depreciation				
Buildings	\$(169,534)	\$(9,949)	\$0	\$(179,483)
Leasehold Improvements	\$(13,847)	\$(4,271)	\$0	\$(18,118)
Furnishings and Equipment	\$(239,639)	\$(6,408)	\$0	\$(246,047)
Total Accumulated Depreciated	\$(430,020)	\$(20,628)	\$0	\$(443,648)
Net Capital Assets Being Depreciated	\$382,595			\$382,801
Total Capital Assets, Net	\$473,605	\$206	\$0	\$473,811

Capital Assets – Year Ended December 31, 2018				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$91,010	\$0	\$0	\$91,010
Total Capital Assets Not Being Depreciated	\$91,010	\$0	\$0	\$91,010
Capital Assets Being Depreciated				
Buildings	\$387,990	\$0	\$0	\$387,990
Leasehold Improvements	\$132,297	\$34,295	\$0	\$166,592
Furnishings and Equipment	\$251,033	\$0	\$0	\$251,033
Total Capital Assets Being Depreciated	\$771,320	\$34,295	\$0	\$805,615
Less Accumulated Depreciation				
Buildings	\$(159,585)	\$(9,949)	\$0	\$(169,534)
Leasehold Improvements	\$(9,758)	\$(4,271)	\$0	\$(18,118)
Furnishings and Equipment	\$(236,045)	\$(3,594)	\$0	\$(239,639)
Total Accumulated Depreciated	\$(405,388)	\$(17,632)	\$0	\$(423,020)
Net Capital Assets Being Depreciated	\$365,932			\$382,595
Total Capital Assets, Net	\$456,942	\$16,663	\$0	\$473,605

Washington State Transit Insurance Pool 2019 Financials

Notes to the Financial Statements

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 after 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.

As mentioned above, the Pool owns a building purchased for \$479,000 in 2001. The Pool also dedicates \$25,000 a year from its equity to a building reserve to save for any improvements or updates needed to keep the building in marketable condition.

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

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 for Member claims in Origami, the Pool's Risk Management Information System (RMIS).

	2019	2018
Unpaid Claims and Claim Adjustment Expenses, net of recovery, at beginning of year	\$20,064,078	\$17,630,771
Incurred Claim and Claim Adjustment Expenses		
Provision of Insured Events of Current Year, includes ULAE	\$8,767,111	\$9,803,000
Increase (or Decrease) in Provision for Prior Years	(\$4,361,752)	(\$701,233)
Total Incurred	\$4,405,359	\$9,101,767
Payments		
Claim and Claim Adjustment Expenses		
Attributable to Insured Events of the Current Year	\$1,047,176	\$1,115,294
Attributable to Insured Events of Prior Years	\$3,693,003	\$5,553,166
Total Payments	\$4,740,179	\$6,668,460
Total Unpaid Claim and Claim Adjustment Expense, net of recovery, at end of year	\$19,729,258	\$20,064,078

Note 11: Operating and Non-Operating Revenues

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

Washington State Transit Insurance Pool 2019 Financials Notes to the Financial Statements

Note 12: Washington Administrative Code (WAC)

WAC 200-100-03001 requires WSTIP to maintain certain levels of primary and secondary assets to meet minimum solvency standards. As defined in WAC 200-100-03001 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 80% 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.

	2019	2018
Primary Assets	\$49,496,000	\$41,794,000
Unpaid Claims – Expected	\$19,729,000	\$20,064,000
Results	Pass	Pass
Primary and Secondary Test		
Secondary Assets	\$3,247,000	\$ 2,627,000
Primary and Secondary Assets	\$52,743,000	\$44,421,000
Unpaid Claims – 80% Confidence	\$25,756,000	\$26,111,000
Results	Pass	Pass

Note 14: Defined Benefit Other Postemployment Benefit (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019.

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$358,951
OPEB assets	\$0
Deferred outflows of resources	\$0
Deferred inflows of resources	\$0
OPEB expenses/expenditures	(\$78,221)

Because WSTIP uses the alternative measurement method to measure total OPEB liability, the requirement to include deferred outflows or inflows related to OPEB is not applicable.

Plan Description

WSTIP contributed to the state Public Employees Benefits Board (PEBB), a healthcare program administered by the Washington State Health Care Authority (HCA). The program provides medical, prescription drug, and dental coverage. No stand-alone financial statements are available for the PEBB program.

As a member of PEBB, WSTIP offers employees who retire the option to continue medical coverage on a self-pay basis. WSTIP's plan is considered to be a single-employer defined benefit OPEB plan.

Under state law, active WSTIP employees who are covered by the state public employee retirement systems are eligible upon retirement to obtain medical, prescription drug, and dental coverage through the state PEBB program at the retiree rate associated with the elected plan. Because the rate is based on a pool of both active employees and retirees, the rate paid by pre-Medicare retirees is less than the full cost of the benefits, based on their age and other demographic factors. This creates an implicit subsidy where the "underpayment" of retiree premiums is funded through the premiums paid by WSTIP for active employees. The explicit subsidy is funded through premiums paid by WSTIP for active employees. There are no COLAs associated with the plan.

Washington State Transit Insurance Pool 2019 Financials

Notes to the Financial Statements

At December 31, 2019, the following employees were covered by the benefit terms:

Active Employees	12
Inactive Employees currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	0
Total	13

Funding Policy

The HCA calculates the premium amounts each year that are sufficient to fund the program on a pay as you go basis. These costs are passed through to all participating agencies based on active headcount. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Assumptions and Other Inputs

WSTIP used the alternative measurement method permitted under GASB Statement No. 75. Actuarial reports relied upon were the 2018 PEBB OPEB Actuarial Valuation Report and the OPEB Actuarial Valuation for the State's June 30, 2019 Fiscal Year-End.

Discount Rate *	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected Salary Changes	3.50% + Service-Based Increases
Healthcare Trend Rates **	Initial rate is approximately 7%, trends down to about 5% in 2020.
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setup back	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

* Source: Bond Buyer General Obligation 20-Bond Municipal Index

** Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see OSA's 2019 PEBB OPEB Actuarial Valuation Report

Specific Assumptions

Assumptions for retirement, disability, termination, and mortality are based on the 2018 PEBB OPEB AVR, assuming all employees are retirement eligible at age 55 and estimated retirement rates for members with less than 30 years of service and an assumed 100% retirement at the age of 70.

Estimated retirement service for each active cohort is based on the average entry age of 35. Each cohort is assumed to be a 50/50 male/female split and eligible spouses are assumed to be the same age as the primary member.

A single retirement age of 70 was assumed for all active members to determine the Actuarial Accrued Liability (AAL) and normal cost.

Washington State Transit Insurance Pool 2019 Financials
Notes to the Financial Statements

Sensitivity of Net Pension Liability

The table below presents WSTIP's net pension liability, calculated using the discount rate of 7.4% as well as what WSTIP's net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.4%) or 1 percentage point higher (8.4%) higher than the current rate.

	1% Decrease	Current	1% Increase
Discount Rate	445,827	\$357,414	\$289,487
Health Care Trend Rate	\$276,147	\$357,414	\$469,268

Sensitivity of Total OPEB Liability to Changes in the Heath Care Cost Trend Rates The following presents WSTIP's total OPEB liability calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) that the current rate.

	1% Decrease (2.5%)	Current Healthcare Cost Trend Rate (3.5%)	1% Increase (4.5%)
Discount Rate	\$445,827	\$357,414	\$289,487

Changes in the Total OPEB Liability

	2019	2018
Total OPEB liability - beginning	\$439,740	\$425,066
Service Cost	\$30,929	27,167
Interest	\$18,136	16,152
Change in benefit terms	\$0	0
Changes of assumptions ¹	(\$127,286)	(27,639)
Benefit Payments	(\$4,105)	(2,156)
Subsequent estimated payments	\$1,537	\$1,150
Total OPEB liability – ending	\$358,951	\$439,740

- a. The measurement, valuation and reporting dates are June 30, 2019. To estimate the Total OPEB Liability as of the beginning of the measurement period, the Total OPEB Liability was projected backwards to the measurement date of June 30, 2018.
- b. The backward projection of the liability reflected the estimated services cost, assumed interest, and expected benefit payments.
- c. There were no changes of benefit terms that affected measurement of the total OPEB liability since the prior measurement date.
- d. There were no obligations for the payment of benefits transferred from the employer to one or more insurance companies.
- e. There was an adjustment of \$1,537 to the total OPEB liability for the estimated dollar amount of benefits paid between the measurement date and WSTIP's reporting date of December 31, 2019.
- f. The total OPEB expense recognized by WSTIP in the reporting period was \$78,221.

¹ The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.

Note 15: Compensated Absences

During 2019 compensated absences of WSTIP employees decreased by \$24,202. General leave, which may be accumulated up to 480 hours, is payable upon resignation, retirement or death. In 2019, WSTIP reduced its allowed accrual from 720 hours to 480 hours.

Compensated Absences 2019			
12/31/2018 Liability	2019 Additions	2019 Reductions	12/31/2019 Liability
\$133,778	\$115,564	\$(139,765)	\$109,576

Note 16: Risk Pool Leadership Development Program

The Risk Pool Leadership Development Program (RDLP) was established to provide an educational program for selected employees of Member Pools. The program focuses on the legal and regulatory requirements for Washington pools, operational requirements, and a hands-on perspective on how other pools operate so as to prepare them for future supervisory or leadership opportunities in governmental risk pooling. WSTIP agreed to take on the role of the Lead Agency acting as the Treasurer for the Program. Per the Memorandum of Understanding Agreement (MOU), WSTIP, in its role as the Lead Agency, has no financial responsibility for the Program beyond receiving payment of tuition and making payments to vendors and/or contractors for its attending employees under the approval of the Steering Committee.

In 2018, WSTIP established a separate account to collect tuition fees and disburse the direct operating expenses of the Risk Pool Leadership Development Program (RPLDP). The funds, on deposit with U.S. Bank, are held for the sole benefit of this program and have been recorded as a non-current asset on the 2019 financial statements with an offsetting non-current liability.

Note 17: Prior Period Adjustments (2018)

Effective for the fiscal year ended December 31, 2018 WSTIP implemented provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). As a result, the Schedule of Long-Term Liabilities now includes WSTIP's proportion share of the net OPEB liability for the single-employer defined benefit plan in which WSTIP participates. As a result of this implementation the January 1, 2018 beginning Net Position was directly decreased by \$425,066.

Note 18: Subsequent Events

- Membership changes - In late December 2019, one member gave their notice of their intent to leave the program. Twin Transit will end their membership on 12/31/2020. WSTIP also added a new member, Central Transit. Membership started on January 1, 2020.
- In the last quarter of 2019, WSTIP moved the claims and administrative banking services to the Thurston County Treasurer's office. One accounts was retained at US Bank for purchasing cards, credit card processing, and prefunding for payroll processing.
- In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Washington State Transit Insurance Pool 2019 Financials
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Beginning March 26th WSTIP staff began working remotely. The March and April Board of Directors were held virtually in compliance with Governor's proclamation 20-05 and 20-28. Training and all group events have been cancelled through May.

An incident of this type was included in WSTIP's business continuity plan and a test exercise completed shortly before the Governor's announcement. Staff work was transitioned to remote offices smoothly with minimal disruption to operations.

WSTIP anticipates additional costs under \$20k for equipment and supplies for remote workers as well as increased telecommunication costs. The length of time these measures will be in place, and the full extent of the financial impact on WSTIP is unknown at this time.

- In January of 2020 one of WSTIP's bank accounts held at U.S. Bank was compromised resulting in fraudulent activity in the amount of \$32,310.22. Immediately upon discovering the fraud, WSTIP contacted U.S. Bank. In March of 2020 U.S. Bank restored all of the funds resulting in no loss to WSTIP.

Post event WSTIP closed the claims account at U.S. Bank and moved all claims payment activity to the new account at Key Bank. Key Bank does not allow this type of ACH activity. The remaining accounts at U.S. Bank have the ACH fraud filter turned on. The ACH fraud filter disallows this type of activity.

Claim Development Information for the Year Ending December 31, 2019

The table below illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last 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 Pool including overhead and claims expenses not allocated to individual claims.
- (3) This line shows the Pool'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.

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

Claim Development Information for the Year Ending December 31, 2019 (in thousands of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Gross Member contribution and investment revenues										
Ceded	10,785	11,217	10,933	11,439	11,785	12,521	13,198	14,779	15,932	17,842
Net earned	1,651	1,793	1,904	2,166	2,206	1,999	2,150	2,215	2,324	2,573
	9,134	9,424	9,029	9,273	9,579	10,522	11,048	12,564	13,608	15,269
2. Unallocated operating expenses	2,111	2,272	2,223	2,433	2,500	3,058	3,142	2,735	2,781	2,983
3. Estimated Losses & Expenses End of Policy Year										
Incurred	5,648	5,727	4,994	5,470	7,047	5,764	5,395	8,106	9,068	8,998
Ceded	191	4,411	180	202	408	521	547	361	837	788
Net Incurred	5,457	1,316	4,814	5,268	6,639	5,243	4,848	7,745	8,231	8,210
4. Paid (cumulative) as of:										
End of policy year	825	1,077	927	1,075	983	1,086	805	1,870	1,115	1,097
One year later	2,398	2,774	1,828	2,172	2,050	2,270	2,056	2,819	2,808	
Two years later	3,581	3,744	2,692	3,141	3,815	4,814	3,231	3,344		
Three years later	4,220	4,910	4,348	3,827	5,730	5,662	3,878			
Four years later	5,876	7,000	4,855	4,951	5,993	6,267				
Five years later	6,056	7,087	4,906	6,191	6,020					
Six years later	6,064	7,494	4,924	6,278						
Seven years later	6,065	7,589	4,912							
Eight years later	6,108	7,580								
Nine years later	6,101									

Claims Development Information for the Year Ending December 31, 2019 (in thousands of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
5. Re-Estimated Ceded Losses & Expenses	206	8,781	1,245	92	3,146	824	104	234	631	
6. Re-estimated net incurred claims and expenses:										
End of policy year	5,648	5,727	4,994	5,470	7,047	5,764	5,395	8,106	9,068	
One year later	5,364	6,783	4,320	5,052	7,640	5,735	6,214	6,605	8,337	
Two years later	5,975	8,144	4,755	5,448	7,340	7,320	5,668	6,170		
Three years later	6,500	9,075	4,858	6,220	6,470	9,868	4,691			
Four years later	6,288	8,473	4,976	6,918	6,262	7,725				
Five years later	6,142	8,295	5,065	6,753	6,145					
Six years later	6,107	7,671	5,000	6,222						
Seven years later	6,169	7,589	4,912							
Eight years later	6,108	7,580								
Nine years later	4,449									
7. Increase (decrease) in estimated net incurred claims and expenses for end of the policy year	(1008)	6,264	98	(954)	(494)	2,482	(157)	1575	106	

Washington State Transit Insurance Pool 2019 Financials
Required Supplementary Information

Reconciliation of Claims Liabilities by Type of Contract

	2019	
	<u>Liability</u>	<u>Property</u>
Unpaid claims and claims adjustment expenses at beginning of year	<u>\$19,261,515</u>	<u>\$802,573</u>
<u>Incurred claims and claim adjustment expenses</u>		
Provision of insured events of current year, includes ULAE	\$8,416,427	\$350,684
Change in provision for prior year	\$(4,187,282)	\$(174,470)
Total Incurred	<u>\$4,229,145</u>	<u>\$176,214</u>
<u>Payments</u>		
Claims and claim adjustment expenses attributed to events of the current year	\$1,005,289	\$41,887
Claims and claim adjustment expenses attributed to insured events of prior years	<u>\$3,545,283</u>	<u>\$147,720</u>
Total Payments	<u>\$4,550,572</u>	<u>\$189,607</u>
Total unpaid claims and claims adjustment expenses at end of year	<u>\$18,940,088</u>	<u>\$789,180</u>

	2018	
	<u>Liability</u>	<u>Property</u>
Unpaid claims and claims adjustment expenses at beginning of year	<u>\$15,356,234</u>	<u>\$2,274,537</u>
<u>Incurred claims and claim adjustment expenses</u>		
Provision of insured events of current year (includes ULAE)	\$9,410,880	\$392,120
Change in provision for prior year	870,231	-\$1,571,464
Total Incurred	<u>\$10,281,111</u>	<u>-\$1,179,344</u>
<u>Payments</u>		
Claims and claim adjustment expenses attributed to events of the current year	\$891,746	\$223,547
Claims and claim adjustment expenses attributed to insured events of prior years	<u>\$5,484,084</u>	<u>\$69,083</u>
Total Payments	<u>\$6,375,830</u>	<u>\$292,630</u>
Total unpaid claims and claim adjustment expenses	<u>\$19,261,515</u>	<u>\$802,573</u>

Washington State Transit Insurance Pool
Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1 As of June 30 Last 10 Fiscal Years*					
	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	.006396	.007042	.007128	.007568	.007305
Employer's proportionate share of the net pension liability	\$245,949	\$314,498	\$338,229	\$406,437	\$382,119
Covered Employee payroll	\$1,351,801	\$1,409,237	\$1,352,659	\$1,292,740	\$1,206,131
Employer's proportionate share of the net pension liability as a percentage of covered payroll	18.19%	22.32%	25.00%	31.44%	31.68%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

PERS Plan 2/3 As of June 30 Last 10 Fiscal Years*					
	2019	2018	2017	2016	2015
Employer's proportionate share of the net pension liability (asset)	.008253	.009084	.009168	.009710	.009441
Employer's proportion of the net pension liability	\$80,165	\$155,101	\$318,544	\$488,891	\$337,332
Covered Employee Payroll	\$1,351,801	\$1,409,237	\$1,352,659	\$1,292,740	\$1,206,131
Employer's proportionate share of the net pension liability as a percentage of covered payroll	5.93%	11.00%	23.54%	37.82%	27.97%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

*Until a full 10-year trend is compiled, WSTIP will present information only for those years for which information is available.

Washington State Transit Insurance Pool
Schedule of Employer Contributions

PERS Plan 1 As of December 31 Last 10 Fiscal Years*					
	2019	2018	2017	2016	2015
Statutorily or Contractually Required Contributions	\$45,866	\$46,397	\$45,256	\$42,974	\$38,352
Contributions in Relation to the Statutorily or Contractually Required Contributions	\$(45,866)	\$(46,397)	\$(45,256)	\$(42,974)	\$(38,352)
Contribution Deficiency (Excess) Covered Payroll	\$0	\$0	\$0	\$0	0
Contributions as a Percentage of Covered Payroll	\$1,211,030 3.78%	\$1,236,548 3.75%	\$1,327,167 3.41%	\$1,357,621 3.17%	\$1,211,565 3.17%

PERS Plan 2/3 As of December 31 Last 10 Fiscal Years*					
	2019	2018	2017	2016	2015
Statutorily or Contractually Required Contributions	\$71,744	\$68,735	63,398	\$56,128	\$49,248
Contributions in Relation to the Statutorily or Contractually Required Contributions	\$(71,744)	\$(68,735)	\$(63,398)	\$(56,128)	\$(49,248)
Contribution Deficiency (Excess) Covered Payroll	\$0	\$0	\$0	\$0	\$0
Contributions as a Percentage of Covered Payroll	\$1,211,030 5.92%	\$1,236,548 5.56%	\$1,327,167 4.78%	\$1,357,621 4.13%	\$1,211,565 4.06%

*Until a full 10-year trend is compiled, WSTIP will present information only for those years for which information is available.

Washington State Transit Insurance Pool 2019 Financials
Required Supplementary Information

Washington State Transit Insurance Pool
Schedule of Changes in Total OPEB Liability and Related Ratios
Measurement Date of June 30

	2019	2018
Total OPEB liability - beginning	\$439,740	425,066
Service Cost	\$30,929	27,167
Interest	\$18,136	16,152
Change in benefit terms	\$0	
Changes of assumptions ¹	(\$127,286)	(27,639)
Benefit Payments	(\$4,105)	(2,156)
Subsequent estimated payments	\$1,537	1,150
Total OPEB liability – ending	\$358,951	\$439,740
 Employee covered payroll	 \$1,350,059	 \$1,409,237
 Total OPEB liability as a % of covered payroll²	 26.59%	 31.2%

**Until a full 10-year trend is compiled, WSTIP will present information only for those years for which information is available.*

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

¹ *The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.*

² *WSTIP's reporting date is after the June 30, 2019 measurement date. Included in the ending liability is the dollar amount of estimated benefits paid between the measurement and reporting date.*

Washington State Transit Insurance Pool 2019 Membership

Participating Members

Asotin Co PTBA	Jenny George – Director
Ben Franklin Transit	Matthew Branson / Rob Orvis – Director
Clallam Transit	Kevin Gallacci – Director
Columbia County	David Ocampo – Director
Community Transit	Geri Beardsley – Director
C-TRAN	Laura Merry – Director
Everett Transit	Tom Hingson – Director
Grant Transit	Brandy Heston – Director
Grays Harbor Transit	Ken Mehin – Director
Intercity Transit	Heather Stafford Smith – Director
Island Transit	Staci Jordan – Director
Jefferson Transit	Sara Crouch – Director
Kitsap Transit	Paul Shinnars – Director
Link Transit	Nick Covey – Director
Mason Transit	Danette Brannin – Director
Pacific Transit	Richard Evans – Director
Pierce Transit	Amy Cleveland – Director
Pullman Transit	Wayne Thompson – Director
RiverCities Transit	Amy Asher – Director
Skagit Transit	Joe Macdonald – Director
Spokane Transit	Lynda Palmer / Monique Liard – Director
Twin Transit	Derrick Wojcik-Damers / Joe Clark – Director
Valley Transit	Jesse Kinney – Director
Whatcom Transit	Shonda Shipman – Director
Yakima Transit	Agustin Ortega – Director

Elected

President	Staci Jordan, Island Transit
Vice President	Shonda Shipman, Whatcom Transit
Secretary	Danette Brannin, Mason Transit Authority
Small Member Rep.	Derrick Wojcik-Damers, Twin Transit / Jesse Kinney, Valley Transit
Medium Member Rep.	Agustin Ortega, Yakima Transit
Large Member Rep.	Lynda Palmer, Spokane Transit / Geri Beardsley, Community Transit
At-Large Rep.	Tom Hingson, Everett Transit
Past President	Paul Shinnars, Kitsap Transit

Appointed Officers

Treasurer	Suzanne G. Coit, CPA, Intercity Transit
Auditor	Tracey Christianson, WSTIP Executive Director

Staff

Executive Director	Tracey Christianson
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The following firms provide ongoing support services to WSTIP:

Broker	Alliant Insurance Services – Newport Beach, CA
Attorney	Richard Hughes – Lacey, WA
Claims Adjuster	Self-Administered
Actuary	Price Waterhouse Cooper – Seattle, WA
Public Accounting Firm	StraderHallett PS – Lacey, WA

Department of Enterprise Services (DES) Schedule of Expenses

For Fiscal Years Ended December 31, 2019

Insurance Services	7,020,018
Contracted Services¹	
Actuarial	\$82,900
Audits	\$13,013
Broker Fees	\$101,200
Legal Fees	\$78,037
Other Consultant Fees	\$166,519
Total Contracted Services	\$441,699
Administrative Expenses	
Staff Wages, Taxes and Benefits	\$1,243,199
Dues and Conferences	\$12,069
Board Expenses	\$180,262
Training	\$142,570
Technical Services	\$305,865
Communications	\$21,288
Supplies	\$14,555
Office Expenses	\$110,419
Depreciation	\$20,627
Miscellaneous	\$196,345
Member Services	401,053
Total Administrative Expenses	\$2,648,252
Total Operating Expenses	10,109,969

¹ WSTIP self administers claims

Department of Enterprise Services (DES) Schedule of Expenses

For Fiscal Years Ended December 31, 2018

	2018
Insurance Services	
Claims Self Insurance Fund ¹	\$8,433,521
Excess Insurance Premiums	\$2,324,298
Change in Unpaid Claims Liability	\$712,763
Total Insurance Services	<u>\$11,470,582</u>
Contracted Services	
Actuary	\$63,800
Administrative Services	\$64,142
Broker Fees	\$101,200
Contracted Services	\$71,571
Legal and Accounting	\$145,223
Loss Control Services	\$302,678
Audits	\$7,930
Technical Services	\$72,683
Total Contracted Services	<u>\$829,227</u>
Administrative Expenses	
Staff Wages, Taxes and Benefits ²	\$1,251,222
Staff Conferences and Travel	\$93,841
Board Expenses	\$237,578
Technical Services	\$211,641
Communications	\$16,748
Occupancy Costs	\$52,011
Office Expenses	\$55,285
Program Expenses ³	\$551,096
Depreciation	\$17,632
Miscellaneous	\$0
Total Administrative Expenses	<u>\$2,487,054</u>
Total Operating Expenses	<u>\$14,786,863</u>

¹ Includes Claims Paid and ULAE

² Includes Staff Wages, Taxes and Benefits and Pension adjustment

³ Program expenses reclassified as non-operating expenses. Expenses include Driver Record Monitoring (DRM), a Collision Avoidance Warning System (CAWS) pilot, and the WSTIP training program. See Note 1(B).

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov