

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

---

**Public Utility Risk Management Services**  
**Joint Self-Insurance Fund**  
**King County**

Audit Period  
January 1, 2006 through December 31, 2006

Report No. 73995

Issue Date  
**February 25, 2008**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

February 25, 2008

Board of Commissioners  
Public Utility Risk Management Services Joint Self-Insurance Fund  
Seattle, Washington

***Report on Financial Statements***

Please find attached our report on the Public Utility Risk Management Services Joint Self-Insurance Fund's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# Table of Contents

**Public Utility Risk Management Services Joint Self-Insurance Fund  
King County  
January 1, 2006 through December 31, 2006**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Financial Statements .....	3
Financial Section .....	5

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

## Public Utility Risk Management Services Joint Self-Insurance Fund King County January 1, 2006 through December 31, 2006

Board of Commissioners  
Public Utility Risk Management Services Joint Self-Insurance Fund  
Seattle, Washington

We have audited the basic financial statements of the Public Utility Risk Management Services Joint Self-Insurance Fund, King County, Washington, as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated October 8, 2007. The District has not presented all of the required supplementary information for 2005 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

October 8, 2007

# Independent Auditor's Report on Financial Statements

## Public Utility Risk Management Services Joint Self-Insurance Fund King County January 1, 2006 through December 31, 2006

Board of Commissioners  
Public Utility Risk Management Services Joint Self-Insurance Fund  
Seattle, Washington

We have audited the accompanying basic financial statements of the Public Utility Risk Management Services Joint Self-Insurance Fund, King County, Washington, as of and for the years ended December 31, 2006 and 2005, as listed on page 5. These financial statements are the responsibility of the Pool's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Utility Risk Management Services Joint Self-Insurance Fund, as of December 31, 2006 and 2005, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 7 and risk pool information on pages 17 through 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The District has not presented all of the required supplementary information for 2005 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

October 8, 2007

# Financial Section

**Public Utility Risk Management Services Joint Self-Insurance Fund  
King County  
January 1, 2006 through December 31, 2006**

***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2006 and 2005

***BASIC FINANCIAL STATEMENTS***

Comparative Statement of Net Assets – 2006 and 2005  
Comparative Statement of Revenues, Expenses and Changes in Net Assets – 2006 and 2005  
Comparative Statement of Cash Flows – 2006 and 2005  
Notes to the Financial Statements – 2006 and 2005

***REQUIRED SUPPLEMENTAL INFORMATION***

Risk Pools Information – 2006 and 2005

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis is designed to provide an overview of Public Utility Risk Management Services (PURMS) Joint Self-Insurance Fund's financial activities for the years ended December 31, 2006 and December 31, 2005. This supplementary information should be read in conjunction with PURMS's financial statements.

PURMS is a public entity risk pool organized on December 30, 1976 in the State of Washington under RCW 54.16.200. It currently operates under RCW 48.62. Its members include 18 public utility districts and 1 non-profit mutual corporation. The objectives of PURMS are to formulate, develop and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members. Liability and property coverages are available to its members and health & welfare coverage for its member's employees.

**FINANCIAL SUMMARY AND ANALYSIS**

The *Statement of Net Assets* shows information on all of the Fund's assets and liabilities. The difference between the two is reported as *Net Assets*. The *Statement of Revenues, Expenses and Changes in Net Assets* shows how the *Net Assets* changed during the year. All *Net Assets* are classified as restricted because of the enabling legislation of RCW 48.62.

*Current Assets* are comprised of cash in checking accounts and investments, accounts receivable owed by members (including future assessments) and interest receivable. *Current Liabilities* reflect the total of Known and IBNR Claims Reserve and fees payable as of December 31, 2006, 2005 and 2004 respectively. PURMS has no non-current assets or liabilities.

*Operating Revenues* include assessments from members including future assessments. *Nonoperating Revenue* is from interest on investments. *Operating Expenses* include claims and claims adjustment expenses, excess and stop loss insurance premiums and administrative expenses. There are no nonoperating expenses at this time. For 2006 and 2005 there is an extraordinary item which is a settlement from Marsh USA, the Fund's broker. Member Deposits refer to amounts held by PURMS, on behalf of its members, to pay health & welfare claims before a member is assessed for those claims.

**Condensed Comparative Financial Information:**

*PURMS Net Assets*

	2006	2005	2004
Current Assets	6,877,291	6,119,725	5,782,033
Total Assets	\$6,877,291	\$6,119,725	\$5,782,033
Current Liabilities	3,430,743	2,920,390	2,735,526
Net Assets	3,446,548	3,199,335	3,046,507
Total Liabilities and Net Assets	\$6,877,291	\$6,119,725	\$5,782,033

*PURMS Changes in Net Assets*

	2006	2005	2004
Operating Revenues	10,598,821	9,858,156	8,467,518
Nonoperating Revenues	83,762	52,592	19,509
Total Revenues	\$10,682,583	\$9,910,748	\$8,487,027
Operating Expenses	10,442,138	9,764,940	8,122,728
Total Expenses	\$10,442,138	\$9,764,940	\$8,122,728
Excess/(Deficiency) Before Extraordinary Items	\$240,445	\$145,808	\$364,299
Extraordinary Item	6,768	7,021	0
Changes in Net Assets	\$247,213	\$152,829	364,299
Beginning Net Assets (January 1)	\$3,199,335	\$3,046,506	\$2,682,208
Ending Net Assets (December 31)	\$3,446,548	\$3,199,335	\$3,046,507

During 2006 and 2005, the overall financial position of PURMS has remained relatively unchanged. In 2006 there were no changes in PURMS operations. In 2005 the property pool completed funding a \$250,000 increase in its reserve balance. At a Board meeting on May 20, 2005 the members voted to increase the health & welfare pool Member Deposit by \$179,062. This amount was assessed and paid during 2005.

PURMS has no commitments or other limitations that would specifically affect the availability of pool resources for future use for its intended purpose as stated in its interlocal agreement and RCW 48.62.

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND**

**COMPARATIVE STATEMENT OF NET ASSETS**

ASSETS	YEAR ENDED DECEMBER 31,	
	2006	2005
Current Assets:		
Cash in Banks	\$ 975,217	\$ 686,181
Investments	1,600,000	1,950,000
Accounts Receivable - Assessments Billed	698,086	535,759
Accounts Receivable - Future Assessments	3,330,254	2,845,926
Accounts Receivable - Miscellaneous	66,373	94,555
Accounts Receivable - Excess/Stop Loss Ins.	197,970	(301)
Investment Interest Receivable	9,391	7,605
	<u>6,877,291</u>	<u>6,119,725</u>
Total Current Assets	<u>\$ 6,877,291</u>	<u>\$ 6,119,725</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Claims Reserve (Known)	\$ 1,082,304	\$ 1,088,373
Claims Reserve (IBNR)	2,247,950	1,757,553
Fund Legal Fees Payable	23,040	-
Administrator's Fee Payable	39,005	42,296
Stop Loss Premium Payable	33,192	27,273
PPO Networks Payable	5,252	4,895
	<u>3,430,743</u>	<u>2,920,390</u>
Total Current Liabilities	<u>3,430,743</u>	<u>2,920,390</u>
 Total Net Assets	<u>3,446,548</u>	<u>3,199,335</u>
 Total Net Assets and Liabilities	<u>\$ 6,877,291</u>	<u>\$ 6,119,725</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	YEAR ENDED DECEMBER 31,	
	2006	2005
<b>OPERATING REVENUES:</b>		
Premium Assessments	\$ 1,867,615	\$ 1,913,945
General Assessments	8,246,878	7,582,958
General Assessments - Future	484,328	182,191
Member Deposit Assessments	-	179,062
Total Operating Revenues	\$ 10,598,821	\$ 9,858,156
<b>OPERATING EXPENSES:</b>		
Claims Paid on Current Losses	\$ 6,085,245	\$ 5,861,745
Claims Paid on Prior Losses	219,574	477,089
Established Claims Reserve	709,068	371,820
Adjustment to Prior Years Claims Reserve	(224,740)	(189,629)
Claims Adjustment on Current Losses	882	-
Claims Adjustment on Prior Losses	98,390	24,100
Insurance Purchased	2,259,069	2,235,620
PPO Network Fee	61,640	58,520
Administrator's Fee	518,117	507,044
Brokers Fee	120,000	102,540
Fund Legal Fees	386,451	265,927
General Expense	20,963	13,675
Professional Fees	187,479	36,489
Total Operating Expenses	\$ 10,442,138	\$ 9,764,940
Operating Income (Loss)	\$ 156,683	\$ 93,216
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest on Investments	83,762	52,592
Total Nonoperating Revenues (Expenses)	\$ 83,762	\$ 52,592
Income (Loss) Before Extraordinary Items	\$ 240,445	\$ 145,808
Extraordinary Items - Revenue/(Expense)	6,768	7,021
CHANGE IN NET ASSETS	\$ 247,213	\$ 152,829
TOTAL NET ASSETS, January 01	\$ 3,199,335	\$ 3,046,506
TOTAL NET ASSETS, December 31	\$ 3,446,548	\$ 3,199,335

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND**

**COMPARATIVE STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Members	\$ 9,782,079	\$ 9,685,471
Cash Payments To Vendors	(9,931,787)	(9,580,077)
Marsh Settlement Fund	6,768	7,021
Net Cash Provided (Used) for Operating Activities	<u>(142,940)</u>	<u>112,415</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	(7,400,000)	(7,600,000)
Sale of Investments	7,750,000	7,600,000
Interest Received	81,976	49,181
Net Cash Provided (Used) for Investing Activities	<u>431,976</u>	<u>49,181</u>
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	289,036	161,596
CASH & CASH EQUIVALENTS, January 1	<u>686,181</u>	<u>524,585</u>
CASH & CASH EQUIVALENTS, December 31	<u>\$ 975,217</u>	<u>\$ 686,181</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

OPERATING INCOME:	\$ 156,683	\$ 93,216
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Increase/Decrease in A/R Assessments - Billed	(162,327)	(24,125)
Increase/Decrease in A/R Future Assessments	(484,328)	(182,191)
Increase/Decrease in A/R Miscellaneous	28,183	33,330
Increase/Decrease in A/R Excess/Stop Loss Ins	(198,271)	301
Increase/Decrease in Claims Payable - Known	(6,069)	(51,639)
Increase/Decrease in Claims Payable - IBNR	490,396	233,830
Increase/Decrease in Fund Legal Fees Payable	23,040	-
Increase/Decrease in Administrative Fee Payable	(3,291)	2,982
Increase/Decrease in Stop Loss Premium Payable	5,919	(572)
Increase/Decrease in PPO Network Fees Payable	357	262
Extraordinary Items - Income/(Expense)	6,768	7,021
Net Cash Provided (Used) for Operating Activities	<u>(142,940)</u>	<u>112,415</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005**

The notes are an integral part of the accompanying financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Public Utility Risk Managements Services Joint Self-Insurance Fund conform to generally accepted accounting principles as applicable to proprietary funds of governmental units (in most respects). The following is a summary of the more significant policies:

**a. Reporting Entity**

The Public Utility Risk Management Services Joint Self-Insurance Fund (known formerly as Washington Public Utility Districts' Utilities System Joint Self-Insurance Fund) was organized as of December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal governmental agreements. PURMS is currently operating under RCW 48.62. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Admission of a new member requires a supermajority vote of the current members (85%) of the Fund or the particular risk pool. Members may withdraw from the Fund on December 31st of any year by giving 90 days prior notice.

**Liability and Property Pools** - The members, through the Fund, provide liability self-insurance for the first \$1,000,000 of individual loss claims. Effective April 1, 1997 the Fund established a self-insured program for member's property. The property program provides property self-insurance for the first \$250,000 of individual loss claims. The risks shared by the members are defined in the member's Self-Insurance Agreement. Both pools (liability and property) operate independently of one another. The Fund maintains assets from which liability claims against the member districts and property losses of member districts are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. The Fund also purchases excess insurance for losses above \$1,000,000 for liability and above \$250,000 for property. [See Note 4]

Members that withdraw continue to receive coverage from the Fund for occurrences that happened while they were a member. Withdrawn members continue to be responsible for their share of assessments for occurrences that happen to all members while they were a member.

**Health and Welfare Pool** - On April 1, 2000 Public Utility Risk Management Services implemented a health & welfare pool pursuant to Board Resolution #3-16-00-1 passed on March 16, 2000. A Member Deposit is required upon initial participation in the pool. This deposit amount was recalculated during 2005 and the total was increased by \$179,062. The pool provides a cooperative program to fund health and medical claims for the employees of the members of PURMS. As a result, there are lowered costs associated with the administration of claims and the procurement of excess or stop loss insurance. Stop Loss insurance is purchased for this pool.  
[See Note 4]

**Member Changes and Participation** – Fund members currently include 18 utilities, and 1 non-profit mutual corporation. Thurston County PUD began participation in the property pool on January 1, 2006. As of December 31, 2006 the members participation was as follows:

		Liability Program	Property Program	Health & Welfare Program
1	Asotin County PUD	Yes	Yes	Yes
2	Benton County PUD	Yes	Yes	No
3	Clallam County PUD	Yes	Yes	Yes
4	Grays Harbor County PUD	Yes	Yes	No
5	Jefferson County PUD	Yes	No	Yes
6	Kitsap County PUD	Yes	Yes	No
7	Klickitat County PUD	Yes	Yes	Yes
8	Lewis County PUD	Yes	Yes	No
9	Mason County PUD #3	Yes	Yes	Yes
10	NoaNet	Yes	Yes	Yes
11	Okanogan County PUD	Yes	Yes	No
12	Pacific County PUD	Yes	Yes	Yes
13	Pend Oreille County PUD	Yes	Yes	No
14	Skagit County PUD	Yes	Yes	Yes
15	Skamania County PUD	Yes	Yes	Yes
16	Stevens County PUD	Yes	Yes	Yes
17	Thurston County PUD	Yes	Yes	Yes
18	Wahkiakum County PUD	Yes	Yes	Yes
19	Whatcom County PUD	Yes	Yes	No

**b. Basis Of Accounting And Presentation**

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

PURMS has elected not to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989.

The Fund prepares its financial statements on the full accrual basis. Under the full accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The principal operating revenues of the Fund are member assessments. Operating expenses include claims and claims adjustment expenses, excess and stop loss insurance premiums and administrative expenses. Nonoperating revenues are interest on investments. There are no nonoperating expenses at this time. Unbilled receivables are recorded at year end.

In accordance with the ongoing application of GASB Statement No. 10, the Fund's Statement of Net Assets reflects both "Known" and "Incurred But Not Reported" Claims Reserve. To counter this expense, the Fund also records entries to "General Assessments - Future" and "Accounts Receivable - Future Assessments."

"Member Deposits" refer to amounts held by PURMS, on behalf of its members, in order to pay their employee health & welfare claims before a member is assessed for those claims. Currently this amount is based on 2.5 times a member's average monthly health & welfare claims.

**c. Cash And Cash Equivalents**

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

**d. Capital Assets**

PURMS owns no capital assets.

**e. Receivables**

Management decides if any accounts are deemed uncollectible. Uncollectible accounts are charged to expense in the period they are deemed uncollectible.

**f. Investments**

See Note 2

**g. Unpaid Claims Liabilities**

The Fund 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 of 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. 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 result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. [See RSI]

**h. Member Assessments**

Member assessments for the liability and property pools are recognized as revenue at the time they are assessed. Assessments for the liability pool are based upon a formula whose elements include; basic fees, historic claims experience and workers hours. Assessments for the property pool are based upon a formula whose elements include; basic fees, property values and risk based rates. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. The member districts are obligated to replenish the liability program to a level of \$2,000,000 through an annual assessment each January. In addition, interim assessments are levied whenever the level of the liability program is reduced to an amount less than \$1,500,000 to bring the level back up to \$2,000,000. For the property program, member districts are obligated to replenish to a level of \$750,000 through an annual assessment each January. In addition, interim assessments are levied whenever the level of the property program is reduced to an amount less than \$500,000 to bring the level back up to \$750,000. At the November 20, 2003 Annual Board meeting, it was decided to increase the Designated Risk Pool Balance for the property pool from \$250,000 to \$500,000. This would be funded over time by adding \$50,000 to each general assessment leaving a balance of \$500,000 in the property pool after five assessments. As of December 31, 2005, the funding was completed, \$150,000 was assessed in 2004 and \$100,000 was assessed in 2005.

Member assessments for the health & welfare pool are recognized as revenue in the period for which the insurance protection is provided. Assessments for the health and welfare pool are based upon a formula whose elements include claims and census. The assessments include amounts for stop loss insurance premiums, claims paid, and operating costs. The members are assessed at the beginning of each month for all the expenses of the prior month.

**i. Claims Reserves (Unpaid Claims & Loss Adjustment Expenses)**

Claims are charged to income as incurred. Claim Reserves represent the accumulation of estimates for reported, unpaid claims (Known), plus a provision for claims incurred, but not reported (IBNR) including the loss adjustment expenses of these claims. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings. For the liability and property pool, all known claims have a reserve set when the claim is reported. The IBNR is set based on an actuarial report. Health and welfare claims are generally not reserved. The IBNR for the health and welfare program is the average monthly claims paid plus half of the average monthly prescription claims paid multiplied by the average number of days from the date incurred to the date reported.

**j. Exemption From Federal And State Taxes**

Pursuant to Revenue Ruling 90-74, income of Municipal Risk Funds is excluded from gross income under IRC Section 115(1).

Chapter 48.62 RCW exempts the Fund from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

**k. Inter-pool Loans**

Effective April 1, 2000 the Self-Insurance Agreement was amended to allow inter-pool loans. As of the years ending December 31, 2006 and December 31, 2005 there were no outstanding inter-pool loans.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

PURMS deposits and certificates of deposit are covered by federal depository insurance (FDIC) up to \$100,000. The amount in excess of the FDIC insurance limit is secured by eligible, marketable securities by the Bank. It is the Fund's policy to invest and hold until maturity all funds. Interest is credited to the statement of net assets as accrued. Certificates of deposit are stated at cost.

As of December 31, 2006, PURMS had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Cost</u>
Certificate of Deposits	22 – 75 days	\$1,600,000.

The following repurchase agreements were collateralized by US Government Securities. The repurchase agreements are not FDIC insured. The repurchase agreements are stated at fair market value.

As of December 31, 2005, PURMS had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Market Value</u>
Repurchase Agreements	20 -104 days	\$1,950,000.

*Credit Risk.* As required by State Law, all deposits and investments are obligations of the U.S. Government, deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

*Custodial credit risk* is the risk that in event of a failure of the counterparty to an investment transaction PURMS would not be able to recover the value of the investment or collateral securities. All of PURMS investments as of December 31, 2006 and 2005 were exposed to custodial credit risk because the investments were held by a Washington State bank, which is also the counterparty in those securities. PURMS investment policy does not address custodial credit risk for its investments or deposits.

*Concentration of Credit Risk.* The investment policy of PURMS places no limit on the amount that may be invested in any one issuer. On December 31, 2006, 100% of the investments were in four certificates of deposit. On December 31, 2005, 100% of the investments were in six repurchase agreements, all invested in US Government Securities.

*Interest Rate Risk.* PURMS does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In general, investments mature in less than six months.

**NOTE 3 - SELF-INSURED RETENTION**

The Fund retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. If a claim exceeds the self-insured retention the Fund will pay the claim and is reimbursed by the excess insurance carrier. Amounts paid in excess of the retention are reflected on the statement of net assets as an account receivable.

**NOTE 4 - EXCESS INSURANCE CONTRACTS**

The Fund maintains excess insurance contracts with several insurance carriers which provide various limits of coverage over the Fund's self-insured retention (SIR) limits. Not all members participate in all coverages available. The limits provided by these excess insurance contracts are as follows (2006 & 2005 are the same unless noted otherwise):

<b>Liability Pool</b>	<b>Per Occurrence/Aggregate</b>
General Liability (1 <sup>st</sup> Layer)	\$35,000,000/\$35,000,000 over \$1,000,000 SIR
General Liability (2 <sup>nd</sup> Layer)	\$25,000,000/\$25,000,000 over \$35,000,000
Professional Liability (E&O)	\$10,000,000/\$10,000,000 over \$1,000,000 SIR
Public Officials Liability	\$10,000,000/\$35,000,000 over \$500,000 SIR
<b>Property Pool</b>	
Property Including Boiler & Machinery (DIC included above in 2006 policy)	Replacement cost, \$150,000,000 policy limits (sublimits apply) over \$250,000 SIR
Excess Difference in Conditions (Separate policy in 2005)	Replacement cost, \$25,000,000 over \$100,000,000 Per occurrence and Annual Aggregate
Flood Policy	\$500,000/\$500,000 over \$500 SIR
<b>Health &amp; Welfare Pool</b>	
Stop Loss on Medical, Dental, Prescription	Individual Stop Loss \$150,000 Aggregate Stop Loss (12/31/05) \$7,715,430 Aggregate Stop Loss (12/31/06) \$8,175,312
<b>All Pools</b>	
Crime Bond	\$1,000,000 occurrence over \$10,000 SIR

**NOTE 5 - RESTRICTED NET ASSETS**

All Net Assets are classified as restricted because of the enabling legislation of RCW 48.62. PURMS has no commitments or other limitations that would specifically affect the availability of pool resources for future use for its intended purpose as stated in its interlocal agreement and RCW 48.62.

**NOTE 6 – EXTRAORDINARY ITEMS**

On January 30, 2005, Marsh & McLennan entered into a Settlement Agreement to resolve a Complaint filed by the New York State Attorney General and an Amended Citation issued by the New York State Superintendent of Insurance. Under the Settlement Agreement, Marsh agreed to establish an \$850 million fund to compensate eligible policyholder clients. This settlement is to be paid out over a four year period. Marsh is the broker for PURMS and therefore PURMS is a member of the eligible policyholder clients. In 2005 PURMS received the initial payment of \$7,021 and in 2006 received an additional payment of \$6,768 from the Marsh Settlement Fund. Although additional payments are expected from this settlement, it is uncertain what the amount of those payments will be.

**NOTE 7 – CONTINGENT LIABILITIES AND LITIGATIONS**

The Fund's Members are involved in ongoing litigation and claims processing posing risks to the Fund, the total estimated value of which is represented on the Fund's Financial Statements as Claims Reserve (Known) and Claims Reserve (IBNR). It is the opinion of the Fund's Attorney and its Management that under the terms of the Fund's Joint Self-Insurance Agreement, the pending litigation and claims, unasserted claims and claims incurred but not reported, will not result in settlements or judgments that would require payments that would threaten the solvency of the Fund.

**PUBLIC UTILITY RISK MANAGEMENT SERVICES  
JOINT SELF-INSURANCE FUND  
REQUIRED SUPPLEMENTARY INFORMATION**

1. Ten-Year Claims Development Information

The tables on the following pages illustrate how the Fund's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
- (2) This line shows each fiscal year's other operating costs of the Fund including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the Fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation 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 reestimated 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 reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Liability Program - Policy Year Ended December 31, 2006

(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Net earned required contribution and investment revenues	1,765	885	745	747	589	826	797	874	701	1,035
2. Unallocated expenses	521	418	309	383	354	305	379	319	284	339
3. Estimated incurred claims and expense, end of policy year	139	111	133	108	348	389	280	246	87	236
4. Paid (cumulative) as of:										
End of Policy Year	90	102	107	70	243	65	78	128	57	105
One year later	144	146	178	218	319	168	108	220	99	
Two years later	160	153	180	226	415	348	446	236		
Three years later	210	180	180	465	427	347	558			
Four years later	229	444	190	465	440	574				
Five years later	235	535	191	469	440					
Six years later	295	534	191	495						
Seven years later	296	534	191							
Eight years later	296	534								
Nine years later	296									
5. Reestimated incurred claims and expense:										
End of Policy Year	139	111	133	108	348	389	280	246	87	236
One year later	191	166	207	279	368	448	286	298	137	
Two years later	211	177	210	303	466	503	537	309		
Three years later	250	243	210	502	439	497	603			
Four years later	284	575	220	465	449	838				
Five years later	284	595	205	495	449					
Six years later	339	534	205	506						
Seven years later	301	534	191							
Eight years later	301	534								
Nine years later	301									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	162	423	58	398	101	449	323	63	50	0

Property Program - Policy Year Ended December 31, 2006

(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Net earned required contribution and investment revenues	511	439	115	476	399	708	646	914	560	683
2. Unallocated expenses	117	318	180	218	229	353	244	387	416	643
3. Estimated incurred claims and expense, end of policy year	39	56	46	22	357	204	305	188	100	111
4. Paid (cumulative) as of:										
End of Policy Year	33	50	44	16	74	135	81	68	37	70
One year later	63	65	191	30	359	172	373	113	214	
Two years later	63	66	190	30	712	173	381	113		
Three years later	63	66	188	30	712	173	548			
Four years later	63	66	185	30	712	173				
Five years later	63	66	185	30	262					
Six years later	63	66	185	30						
Seven years later	63	66	185							
Eight years later	63	66								
Nine years later	63									
5. Reestimated incurred claims and expense:										
End of Policy Year	39	56	46	22	357	204	305	188	100	111
One year later	63	66	196	32	610	215	537	169	267	
Two years later	63	66	194	30	713	211	571	169		
Three years later	63	66	191	31	713	211	549			
Four years later	63	66	185	30	713	186				
Five years later	63	66	185	30	263					
Six years later	63	66	185	30						
Seven years later	63	66	185							
Eight years later	63	66								
Nine years later	63									
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	24	10	139	8	-94	-18	244	-19	167	0

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the Fund's three pools: liability, property and health & welfare. The Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim expenses. The following represents changes in those aggregate liabilities:

	2006			2005		
	Liability	Property	Health & Welfare	Liability	Property	Health & Welfare
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	1,984,163	421,610	440,153	1,835,278	420,510	407,947
Incurred Claims and Claim Adjustment Expenses:						
Provision for Insured Events of the Current Year	236,417	111,554	5,913,763	87,490	100,301	5,772,524
Increases in Provision for Insured Events of Prior Years	466,042	(329,754)	-	336,270	14,710	-
Adjustment to Incurred But Not Reported Claims (IBNR)	447,665	33,037	9,695	228,237	(22,510)	28,103
Total Incurred Claims and Claim Adjustment Expenses	<u>3,134,287</u>	<u>236,447</u>	<u>6,363,611</u>	<u>2,487,275</u>	<u>513,011</u>	<u>6,208,574</u>
Payments:						
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	105,559	70,644	5,909,924	55,380	37,944	5,768,421
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	424,165	(106,201)	-	447,732	53,457	-
Total Payments	<u>529,724</u>	<u>(35,557)</u>	<u>5,909,924</u>	<u>503,112</u>	<u>91,401</u>	<u>5,768,421</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Year	<u>2,604,563</u>	<u>272,004</u>	<u>453,687</u>	<u>1,984,163</u>	<u>421,610</u>	<u>440,153</u>



## **ABOUT THE STATE AUDITOR'S OFFICE**

---

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

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

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor**  
**Chief of Staff**  
**Chief Policy Advisor**  
**Director of Administration**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Jerry Puggetti**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Linda Long, CPA, CGFM**  
**Jim Brittain, CPA**  
**Jan Jutte**  
**Mike Murphy**  
**Mindy Chambers**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Web Site**

**[www.sao.wa.gov](http://www.sao.wa.gov)**