

AUDITED FINANCIAL STATEMENTS

Washington State Health Insurance Pool

*Years ended December 31, 2015 and 2014  
with Report of Independent Auditors*

# Washington State Health Insurance Pool

## Audited Financial Statements

Years ended December 31, 2015 and 2014

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## Report of Independent Auditors

Board of Directors  
Washington State Health Insurance Pool

### Report on the Financial Statements

We have audited the accompanying financial statements of Washington State Health Insurance Pool (a nonprofit organization) which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of operations and unassigned surplus and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or material error.

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 entity's preparation and fair presentation of 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington State Health Insurance Pool as of December 31, 2015 and 2014, and the results of their operations and cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Washington and accounting principles generally accepted in the United States of America.

*Petrow Leemhuis Vincent & Kane*

February 29, 2016

# Washington State Health Insurance Pool

## Balance Sheets

	December 31	
	2015	2014
<b>Assets</b>		
Cash and short term investments	\$ 13,186,859	\$ 19,667,071
Assessments receivable	3,221,579	706,247
Uncollected premiums	16,236	33,188
Federal grant receivable	141,641	587,465
Total assets	<u>\$ 16,566,315</u>	<u>\$ 20,993,971</u>
<b>Liabilities and unassigned surplus</b>		
Claims unpaid	\$ 5,286,000	\$ 5,965,000
Unpaid claims adjustment expenses	325,000	297,000
Premiums received in advance	1,179,342	452,343
Assessments payable	3,255,852	5,882,015
Abandoned claims reserve	83,081	29,947
General expenses due and accrued	249,117	153,230
Total liabilities	<u>10,378,392</u>	<u>12,779,535</u>
Unassigned surplus	<u>6,187,923</u>	<u>8,214,436</u>
Total liabilities and unassigned surplus	<u>\$ 16,566,315</u>	<u>\$ 20,993,971</u>

*See accompanying notes and report of independent auditors.*

## Washington State Health Insurance Pool

### Statements of Operations and Unassigned Surplus

	<b>Years ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Operating revenues:		
Net premium income	<b>\$ 11,602,968</b>	\$ 13,806,921
	<b>11,602,968</b>	13,806,921
Operating expenses:		
Hospital and medical benefits	<b>45,174,109</b>	48,949,094
Claim adjustment expenses	<b>1,005,730</b>	1,175,455
General and administrative expenses	<b>1,451,620</b>	1,573,161
	<b>47,631,459</b>	51,697,710
Operating loss	<b>(36,028,491)</b>	(37,890,789)
Non-operating revenues:		
Investment and other income	<b>2,150</b>	3,023
Federal grant awards	-	1,110,440
	<b>2,150</b>	1,113,463
Loss before assessments	<b>(36,026,341)</b>	(36,777,326)
Assessments	<b>33,999,828</b>	24,662,000
Change in unassigned surplus	<b>(2,026,513)</b>	(12,115,326)
Unassigned surplus at beginning of year	<b>8,214,436</b>	20,329,762
Unassigned surplus at end of year	<b>\$ 6,187,923</b>	\$ 8,214,436

*See accompanying notes and report of independent auditors.*

# Washington State Health Insurance Pool

## Statements of Cash Flows

	<b>Years ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Premiums collected	\$ 12,345,832	\$ 13,735,113
Claims and claims adjustment expenses paid	(46,296,066)	(57,561,181)
General administrative expenses paid	(1,836,285)	(2,314,866)
Cash used by operating activities	(35,786,519)	(46,140,934)
<b>Investing activities</b>		
Investment and other income	2,150	3,023
Cash provided by investing activities	2,150	3,023
<b>Financing activities</b>		
Assessments collected	28,858,333	53,930,290
Assessment paid	-	(20,838,000)
Federal grant proceeds	445,824	594,222
Cash provided by financing activities	29,304,157	33,686,512
Net decrease in cash and cash equivalents	(6,480,212)	(12,451,399)
Cash and short term investments at beginning of year	19,667,071	32,118,470
Cash and short term investments at end of year	\$ 13,186,859	\$ 19,667,071

Washington State Health Insurance Pool  
Notes to Financial Statements  
December 31, 2015 and 2014

**1. Organization and Significant Accounting Policies**

**Organization**

Washington State Health Insurance Pool (the “Pool”), a nonprofit unincorporated entity, was established by the State of Washington to make health care coverage available for eligible persons in Washington who have been rejected for individual coverage by licensed insurance carriers. The Pool has the authority, under state law, to assess insurance companies writing health premiums in the State of Washington for all losses of the Pool. Presently, assessments are made as funds are needed.

**Basis of Presentation**

The accompanying financial statements have been prepared, except as to form, on the basis of accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Washington. Such practices may vary from accounting principles generally accepted in the United States of America (“GAAP”). However, the effect of such variances is not considered to be material and the financial statements are also considered to be in conformity with GAAP.

**Use of Estimates**

Preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

**Cash and Cash Equivalents**

All investments with a remaining maturity of three months or less at the date of acquisition are considered cash equivalents. Short-term investments are recorded at cost, which approximates market.

**Assessments**

Assessments of the insurer members are approved by the Board of Directors and are recognized as a contribution to unassigned surplus. Assessments are made periodically and are based on projected cash flow needs. Assessments receivable represents outstanding balances assessed to insurance companies but not yet collected, and assessments payable represents amounts overpaid by insurance companies and are to be refunded.

Washington State Health Insurance Pool  
Notes to Financial Statements (continued)  
December 31, 2015 and 2014

**1. Organization and Significant Accounting Policies (continued)**

**Unpaid Claims and Related Expenses**

The liabilities for unpaid claims and related expenses are estimated based on historical claim development, including the effects of six-month pre-existing condition exclusion. Considerable variability is inherent in such estimates. However, management believes that liabilities for unpaid claims and related expenses are adequate. The estimates are continually reviewed and updated as experience develops or new information becomes known; such adjustments are reflected in current operations.

Premium deficiencies are not recognized as the Pool has the statutory authority to assess member plans for operating losses.

**Revenue Recognition**

Premiums are earned pro rata over the periods to which the premiums relate. Premiums received in advance represent amounts received in advance of the policy effective date.

**Concentration of Credit Risk**

Deposits at the Pool's financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Pool has not experienced a loss due to uninsured balances, and at December 31, 2015 and 2014, none of the Pool's deposits are uninsured.

**Income Taxes**

The Internal Revenue Service has determined that the Pool qualifies as a tax-exempt organization under Section 501(c)(26) of the Internal Revenue Code ("IRC") and is, therefore, not subject to tax under present income tax law. The Pool is required to operate in conformity with the IRC to maintain its qualification. The Pool is also exempt from State of Washington taxes.

In consideration of Accounting Standards Codification ("ASC") 740-10-25 Income Taxes, the Pool has not taken any uncertain tax positions that should be recognized in the accompanying financial statements. The Pool's 2014, 2013 and 2012 tax returns are subject to examination by the Internal Revenue Service.

**Regulatory Examination**

The Pool's financial statements are subject to examination by the Office of the Insurance Commissioner of the State of Washington ("OIC"). Such examinations could result in adjustments to the Pool's financial statements. The OIC's most recent examination covers the years 2008 through 2012, and was completed during 2014. No findings were noted that would require an adjustment to the financial statements.

Washington State Health Insurance Pool  
Notes to Financial Statements  
Notes to Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Pre-Existing Condition Insurance Pool**

The Pool was the single member of the Pre-Existing Condition Insurance Pool – WA, LLC (“PCIP”), formed in 2010 to administer the U. S. Department of Health and Human Services’ (“HHS”) temporary health insurance program to individuals residing in the State of Washington who previously had been uninsured. HHS reimbursed PCIP for claims paid in excess of premiums received, and for administrative expenses. HHS has made funds available to all states for similar health insurance programs.

Effective June 30, 2013, the administration of PCIP was transitioned to the federal government, and PCIP was dissolved effective December 31, 2014. PCIP processed run-out claims for additional eighteen months through December 31, 2014.

**2. Federal Grant**

During 2014, the Department of Health and Human Services awarded the Pool a High Risk Pool Grant to be used to fund operating losses of the Pool, and Bonus Grant funds to be used to reduce premiums to insureds and implement a disease management program. The grant funds have been reported as non-operating revenue in the accompanying statements of operations and unassigned surplus. No grant funds were awarded in 2015.

	<b>Years ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Operations Grant	\$ -	\$ 522,975
Bonus Grant	-	587,465
	\$ -	\$ 1,110,440

Washington State Health Insurance Pool  
Notes to Financial Statements  
Notes to Financial Statements (continued)

**3. Plan Administration Agreement**

The Pool has outsourced its administrative services to Benefit Management Inc., a Kansas based third party administrator, under a service agreement effective through December 2015. In accordance with the agreement, the Pool is charged a monthly per-member-per-month fee based on the number of active members, and variable fees for certain services. Total fees paid to Benefit Management Inc. in 2015 and 2014 were \$931,944 and \$964,594, respectively, and are included in general and administrative expenses in the accompanying statements of operations and unassigned surplus.

**4. Liability for Unpaid Claims**

The following table provides a reconciliation of the beginning and ending balances of the liability for unpaid claims and unpaid claims adjustment expenses:

	<b>Years ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Balances at January 1	\$ 6,262,000	\$ 14,299,000
Policy benefits incurred related to:		
Current year	46,351,770	50,842,149
Prior years (redundancy)	(1,177,661)	(1,893,055)
Total policy benefits incurred	45,174,109	48,949,094
 Paid related to:		
Current year	40,752,759	44,605,706
Prior years	5,072,350	12,380,388
Total paid	45,825,109	56,986,094
Balances at December 31	\$ 5,611,000	\$ 6,262,000

Policy benefits incurred related to prior years varies from previously estimated liabilities as the claims are ultimately settled. The changes in amounts incurred related to prior years are the result of changes in morbidity experience, health care utilization and claim payment patterns.

**5. Line of Credit**

The Pool has a secured revolving line of credit agreement with KeyBank National Association, which provides for borrowing up to a maximum of \$5 million. There were no outstanding balances at December 31, 2015 or 2014, nor were there any borrowings against this line during 2015 or 2014.

Washington State Health Insurance Pool  
Notes to Financial Statements  
Notes to Financial Statements (continued)

**6. Subsequent Events**

In accordance with ASC 855 *Subsequent Events* , the Pool has evaluated subsequent events through February 29, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.