

AUDITED FINANCIAL STATEMENTS

Washington State Health Insurance Pool

*Years ended December 31, 2016 and 2015
with Report of Independent Auditors*

Washington State Health Insurance Pool

Audited Financial Statements

Years ended December 31, 2016 and 2015

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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, 2016 and 2015 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 the accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Washington (described in Note 1) and 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, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance the accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Washington (described in Note 1) and accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared 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. Our opinion is not modified with respect to that matter.

Peterson Buchanan Vincent & Kone

February 27, 2017

Washington State Health Insurance Pool

Balance Sheets

	December 31	
	2016	2015
Assets		
Cash and short term investments	\$ 12,629,342	\$ 13,186,859
Assessments receivable	70,977	3,221,579
Uncollected premiums	11,777	16,236
Federal grant receivable	-	141,641
Total assets	<u>\$ 12,712,096</u>	<u>\$ 16,566,315</u>
Liabilities and unassigned surplus		
Claims unpaid	\$ 4,953,000	\$ 5,286,000
Unpaid claims adjustment expenses	305,000	325,000
Premiums received in advance	438,362	1,179,342
Assessments payable	797,770	3,255,852
Abandoned claims reserve	19,897	83,081
General expenses due and accrued	135,811	249,117
Total liabilities	<u>6,649,840</u>	<u>10,378,392</u>
Unassigned surplus	<u>6,062,256</u>	<u>6,187,923</u>
Total liabilities and unassigned surplus	<u>\$ 12,712,096</u>	<u>\$ 16,566,315</u>

Washington State Health Insurance Pool

Statements of Operations and Unassigned Surplus

	Years ended December 31	
	2016	2015
Operating revenues:		
Net premium income	\$ 11,080,165	\$ 11,602,968
	11,080,165	11,602,968
Operating expenses:		
Hospital and medical benefits	40,393,344	45,174,109
Claim adjustment expenses	916,052	1,005,730
General and administrative expenses	1,298,195	1,451,620
	42,607,591	47,631,459
Operating loss	(31,527,426)	(36,028,491)
Non-operating revenues:		
Investment and other income	48,087	2,150
	48,087	2,150
Loss before assessments	(31,479,339)	(36,026,341)
Assessments	31,353,672	33,999,828
Change in unassigned surplus	(125,667)	(2,026,513)
Unassigned surplus at beginning of year	6,187,923	8,214,436
Unassigned surplus at end of year	\$ 6,062,256	\$ 6,187,923

See accompanying notes and report of independent auditors.

Washington State Health Insurance Pool

Statements of Cash Flows

	Years ended December 31	
	2016	2015
Operating activities		
Premiums collected	\$ 10,319,292	\$ 12,345,832
Claims and claims adjustment expenses paid	(41,143,628)	(46,296,066)
General administrative expenses paid	(1,969,101)	(1,836,285)
Cash used by operating activities	(32,793,437)	(35,786,519)
Investing activities		
Investment and other income	48,087	2,150
Cash provided by investing activities	48,087	2,150
Financing activities		
Assessments collected	32,046,192	28,858,333
Federal grant proceeds	141,641	445,824
Cash provided by financing activities	32,187,833	29,304,157
Net decrease in cash and cash equivalents	(557,517)	(6,480,212)
Cash and short term investments at beginning of year	13,186,859	19,667,071
Cash and short term investments at end of year	\$ 12,629,342	\$ 13,186,859

Washington State Health Insurance Pool
Notes to Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015, 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 2015, 2014 and 2013 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 (continued)
December 31, 2016 and 2015

2. 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 2017. 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 2016 and 2015 were \$946,990 and \$931,944, respectively, and are included in general and administrative expenses in the accompanying statements of operations and unassigned surplus.

3. 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:

	Years ended December 31	
	2016	2015
Balances at January 1	\$ 5,611,000	\$ 6,262,000
Policy benefits incurred related to:		
Current year	42,155,303	46,351,770
Prior years (redundancy)	(1,761,959)	(1,177,661)
Total policy benefits incurred	40,393,344	45,174,109
Paid related to:		
Current year	36,906,716	40,752,759
Prior years	3,839,628	5,072,350
Total paid	40,746,344	45,825,109
Balances at December 31	\$ 5,258,000	\$ 5,611,000

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.

4. 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, 2016 or 2015, nor were there any borrowings against this line during 2016 or 2015.

Washington State Health Insurance Pool
Notes to Financial Statements (continued)
December 31, 2016 and 2015

5. Subsequent Events

In accordance with ASC 855 *Subsequent Events*, the Pool has evaluated subsequent events through February 27, 2017, 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.