

AUDITED FINANCIAL STATEMENTS

Washington State Health Insurance Pool

*Years ended December 31, 2019 and 2018  
with Independent Auditors' Report*

# Washington State Health Insurance Pool

## Audited Financial Statements

Years ended December 31, 2019 and 2018

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## Independent Auditors' Report

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, 2019 and 2018 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.

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, 2019 and 2018, and the results of its 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.

**Emphasis of Matter***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.

*Petrow Kane Leenhuis*

March 2, 2020

# Washington State Health Insurance Pool

## Balance Sheets

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and short term investments	\$ 6,076,373	\$ 4,023,437
Assessments receivable	3,527,764	6,462,515
Uncollected premiums	78,013	18,915
Total assets	<u>\$ 9,682,150</u>	<u>\$ 10,504,867</u>
<b>Liabilities and unassigned surplus</b>		
Unpaid claims	\$ 5,683,000	\$ 5,157,000
Unpaid claims adjustment expenses	294,000	285,000
Premiums received in advance	237,625	1,568,197
Assessments payable	206,723	990,915
General expenses due and accrued	112,902	125,853
Total liabilities	<u>6,534,250</u>	<u>8,126,965</u>
Unassigned surplus	3,147,900	2,377,902
Total liabilities and unassigned surplus	<u>\$ 9,682,150</u>	<u>\$ 10,504,867</u>

## Washington State Health Insurance Pool

### Statements of Operations and Unassigned Surplus

	<b>Years ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Operating revenues:		
Net premium income	<b>\$ 12,019,243</b>	\$ 12,211,368
	<b>12,019,243</b>	12,211,368
Program expenses:		
Hospital and medical benefits	<b>37,460,982</b>	38,725,315
	<b>37,460,982</b>	<b>38,725,315</b>
Management and administrative expenses		
General and administrative expenses	<b>1,272,224</b>	1,409,299
Claim adjustment expenses	<b>651,881</b>	884,631
	<b>1,924,105</b>	2,293,930
Total operating expenses	<b>39,385,087</b>	41,019,245
Operating loss	<b>(27,365,844)</b>	(28,807,877)
Non-operating revenues:		
Investment and other income	<b>135,842</b>	106,773
	<b>135,842</b>	106,773
Loss before assessments	<b>(27,230,002)</b>	(28,701,104)
Assessments	<b>28,000,000</b>	25,500,000
Change in unassigned surplus	<b>769,998</b>	(3,201,104)
Unassigned surplus at beginning of year	<b>2,377,902</b>	5,579,006
Unassigned surplus at end of year	<b>\$ 3,147,900</b>	\$ 2,377,902

*See accompanying notes and independent auditors' report.*

# Washington State Health Insurance Pool

## Statements of Cash Flows

	<b>Years ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Premiums collected	\$ 10,629,571	\$ 13,550,496
Claims and claims adjustment expenses paid	(37,092,087)	(38,376,343)
General administrative expenses paid	(1,770,949)	(1,862,474)
Cash used by operating activities	(28,233,465)	(26,688,321)
<b>Investing activities</b>		
Investment and other income	135,842	106,772
Cash provided by investing activities	135,842	106,772
<b>Financing activities</b>		
Assessments collected	30,150,559	24,921,094
Cash provided by financing activities	30,150,559	24,921,094
Net increase (decrease) in cash and cash equivalents	2,052,936	(1,660,455)
Cash and short term investments at beginning of year	4,023,437	5,683,892
Cash and short term investments at end of year	\$ 6,076,373	\$ 4,023,437

Washington State Health Insurance Pool  
Notes to Financial Statements  
December 31, 2019 and 2018

**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.

**Basis of Presentation**

The accompanying financial statements have been prepared 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. Estimates in the accompanying financial statements include amounts recorded for the liabilities for unpaid claims and related expenses. 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**

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. 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, 2019 and 2018

**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 since the Pool has the authority to assess member carriers 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, 2019 and 2018, cash balances were fully insured.

**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 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 2018, 2017 and 2016 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). The OIC's most recent examination covers three years through 2017, and was completed during 2018. No findings were noted that required an adjustment to the financial statements.

Washington State Health Insurance Pool  
Notes to Financial Statements (continued)  
December 31, 2019 and 2018

**2. 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>2019</b>	<b>2018</b>
Balances at January 1	\$ 5,442,000	\$ 4,685,000
Policy benefits incurred related to:		
Current year	38,791,124	39,679,863
Prior years (redundancy)	(1,330,142)	(954,548)
Total policy benefits incurred	37,460,982	38,725,315
 Paid related to:		
Current year	32,814,124	34,239,863
Prior years	4,111,858	3,728,452
Total paid	36,925,982	37,968,315
Balances at December 31	\$ 5,977,000	\$ 5,442,000

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.

**3. Plan Administration Agreement**

The Pool has outsourced its administrative services to Benefit Management LLC, a Kansas based third party administrator, under a service agreement effective through December 2020. 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 LLC in 2019 and 2018 were \$971,489 and \$955,996, respectively, and are included in management and administrative expenses in the accompanying statements of operations and unassigned surplus.

**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, 2019 or 2018, nor were there any borrowings against this line during 2019 or 2018.

Washington State Health Insurance Pool  
Notes to Financial Statements (continued)  
December 31, 2019 and 2018

**5. Functional Classification of Expenses**

Functional classification of expenses for the Pool for the years ended December 31 consisted of the following:

	<b>2019</b>	<b>2018</b>
Program (claims)	<b>\$ 37,460,982</b>	\$ 38,725,315
Management and administrative	<b>1,924,105</b>	2,293,930
Total operating expenses	<b><u>\$ 39,385,087</u></b>	<u>\$ 41,019,245</u>

**6. Analysis of Cash Flow**

The Pool had \$9,682,150 and \$10,504,867 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$6,076,373 and \$4,023,437, assessments receivable of \$3,527,764 and \$6,462,515, and premium receivable of \$78,013 and \$18,915 at December 31, 2019 and 2018, respectively. All of the Pool's financial assets are to be used to pay claims and operating expenses. When at any time claims and operating expenses are projected to exceed premium revenue, the Pool has the statutory authority to assess the insurance carriers writing business in the State of Washington for cash flow to cover the losses. The Pool also has the capability of drawing upon its line of credit noted in Note 4.

**7. Subsequent Events**

In accordance with ASC 855 *Subsequent Events*, the Pool has evaluated subsequent events through March 2, 2020, 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.