

AUDITED FINANCIAL STATEMENTS

Washington State Health Insurance Pool

*Years ended December 31, 2020 and 2019
with Independent Auditors' Report*

Washington State Health Insurance Pool

Audited Financial Statements

Years ended December 31, 2020 and 2019

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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, 2020 and 2019 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, 2020 and 2019, 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.

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April 12, 2021

Washington State Health Insurance Pool

Balance Sheets

	December 31	
	2020	2019
Assets		
Cash and short term investments	\$ 9,501,959	\$ 6,076,373
Assessments receivable	1,055,564	3,527,764
Uncollected premiums	282,416	78,013
Total assets	<u>\$ 10,839,939</u>	<u>\$ 9,682,150</u>
Liabilities and unassigned surplus		
Unpaid claims	\$ 3,892,000	\$ 5,683,000
Unpaid claims adjustment expenses	272,000	294,000
Premiums received in advance	284,193	237,625
Assessments payable	231,604	206,723
General expenses due and accrued	113,817	112,902
Total liabilities	<u>4,793,614</u>	<u>6,534,250</u>
Unassigned surplus	<u>6,046,325</u>	<u>3,147,900</u>
Total liabilities and unassigned surplus	<u>\$ 10,839,939</u>	<u>\$ 9,682,150</u>

Washington State Health Insurance Pool

Statements of Operations and Unassigned Surplus

	Years ended December 31	
	2020	2019
Operating revenues:		
Net premium income	\$ 8,174,887	\$ 12,019,243
	8,174,887	12,019,243
Program expenses:		
Hospital and medical benefits	27,924,914	37,460,982
	27,924,914	37,460,982
Management and administrative expenses		
General and administrative expenses	1,344,444	1,272,224
Claim adjustment expenses	529,162	651,881
	1,873,606	1,924,105
Total operating expenses	29,798,520	39,385,087
Operating loss	(21,623,633)	(27,365,844)
Non-operating revenues:		
Investment and other income	22,058	135,842
	22,058	135,842
Loss before assessments	(21,601,575)	(27,230,002)
Assessments	24,500,000	28,000,000
Change in unassigned surplus	2,898,425	769,998
Unassigned surplus at beginning of year	3,147,900	2,377,902
Unassigned surplus at end of year	\$ 6,046,325	\$ 3,147,900

See accompanying notes and independent auditors' report.

Washington State Health Insurance Pool

Statements of Cash Flows

	Years ended December 31	
	2020	2019
Operating activities		
Premiums collected	\$ 8,017,052	\$ 10,629,571
Claims and claims adjustment expenses paid	(29,848,711)	(37,092,087)
General administrative expenses paid	(1,761,894)	(1,770,949)
Cash used by operating activities	(23,593,553)	(28,233,465)
Investing activities		
Investment and other income	22,058	135,842
Cash provided by investing activities	22,058	135,842
Financing activities		
Assessments collected	26,997,081	30,150,559
Cash provided by financing activities	26,997,081	30,150,559
Net increase in cash and cash equivalents	3,425,586	2,052,936
Cash and short term investments at beginning of year	6,076,373	4,023,437
Cash and short term investments at end of year	\$ 9,501,959	\$ 6,076,373

Washington State Health Insurance Pool
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019, 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 2019, 2018 and 2017 tax returns are subject to examination by the Internal Revenue Service.

Washington State Health Insurance Pool
Notes to Financial Statements (continued)
December 31, 2020 and 2019

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:

	Years ended December 31	
	2020	2019
Balances at January 1	\$ 5,977,000	\$ 5,442,000
Policy benefits incurred related to:		
Current year	29,758,487	38,791,124
Prior years (redundancy)	(1,833,573)	(1,330,142)
Total policy benefits incurred	<u>27,924,914</u>	<u>37,460,982</u>
Paid related to:		
Current year	25,599,004	32,814,124
Prior years	4,138,910	4,111,858
Total paid	<u>29,737,914</u>	<u>36,925,982</u>
Balances at December 31	<u>\$ 4,164,000</u>	<u>\$ 5,977,000</u>

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 2020 and 2019 were \$908,287 and \$971,489, 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, 2020 or 2019, nor were there any borrowings against this line during 2020 or 2019.

Washington State Health Insurance Pool
Notes to Financial Statements (continued)
December 31, 2020 and 2019

5. Functional Classification of Expenses

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

	2020	2019
Program (claims)	\$ 27,924,914	\$ 37,460,982
Management and administrative	1,873,606	1,924,105
Total operating expenses	<u>\$ 29,798,520</u>	<u>\$ 39,385,087</u>

6. Analysis of Cash Flow

The Pool had \$10,839,939 and \$9,682,150 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of 9,501,959 and \$6,076,373, assessments receivable of \$1,055,564 and \$3,527,764, and uncollected premiums of \$282,416 and \$78,013 at December 31, 2020 and 2019, 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 it's line of credit noted in Note 4.

7. Subsequent Events

In accordance with ASC 855 *Subsequent Events*, the Pool has evaluated subsequent events through April 12, 2021, 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.