

AUDITED FINANCIAL STATEMENTS

Washington State Health Insurance Pool

*Years ended December 31, 2021 and 2020
with Independent Auditors' Report*

Washington State Health Insurance Pool

Audited Financial Statements

Years ended December 31, 2021 and 2020

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Independent Auditors' Report

Board of Directors
Washington State Health Insurance Pool

Opinion

We have audited the financial statements of Washington State Health Insurance Pool (a nonprofit organization) which comprise the balance sheets as of December 31, 2021 and 2020 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Washington State Health Insurance Pool as of December 31, 2021 and 2020, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Washington State Health Insurance Pool and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Washington State Health Pool's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Washington Health Insurance Pool's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Washington State Health Insurance Pool's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter - Statutory Requirements

Our audits were conducted for the purpose of forming an opinion on the financial statements in accordance with accounting principles generally accepted in the United States of America. Washington State Health Insurance Pool is also required to issue financial statements in accordance with accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Washington as described in RCW 48.05.073. Accordingly, in our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Washington State Health Insurance Pool as of December 31, 2021 and 2020, and the results of its 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.

Petrow Kane Leenhuis

April 28, 2022

Washington State Health Insurance Pool

Balance Sheets

	December 31	
	2021	2020
Assets		
Cash and short term investments	\$ 12,521,735	\$ 9,501,959
Assessments receivable	2,844,005	1,055,564
Uncollected premiums	48,759	282,416
Total assets	<u>\$ 15,414,499</u>	<u>\$ 10,839,939</u>
Liabilities and unassigned surplus		
Unpaid claims	\$ 5,960,000	\$ 3,892,000
Unpaid claims adjustment expenses	224,000	272,000
Premiums received in advance	295,556	284,193
Assessments payable	330,451	231,604
General expenses due and accrued	64,398	113,817
Total liabilities	<u>6,874,405</u>	<u>4,793,614</u>
Unassigned surplus	8,540,094	6,046,325
Total liabilities and unassigned surplus	<u>\$ 15,414,499</u>	<u>\$ 10,839,939</u>

See accompanying notes and independent auditors' report.

Washington State Health Insurance Pool

Statements of Operations and Unassigned Surplus

	Years ended December 31	
	2021	2020
Operating revenues:		
Net premium income	\$ 6,803,929	\$ 8,174,887
	6,803,929	8,174,887
Program expenses:		
Hospital and medical benefits	25,102,559	27,924,914
	25,102,559	27,924,914
Management and administrative expenses		
General and administrative expenses	1,223,004	1,344,444
Claim adjustment expenses	487,641	529,162
	1,710,645	1,873,606
Total operating expenses	26,813,204	29,798,520
Operating loss	(20,009,275)	(21,623,633)
Non-operating revenues:		
Investment and other income	3,044	22,058
	3,044	22,058
Loss before assessments	(20,006,231)	(21,601,575)
Assessments	22,500,000	24,500,000
Change in unassigned surplus	2,493,769	2,898,425
Unassigned surplus at beginning of year	6,046,325	3,147,900
Unassigned surplus at end of year	\$ 8,540,094	\$ 6,046,325

See accompanying notes and independent auditors' report.

Washington State Health Insurance Pool

Statements of Cash Flows

	Years ended December 31	
	2021	2020
Operating activities		
Premiums collected	\$ 7,048,949	\$ 8,017,052
Claims and claims adjustment expenses paid	(23,223,237)	(29,848,711)
General administrative expenses paid	(1,619,386)	(1,761,894)
Cash used by operating activities	(17,793,674)	(23,593,553)
Investing activities		
Investment and other income	3,044	22,058
Cash provided by investing activities	3,044	22,058
Financing activities		
Assessments collected	20,810,406	26,997,081
Cash provided by financing activities	20,810,406	26,997,081
Net increase in cash and cash equivalents	3,019,776	3,425,586
Cash and short term investments at beginning of year	9,501,959	6,076,373
Cash and short term investments at end of year	\$ 12,521,735	\$ 9,501,959

Washington State Health Insurance Pool
Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, 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 2020, 2019 and 2018 tax returns are subject to examination by the Internal Revenue Service.

Washington State Health Insurance Pool
Notes to Financial Statements (continued)
December 31, 2021 and 2020

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	
	2021	2020
Balances at January 1	\$ 4,164,000	\$ 5,977,000
Policy benefits incurred related to:		
Current year	25,149,141	29,758,487
Prior years (redundancy)	(46,582)	(1,833,573)
Total policy benefits incurred	25,102,559	27,924,914
Paid related to:		
Current year	18,980,559	25,599,004
Prior years	4,102,000	4,138,910
Total paid	23,082,559	29,737,914
Balances at December 31	\$ 6,184,000	\$ 4,164,000

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 2021. 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 2021 and 2020 were \$905,813 and \$908,287, respectively, and are included in management and administrative expenses in the accompanying statements of operations and unassigned surplus.

4. Line of Credit

The Pool had 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, 2021 or 2020, nor were there any borrowings against this line during 2021 or 2020. Accordingly, the Pool did not renew this line of credit during the year ended December 31, 2021.

Washington State Health Insurance Pool
Notes to Financial Statements (continued)
December 31, 2021 and 2020

5. Functional Classification of Expenses

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

	2021	2020
Program (claims)	\$ 25,102,559	\$ 27,924,914
Management and administrative	1,710,645	1,873,606
Total operating expenses	<u>\$ 26,813,204</u>	<u>\$ 29,798,520</u>

6. Analysis of Cash Flow

The Pool had \$15,414,499 and \$10,839,939 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$12,521,735 and \$9,501,959, assessments receivable of \$2,844,005 and \$1,055,564, and uncollected premiums of \$48,759 and \$282,416 at December 31, 2021 and 2020, 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.

7. Subsequent Events

In accordance with ASC 855 *Subsequent Events*, the Pool has evaluated subsequent events through April 28, 2022, 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.