

WASHINGTON VACCINE ASSOCIATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

**WASHINGTON VACCINE ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Washington Vaccine Association
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Washington Vaccine Association (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 the 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 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.

Board of Directors
Washington Vaccine Association

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Vaccine Association as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
August 28, 2014

**WASHINGTON VACCINE ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,778,056	\$ 2,253,811
Investments	10,000	8,736,666
Member Assessments Receivable	6,272,451	2,411,945
Prepaid Vaccines to Washington Department of Health	4,116,631	446,086
Total Current Assets	\$ 15,177,138	\$ 13,848,508
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 24,942	\$ 78,465
Bank Line of Credit, Current Portion	1,000,000	-
Vaccine Fees Payable to Washington Department of Health	-	3,801,140
Total Current Liabilities	1,024,942	3,879,605
LINE OF CREDIT , Net of Current Portion	10,000,000	-
Total Liabilities	11,024,942	3,879,605
ASSESSMENTS COLLECTED IN EXCESS OF VACCINE FUNDING AND ADMINISTRATIVE ACTIVITIES	4,152,196	9,968,903
NET ASSETS - UNRESTRICTED	-	-
Total Liabilities and Net Assets	\$ 15,177,138	\$ 13,848,508

See accompanying Notes to Financial Statements.

**WASHINGTON VACCINE ASSOCIATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

	Administrative Activities	Vaccine Funding Activities	Total
CHANGE IN UNRESTRICTED NET ASSETS			
Assessment Activity:			
Assessments Collected	\$ (5,802,326)	\$ 56,051,300	\$ 50,248,974
Vaccine Replenishments	-	(55,277,077)	(55,277,077)
Net Assessment Activity	(5,802,326)	774,223	(5,028,103)
Revenue:			
Interest Income	6,466	-	6,466
Realized Gain on Investments	3,896	-	3,896
Total Revenue	10,362	-	10,362
Expenses:			
Public Information	17,160	-	17,160
Administrative	428,833	-	428,833
Office	97,644	-	97,644
Interest	233,939	-	233,939
Other	21,389	-	21,389
Total Expenses	798,965	-	798,965
Total Change in Unrestricted Net Assets	(6,590,929)	774,223	(5,816,706)
VACCINE FUNDING AND ADMINISTRATIVE ACTIVITIES IN EXCESS OF ASSESSMENTS COLLECTED	6,590,929	(774,223)	5,816,706
CHANGES IN NET ASSETS	-	-	-
Net Assets - Beginning of Year	-	-	-
NET ASSETS - END OF YEAR	\$ -	\$ -	\$ -

See accompanying Notes to Financial Statements.

**WASHINGTON VACCINE ASSOCIATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Administrative Activities	Vaccine Funding Activities	Total
CHANGE IN UNRESTRICTED NET ASSETS			
Assessment Activity:			
Assessments Collected	\$ (25,137,728)	\$ 55,906,382	\$ 30,768,654
Vaccine Replenishments	-	(45,575,125)	(45,575,125)
Net Assessment Activity	(25,137,728)	10,331,257	(14,806,471)
Revenue:			
Interest Income	87,050	-	87,050
Realized Gain on Investments	6,693	-	6,693
Unrealized Gain on Investments	13,270	-	13,270
Total Revenue	107,013	-	107,013
Expenses:			
Public Information	3,261	-	3,261
Administrative	428,163	-	428,163
Office	102,719	-	102,719
Other	21,469	-	21,469
Total Expenses	555,612	-	555,612
Total Change in Unrestricted Net Assets	(25,586,327)	10,331,257	(15,255,070)
VACCINE FUNDING AND ADMINISTRATIVE ACTIVITIES IN EXCESS OF ASSESSMENTS COLLECTED	<u>25,586,327</u>	<u>(10,331,257)</u>	<u>15,255,070</u>
CHANGES IN NET ASSETS	-	-	-
Net Assets - Beginning of Year	-	-	-
NET ASSETS - END OF YEAR	\$ -	\$ -	\$ -

See accompanying Notes to Financial Statements.

**WASHINGTON VACCINE ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments Collected	\$ 46,388,468	\$ 29,540,090
Interest Income	6,466	87,050
Cash Remittances to Washington Department of Health for Vaccines	(62,748,763)	(45,459,131)
Administrative Expenses Paid	(618,549)	(612,709)
Cash Paid for Interest Expense	(233,939)	-
Net Cash Used by Operating Activities	(17,206,317)	(16,444,700)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	14,464,005	11,826,059
Purchase of Investments	(5,733,443)	(500,000)
Net Cash Provided by Investing Activities	8,730,562	11,326,059
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Borrowings	11,000,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,524,245	(5,118,641)
Cash and Cash Equivalents - Beginning of Year	2,253,811	7,372,452
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,778,056	\$ 2,253,811
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ -	\$ -
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Realized Gain on Investments	(3,896)	(6,693)
Unrealized Gain on Investments	-	(13,270)
(Increase) Decrease in Assets:		
Member Assessments Receivable	(3,860,506)	(1,228,564)
Prepaid Vaccines to Washington Department of Health	(3,670,545)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(53,523)	(57,097)
Vaccine Fees Payable to Washington Department of Health	(3,801,140)	115,994
Assessments Collected in Excess of Vaccine Funding and Administrative Activities	(5,816,707)	(15,255,070)
Net Cash Used by Operating Activities	\$ (17,206,317)	\$ (16,444,700)

See accompanying Notes to Financial Statements.

**WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF ORGANIZATION

Organization and Operations

Since 1990, Washington State has maintained a Universal Childhood Vaccine Program, providing vaccines to all children under age 19. Together with federal funding, Washington's program has advanced the widely recognized benefits of universal childhood vaccination. Faced with a scheduled end to state funding in 2010, the Washington State legislature established the universal vaccine purchase account to be able to continue providing state-supplied vaccines to privately-insured children. This legislation was adopted after a year of study by and with broad support from the Washington health care community.

Washington Vaccine Association (the Association) is a special purpose nonprofit corporation formed on April 1, 2010 to support the state government in developing and administering a new method for collecting funds to support the Universal Childhood Vaccine Program. The Washington legislature created the Association through the Washington Vaccine Association Act, now codified in Chapter 70.290 RCW.

The Association's members are comprised of all health insurance carriers issuing or renewing health benefit plans in Washington State, and all third-party administrators (TPAs) conducting business on behalf of residents of Washington State or Washington health care providers.

The Association's primary purpose is to raise funds through mandatory assessments paid by its members. Payments are made to the State of Washington Department of Health (DOH) for the purchase of vaccines. The vaccines are to be administered to children in the State of Washington who are under the age of 19 and who are not eligible for free vaccines under one or more federal programs.

The Association is operated under a Plan of Operation adopted by the board of directors as required by Washington State House Bill 2551. The Association's governance documents are available at the Association's website: www.WAvaccine.org.

Termination of the Association

The Association board may, on or after June 30, 2015, vote to recommend termination of the Association if it finds that the original intent of its formation and operation has not been achieved. The Association board must provide notice of the recommendation to the relevant policy and fiscal committees of the Washington State legislature within 30 days of the vote being taken by the Association board. If the legislature has not acted by the last day of legislative session to reject the board's recommendation, the board may vote to permanently dissolve the Association.

In the event of a voluntary or involuntary dissolution of the Association, funds remaining in the universal purchase vaccine account created in RCW 43.70.720 that were collected under 2551 must be returned to members in proportion to their previous year's contribution, from any balance remaining following the repayment of any prepayments for start-up funding not previously recouped by such member.

**WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared in accordance with the provisions of accounting standards generally accepted in the United States of America. Under those standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Association's net assets do not contain restrictions as of June 30, 2014 and 2013.

Concentration of Risk

Financial instruments that subject the Association to concentrations of credit risk consist of cash deposits. The Association places its cash deposits with high quality financial institutions. Deposits exceed federally insured limits as of June 30, 2014 and 2013.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, all highly liquid investments available for use with an initial maturity of three months or less are considered to be cash equivalents.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Purchases and sales are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Association's gains and losses on investments bought and sold as well as held during the year.

Member Assessments Receivable

Member assessments receivable represents the running total of replenishment requests to date minus amounts collected to date through the end of the year, and is the amount the Association expects to collect from members. The Association has determined that an allowance for uncollectible amounts is not necessary due to the method used to calculate the balance.

The Association charges interest on late payment of assessments at a monthly rate of 1.5 percent. Interest is added to the assessment for payments received after the due date of the assessment.

**WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dosage Based Assessments

Funds collected from health insurers and TPAs of health plans in the state of Washington (including administrative revenue and reserve portion discussed below) are determined using a Dosage Based Assessment methodology. At each administration of vaccines to a nonfederally eligible child in the state of Washington, the provider's office charges for and generates a claim for administrative services and also generates an item, resembling a claim form, on which the per-vaccine assessment is reported to the respective payer. The per-vaccine assessment amounts are established by the Association periodically. The payer pays the provider for the administration claim, and also pays the assessment amount to the Association, in a manner similar to payment of a claim for the cost of vaccines. The Association collects these assessments and remits payments to the State of Washington Treasurer to pay its allocated share of vaccine costs each time a vaccine replenishment order for the state's Universal Childhood Vaccine Program is due. The cost for each vaccine is negotiated by the Center for Communicable Diseases. The DOH invoices the Association for vaccine purchases.

Revenue Recognition

The Association collects member assessments that are remitted to the DOH for purchase of vaccines. In addition, the Plan of Operation allows the Association to retain sufficient funds to cover its administrative costs, net of investment income. Expense is recognized for the administrative costs of operating the Association. The replenishment of vaccines and collection of vaccine assessments are similar to agency transactions. Although these transactions are not considered revenue or expenses of the Association, they are included in the statements of activities as vaccine replenishments to reflect the gross amount of collections and replenishments.

Remittance to Universal Purchase Account

The Plan of Operation requires the Association to periodically remit its assessment receipts, less the Association's administrative costs and any reserves set by the board or the executive director, to the credit of the universal vaccine purchase account (UVPA) established pursuant to RCW 43.70.720. Funds transferred to the UVPA are to be delivered on a just-in-time basis, in order to support the assessment collection process and to enable the Association to gain as much interest income as reasonably possible through its collection process to help offset its costs of administration. The DOH or its designee has access privileges to be able to directly observe the balances in the Association's accounts, and the Association is required to promptly respond to any inquiry of the DOH concerning the availability and timely transfer of funds, enabling the DOH to make payment of the Association's share under the statute for vaccine purchases made by the state of Washington.

**WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Collected in Excess of Vaccine Funding and Administrative Costs

The Association has collected assessments in excess of amounts required to be paid to the DOH through the end of the accounting period for childhood vaccine funding and administrative costs. The Association is a limited purpose entity whose funds are dedicated solely to the specific purposes discussed above. These excess assessment collections, which may accumulate from time to time, will be applied to (i) future vaccine funding obligations of the Association, and (ii) reasonable and necessary operating costs of the Association. The Association maintains a level of excess collections (reserves) to be able to meet DOH needs for funding timely. As of June 30, 2014 and 2013, assessments collected in excess of vaccine funding and administrative activities totaled \$4,152,196 and \$9,968,903, respectively.

Income Taxes

The Association follows Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 740, *Income Taxes* (Topic 740). Topic 740 clarifies the accounting for uncertainty in income taxes.

The Association operates as a tax-exempt organization created by Washington State statute and an affiliate of a governmental unit. In order to obtain 501(c)(3) status and to determine whether filing of an annual federal information return (Form 990) is required, the Association prepared and submitted Form 1023 to the Internal Revenue Service (IRS) in June 2012. On May 14, 2013, the IRS granted 501(c)(3) tax-exempt status and determined that the filing of Form 990 is not required in prior or future years.

Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustments to the financial statements. Based upon its evaluation, the Association has concluded that it is operating in compliance within its tax-exempt status and that there are no matters that would create taxable income. The Association's tax years for 2011 and through the current tax year are open for examination by the IRS.

Reclassifications

Prepaid vaccines to DOH in the 2013 financial statements have been reclassified to conform to the 2014 presentation. Those reclassifications had no effect on net assets or changes in net assets.

Subsequent Events

The board of directors and management have evaluated subsequent events through August 28, 2014, the date the financial statements were available to be issued.

WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Association follows FASB ASC 820-10, *Fair Value Measurements* (FASB ASC 820-10). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of input determines the placement of the entire fair value measurement in the hierarchy.

The Association's significant financial instruments are investments which are measured at fair value on a recurring basis as follows:

Corporate Bonds, Government Securities, and U.S. Agencies – Fair value is based a complex process utilized by the broker's pricing service (Clearwater Analytics). Clearwater goes through a complex process to determine a baseline for its pricing algorithm along with prices from other sources. Once the baseline is established, all other prices available for the security are pooled together. Clearwater's pricing algorithm is then run with the pool of securities as inputs and the Clearwater Best Price is produced. Clearwater data sources include sources such as Bloomberg, S&P, and Reuters.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**WASHINGTON VACCINE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Corporate Bonds:				
Industrial	\$ -	\$ 1,902,043	\$ -	\$ 1,902,043
Utility	-	764,470	-	764,470
Financial	-	2,475,550	-	2,475,550
U.S. Government Agency Bonds:				
Freddie Mac	-	1,502,990	-	1,502,990
Freddie Mae	-	505,900	-	505,900
U.S. Treasury Notes	-	1,019,300	-	1,019,300
Total Assets at Fair Value	<u>\$ -</u>	<u>\$ 8,170,253</u>	<u>\$ -</u>	<u>8,170,253</u>
Cash and Cash Equivalents and Accrued Interest Measured at Cost				566,413
Total				<u>\$ 8,736,666</u>

NOTE 4 REMITTANCE TO THE STATE OF WASHINGTON

Pursuant to the Association's statutory purposes, transfers of \$62,748,762 and \$45,459,131 were made by the Association to the State of Washington's UVPA during the years ended June 30, 2014 and 2013, respectively.

NOTE 5 LINE OF CREDIT

In September 2013, the Association accepted a commitment from KeyBank National Association for a \$15 million line of credit (LOC). The Association may elect to pay interest on the LOC at either the adjusted LIBOR Rate or Bank Prime Rate (2.9375 percent at June 30, 2014). The balance of the LOC must be reduced to \$10 million by October 1, 2014, and must be paid in full by October 1, 2015. The LOC is secured by the general assets of the Association. The LOC agreement includes a covenant regarding liquid assets. Management believes the Association is in compliance with the debt covenant.

This LOC was designed to enable the Association's timely response to a new requirement from the federal Centers for Disease Control (CDC). Effective October 1, 2013, all states purchasing from the CDC contract must purchase under a new advanced funding method. The LOC was necessary for the Association to respond to this immediate cash call. The Association increased its assessment rates effective December 1, 2013 so that it should have sufficient funds both (i) to repay the LOC, and (ii) to rebuild liquidity reserves.

NOTE 6 CONTINGENCIES

There is an inherent risk that a certain portion of the vaccines purchased by the DOH will not be administered to children, resulting in vaccine shrinkage. If member assessments are insufficient for reimbursement to the DOH for purchases of vaccines, the Association would be liable to the DOH to cover the shortfall.