

Washington State Auditor's Office
Financial Statements Audit Report

United Schools Insurance Program
Grant County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1012311

Issue Date
August 4, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

August 4, 2014

Board of Directors
United Schools Insurance Program
Ephrata, Washington

Report on Financial Statements

Please find attached our report on the United Schools Insurance Program's financial statements.

We are issuing this report in order to provide information on the Pool's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Grant County
September 1, 2012 through August 31, 2013**

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**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**United Schools Insurance Program
Grant County
September 1, 2012 through August 31, 2013**

Board of Directors
United Schools Insurance Program
Ephrata, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the United Schools Insurance Program, Grant County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated June 10, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of the Pool's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

June 10, 2014

Independent Auditor's Report on Financial Statements

United Schools Insurance Program Grant County September 1, 2012 through August 31, 2013

Board of Directors
United Schools Insurance Program
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the United Schools Insurance Program, Grant County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 6.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Pool'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 Pool'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Schools Insurance Program, as of August 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 9 and claims development information on pages 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The List of Participating Members and Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 10, 2014

Financial Section

United Schools Insurance Program Grant County September 1, 2012 through August 31, 2013

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UNITED SCHOOLS INSURANCE PROGRAM
Management's Discussion and Analysis
September 1, 2012 to August 31, 2013

The management of the United Schools Insurance Program (USIP) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the USIP for the fiscal year ending August 31, 2013. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

Overview of the Financial Statements

The Balance Sheet presents information on the USIP's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the program is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position shows both operating and nonoperating revenues and expenses that occurred during the year. The difference between revenues and expenses is reported as a change to net assets. Items are reported as the event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows provides information on how various activities of the program affect cash and cash equivalents during the fiscal year.

The Notes to the Financial Statements present additional information that is essential for a full understanding of the data provided in the accompanying financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the program's development of claims over the last ten years.

USIP - Condensed Financial Information

	2013	2012
Current Assets	7,241,394	7,574,900
Noncurrent Assets	0	12,500
Total Assets	<u>7,241,394</u>	<u>7,587,400</u>
Current Liabilities	2,063,609	2,868,796
Noncurrent Liabilities	1,487,073	1,715,810
Total Liabilities	<u>3,550,682</u>	<u>4,584,606</u>
Invested in Capital Assets, net of debt	0	12,500
Unrestricted	3,690,712	2,990,294
Total Net Position	<u>3,690,712</u>	<u>3,002,794</u>
Operating Revenues		
Member contributions	12,354,131	11,822,079
Nonoperating Revenues		
Interest Income	10,678	4,172
Total Revenues	<u>12,364,809</u>	<u>11,826,251</u>
Operating Expenses	11,676,891	10,567,228
Total Expenses	<u>11,676,891</u>	<u>10,567,228</u>
Change in Net Position	687,918	1,259,023
Ending Net Position	<u>3,690,712</u>	<u>3,002,794</u>

Financial Statement Analysis

The United Schools Insurance Program (USIP) was originally founded in 1985 under the name Eastern Washington School District Insurance Group (EWSDIG) with 34 founding members. The USIP is a property and liability risk and insurance pooling program for schools with enrollments less than 3,000 students. A board of directors, elected by the membership, governs the program. The Board of Directors contracts with Canfield, a third-party administrator, to carry out the day-to-day administrative, claims, and risk management services.

The financial condition of the United Schools Insurance Program improved during the 2013 year. Due to the claims losses and IBNR being less than anticipated, the total net position of the program increased by \$687,918. Current assets of the pool include cash and investments, as well as receivables from members and reinsurance carriers. Current liabilities are payables, deferred revenue and reserves set aside for unpaid claims liabilities. The pool utilizes the services of an actuary to determine that adequate reserves have been set aside to cover any potential future claims. In addition, the USIP purchases a stop loss policy as another layer of protection to its membership.

On January 14, 2010, Chapter 82-60 WAC, which governs pools in Washington, was revised. The new funding standards require primary assets (cash and investments) equal to the expected losses determined by the actuary and secondary assets (includes accounts receivable, fixed assets, etc.) equal to a 70% confidence level. The USIP does not have any restrictions or commitments that affect the availability of pool resources for future use.

Requests for Information

This financial report is designed to provide a general overview of the United Schools Insurance Program's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the USIP's third-party administrator, Canfield, 451 Diamond Drive, Ephrata, WA 98823.

United Schools Insurance Program

Balance Sheet

As of August 31, 2013

<u>ASSETS</u>	<u>2013</u>
<u>Current Assets:</u>	
Cash and Equivalents	\$1,672,862
Investments	\$5,044,103
Receivables:	
Member Contributions & Deductibles	\$12,673
Other Receivables	<u>\$511,757</u>
 TOTAL CURRENT ASSETS	 <u>\$7,241,394</u>
 TOTAL ASSETS	 <u><u>\$7,241,394</u></u>
 <u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$27,551
Claims Reserves:	
IBNR	\$860,278
Open Claims (Case Reserves)	\$794,630
Due to CIAW	\$24,577
Deferred Revenue	<u>\$356,574</u>
 TOTAL CURRENT LIABILITIES	 <u>\$2,063,609</u>
 <u>Noncurrent Liabilities:</u>	
Claims Reserves:	
IBNR	\$772,252
Open Claims (Case Reserves)	\$713,321
Federal Tax Liability	\$1,500
 TOTAL NONCURRENT LIABILITIES	 <u>\$1,487,073</u>
 TOTAL LIABILITIES	 <u>\$3,550,682</u>
 <u>NET POSITION</u>	
Unrestricted	<u>\$3,690,712</u>
 TOTAL NET POSITION	 <u>\$3,690,712</u>
 TOTAL NET POSITION AND LIABILITIES	 <u><u>\$7,241,394</u></u>

See Accompanying Notes to Financial Statements

United Schools Insurance Program
Statement of Revenues, Expenses, and Changes in Fund Net Position
For The Fiscal Year Ended August 31, 2013

	2013
OPERATING REVENUES:	
Member Contributions	\$12,354,131
Total Operating Revenues	\$12,354,131
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses:	
Paid on Current Losses	\$1,120,225
Change in Loss Reserves	\$1,344,864
Unallocated Loss Adjustment Expenses:	
Paid Unallocated Loss Adjustment Expenses	\$1,145,630
Excess/Reinsurance Premiums	\$5,678,325
General and Administrative Expenses	\$2,375,347
Depreciation	\$12,500
Total Operating Expenses	\$11,676,891
OPERATING INCOME (LOSS)	\$677,240
NONOPERATING REVENUES(EXPENSES):	
Interest Income	\$10,678
Total Nonoperating Revenues (Expenses)	\$10,678
CHANGE IN NET POSITION	\$687,918
TOTAL NET POSITION, September 1	\$3,002,794
TOTAL NET POSITION, August 31	\$3,690,712

See Accompanying Notes to Financial Statements

United Schools Insurance Program

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended August 31, 2013

	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$12,109,810
Cash payments to suppliers for goods and services	<u>(\$12,698,315)</u>
Net Cash Provided (Used) for Operating Activities	<u>(\$588,505)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	<u>\$10,678</u>
Net Cash Provided (Used) for Investing Activities	<u>\$10,678</u>
Increase (Decrease) in Cash and Cash Equivalents	(\$577,827)
Cash and Equivalents, September 1	<u>\$7,294,791</u>
Cash and Equivalents, August 31	<u>\$6,716,965</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	<u>2013</u>
OPERATING INCOME	\$677,240
Depreciation Expense	\$12,500
(Increase) Decrease in Accounts Receivable	(\$244,321)
Increase (Decrease) in Unpaid Claims Liability	(\$226,228)
Increase (Decrease) in Deferred Revenue	(\$817,945)
Increase (Decrease) for Payables	\$10,249
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(\$588,505)</u>

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

UNITED SCHOOLS INSURANCE PROGRAM

For the Period

September 1, 2012 through August 31, 2013

The following notes are an integral part of the financial statements accompanying the annual report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the United Schools Insurance Program conform to generally accepted accounting principles as applicable to proprietary funds of governmental units. The following is a summary of the more significant policies:

a. Reporting Entity

The United Schools Insurance Program (USIP) was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The USIP was formed on September 1, 1985 for purposes of the joint purchase of insurance and/or joint self-insuring and/or joint hiring or contracting for risk management purposes, claims administration and all other functions necessary to carry out provisions of the Interlocal Agreement. There were 155 member districts as of August 31, 2013.

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is governed by a nine-member Board of Directors elected by the members. Six Board members are elected from six geographic regions of Washington with three members elected "at large". All Board member terms are staggered three-year terms to ensure continuity and are responsible for conducting the business affairs of the group. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

b. Basis of Accounting

The accounting records of the USIP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapters 39.34 and 43.09. The USIP also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* as amended by the GASB Statement 30, *Risk Financing Omnibus* and the GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The USIP uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues are items that are directly related to the primary operations of the USIP. Non-operating revenues are significant, recurring items that are not directly related to operation, such as interest income. The principal operating revenues of the pool are generated from annual billings for insurance to the members. Operating expenses include payment of claims, general and administrative costs, and reinsurance costs.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the USIP considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets – See Note 7.

e. Receivables

All receivables are from member districts or insurance carriers and are, therefore, deemed collectible. All uncollectable accounts receivable under \$500 can be written off without Board permission, but are reported to the fiscal officer monthly. All uncollectable accounts receivable over \$500 may only be written off with Board approval.

f. Investments - See Note 3.

g. Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The unpaid claims liabilities at yearend for case reserves and IBNR were \$3,140,481.

h. Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risk reinsured. The USIP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to reinsurers during 2013 were \$5,678,325.

i. Member Premium and Unearned Premiums

Member assessments are collected at the beginning of the fiscal year and recognized as revenue in the period for which insurance protection is provided. The program premium is calculated based on a percentage of the member's apportioned excess insurance cost. Unearned member premiums are premiums that are collected prior to the effective date of the policy.

j. Unpaid Claims

Claims are charged to income as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims incurred but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

k. Reserve for Unallocated Loss Adjustment Expenses

Pursuant to the contract in place between USIP and its third-party administrator, the third-party administrator will administer in all matters related to the processing, supervision and resolution of all program and program membership claims or losses incurred during the term of the agreement.

I. Exemption from Federal and State Taxes

Chapter 48.62 RCW exempts the pool from insurance premium taxes and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). The USIP is currently working with a tax attorney for the years that associate members belonged to the pool. This process could take up to three years. The potential tax liability is estimated to be approximately \$1,500.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Management is not aware of any violations of finance-related legal or contractual provisions.

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

The USIP deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

b. Investments

As of August 31, 2013, the USIP had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Grant County Investment Pool	\$5,007,151	\$5,007,151
State Investment Pool	<u>\$36,952</u>	<u>\$36,952</u>
Total Investments	<u>\$5,044,103</u>	<u>\$5,044,103</u>

The Grant County Investment Pool's Net Asset Value Per Share is \$0.937 and Market Value Percentage is \$0.9366%.

NOTE 4 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by USIP for the 2012-13 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES (In addition to the SIR)	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000	\$100,000	\$100,000,000 per occurrence
Flood	\$25,000 per occurrence; \$500,000 per occurrence for Flood Zones prefixed A or V	\$100,000	\$30,000,000 annual aggregate; \$15,000,000 annual aggregate Flood Zones prefixed A or V
Earthquake	Greater of 2% of the total value or \$50,000 per occurrence	\$100,000	\$30,000,000 annual aggregate
Equipment Breakdown	\$10,000	\$0	\$100,000,000 per occurrence
Employee Dishonesty	\$2,500	\$100,000	\$1,000,000 per occurrence
Auto Comp and Collision	\$1,000	\$100,000	\$100,000,000 per occurrence
Liability Loss:			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000	\$100,000	\$15,000,000 per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000	\$100,000	\$15,000,000 per occurrence; \$100,000,000 group annual aggregate
Wrongful Acts Liability	\$1,000	\$100,000	\$15,000,000 per claim; \$30,000,000 group annual aggregate

NOTE 5 – REINSURANCE AND EXCESS INSURANCE CONTRACTS

The USIP maintains reinsurance and excess insurance contracts with several carriers (all carriers are A rated) which provide various limits of coverage over the pool's self-insured retention limits. The limits provided by these excess/reinsurance contracts are as follows:

<u>Excess/Reinsurance Contracts</u>	<u>2013</u>
General Liability	\$100,000,000
Automobile Liability	No aggregate
Wrongful Acts Liability	\$30,000,000
Property	\$100,000,000
Equipment Breakdown	\$100,000,000
Employee Dishonesty	No aggregate

Per-occurrence coverage limits provided by the USIP, including the excess insurance limits combined with the pool's self-insured retention limits are as follows:

<u>Excess/Reinsurance Contracts</u>	<u>2013</u>
General Liability	\$15,000,000
Automobile Liability	\$15,000,000
Wrongful Acts Liability	\$15,000,000
Property	\$100,000,000
Equipment Breakdown	\$100,000,000
Employee Dishonesty	\$1,000,000

There have been no settlements that have exceeded coverage in any of the last three years.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$5,678,325. The estimated recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$795,167.

NOTE 6 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members in the event the pool lacks resources to pay claims. The USIP has never made a supplemental assessment. Members buy into the equity of the program when they join.

This is shown as a capital contribution on the Statement of Revenues, Expenses, and Changes in Fund Net Position. This calculation is based upon net assets and student enrollment.

NOTE 7 – CAPITAL ASSETS

Capital Assets

Capital assets are defined by the pool as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years.

Capital assets are recorded at historical cost. Capital assets activity for the year ended August 31, 2013 was as follows:

	<u>Beg Bal</u>	<u>Inc/Dec</u>	<u>End Bal</u>
Capital assets being depreciated:			
Records Purchased	\$125,000	\$0	\$125,000
Equipment	\$25,000	\$0	\$25,000
Less Accum Depreciation	<u>\$137,500</u>	<u>\$12,500</u>	<u>\$150,000</u>
Total Capital Assets, net	<u>\$ 12,500</u>	<u>\$12,500</u>	<u>\$0</u>

Depreciation is calculated using the straight-line method with a useful life of five years.

NOTE 8 – RELATED PARTY TRANSACTIONS

The USIP's third party administrator and insurance broker is Canfield. Canfield uses Apex to place insurance coverage for the pool. Both Canfield and Apex are owned by the same parent company, Brown and Brown, Inc. Canfield runs its operations from Ephrata, Washington. Apex Insurance is located in Glen Allen, VA.

NOTE 9 – UNPAID CLAIMS LIABILITY

As discussed in Note 1, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following table represents changes in those aggregate liabilities for the pool during the current and previous year:

	<u>2013</u>	<u>2012</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	<u>\$3,366,709</u>	<u>\$3,470,590</u>
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$2,291,250	\$2,466,250
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>(\$946,386)</u>	<u>(\$1,457,383)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$1,344,864</u>	<u>\$1,008,867</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Current Year	\$1,120,225	\$1,290,432
Claims and Claim Adjustment Expenses		
Attributable to Insured Events of Prior Year	\$450,867	<u>(\$177,684)</u>
Total Payments	<u>\$1,571,092</u>	<u>\$1,112,748</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$3,140,481</u>	<u>\$3,366,709</u>

NOTE 10 - FINANCIAL SOLVENCY/REQUIRED ASSETS (WAC) 200-100

Revised WAC 200-100 requires USIP to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 70% confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

		08/31/2013	08/31/2012
Primary Asset Test			
Primary Assets		6,306,763	6,076,894
Estimated Claims Liabilities at Expected Level		3,140,481	3,366,709
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		6,831,193	6,357,003
Estimated Claims at 70% Confidence Level		3,230,320	3,551,329
	Results	Pass	Pass

United Schools Insurance Program

TEN YEAR CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended August 31, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Net earned required contribution and investment revenues										
Earned	7,360,173	8,243,003				11,678,078	12,536,987	11,841,514	11,826,251	12,364,809
Ceded	4,866,420	5,404,086				6,733,526	7,435,104	6,014,308	4,923,370	5,678,325
Net Earned	2,442,539	2,784,520	3,180,814	3,655,386	4,588,126	4,944,552	5,101,883	5,827,206	6,902,881	6,686,484
2. Unallocated expenses	774,274	889,269	944,380	1,118,637	1,156,018	2,057,125	2,415,869	2,645,535	3,344,559	3,533,477
3. Estimated incurred claims and expense, end of policy year										
Incurred						7,084,215	3,556,642	3,556,750	4,099,488	4,506,250
Ceded						4,401,063	904,642	1,165,500	1,633,238	2,215,000
Net incurred	1,809,511	1,901,357	2,505,469	2,420,847	3,199,039	2,683,152	2,652,000	2,391,250	2,466,250	2,291,250
4. Net paid (cumulative) as of:										
End of Policy Year	1,142,686	1,065,042	1,747,276	1,772,639	1,549,716	956,883	924,139	1,093,302	1,290,432	1,120,225
One year later	1,531,133	1,497,679	2,226,743	2,065,059	1,784,107	1,536,581	1,519,259	1,642,198	1,787,123	
Two years later	1,910,672	1,680,004	2,347,886	1,759,540	1,933,760	1,823,616	1,871,132	1,718,253		
Three years later	2,122,921	1,855,886	2,024,352	1,815,031	1,948,756	1,912,924	2,355,692			
Four years later	2,233,385	1,722,829	2,052,050	2,005,849	2,014,196	2,279,664				
Five years later	1,670,876	1,709,181	2,051,640	2,144,849	2,066,084					
Six years later	1,688,817	1,827,472	2,051,548	2,196,656						
Seven years later	1,687,993	1,860,773	2,051,418							
Eight years later	1,686,302	1,870,540								
Nine years later	1,686,815									
5. Reestimated ceded claims and expenses	1,478,188	860,793	2,651,860	3,120,019	3,921,155	6,377,418	2,288,991	1,076,131	1,938,107	2,215,000
6. Reestimated incurred claims and expense:										
End of Policy Year	1,809,511	1,901,357	2,505,469	2,420,847	3,199,039	2,683,152	2,652,000	2,391,250	2,466,250	2,291,250
One year later	1,785,676	2,036,409	2,893,085	2,910,330	2,859,181	2,360,000	2,652,000	2,425,000	2,401,250	
Two years later	1,968,989	2,333,390	3,032,321	2,385,588	2,665,000	2,480,000	2,652,000	2,404,627		
Three years later	2,451,812	1,981,587	2,383,162	2,164,206	2,187,553	2,274,031	2,652,000			
Four years later	2,501,129	1,931,436	2,206,318	2,089,782	2,105,517	2,419,075				
Five years later	1,752,903	1,774,756	2,062,161	2,195,449	2,111,604					
Six years later	1,700,592	1,864,756	2,055,263	2,255,415						
Seven years later	1,700,975	1,979,639	2,051,418							
Eight years later	1,687,914	1,999,497								
Nine years later	1,686,815									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	(122,696)	98,140	(454,051)	(165,432)	(1,087,435)	(264,077)	0	13,377	(65,000)	0

**UNITED SCHOOLS INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
September 1, 2012 through August 31, 2013**

This required supplementary information is an integral part of the accompanying financial statements.

1. Ten-Year Claims Development Information

This table illustrates how the program's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the pool as of the end of each of the last ten years. The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the pool including overhead and claims expenses not allocable to individual claims.
3. This section shows the pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 2012 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates and management property estimates and aggregate stop losses. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**LIST OF PARTICIPATING MEMBERS
UNITED SCHOOLS INSURANCE PROGRAM**

- | | |
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| <ol style="list-style-type: none"> 1. Adna School District #226 2. Almira School District #17 3. Asotin-Anatone School District #420 4. Benge School District #122 5. Boistfort School District #234 6. Brewster School District #111 7. Bridgeport School District #75 8. Cascade School District #228 9. Cashmere School District #222 10. Cheney School District #360 11. Chewelah School District #36 12. Clarkston School District #J250-185 13. Cle Elum School District #404 14. Colfax School District #300 15. College Place School District #250 16. Colton Consolidated School District #306 17. Columbia (Burbank) School District #400 18. Columbia (Hunters) School District #206 19. Colville School District #115 20. Cosmopolis School District #99 21. Coulee-Hartline School District #151 22. Creston School District #73 23. Curlew School District #50 24. Cusick School District #59 25. Damman School District #7 26. Davenport School District #207 27. Dayton School District #2 28. Deer Park School District #414 29. Dixie School District #101 30. Easton School District #28 31. Elma School District 32. Endicott School District #308 33. Entiat School District #127 34. Ephrata School District #165 35. ESD #113 36. Evaline School District #36 37. Evergreen School District #205 38. Finley School District #53 39. Freeman School District #358 40. Garfield School District #302 41. Goldendale School District #404 42. Grand Coulee Dam School District #301J 43. Grandview School District #JT 116/200 44. Granger School District #204 45. Grapeview School District #54 46. Great Northern School District #312 47. Griffin School District #324 48. Harrington School District #204 49. Highland School District #203 50. Hood Canal School District #404 51. Hoquiam School District #28 52. Inchelium School District #70 53. Kahlotus School District #56 54. Keller School District #3 55. Kettle Falls School District #212 | <ol style="list-style-type: none"> 56. Kiona-Benton School District #52 57. Kittitas School District #403 58. LaCrosse School District #126 59. Lake Chelan School District #129 60. Lake Quinault School District #97 61. Lakeside School 62. Lamont School District #264 63. Liberty Consolidated School District #362 64. Lind School District #158 65. Loon Lake School District #183 66. Mansfield School District #207 67. Manson School District #19 68. Mary M. Knight School District #311 69. Mary Walker School District #207 70. McCleary School District #65 71. Medical Lake School District #326 72. Methow Valley School District #350 73. Montesano School District #66 74. Morton School District #214 75. Mossyrock School District #206 76. Mount Adams School District #209 77. Naches Valley School District #JT3 78. Napavine School District #14 79. Nespelem School District #14 80. Newport Consolidated SD #56-415 81. Nine Mile Falls School District #325-179 82. North Beach School District #64 83. North Central ESD #171 84. North Franklin School District #51-162 85. North Mason School District #403 86. North River School District #200 87. Northport School District #211 88. Oakesdale School District #324 89. Oakville School District #400 90. Ocosta School District #172 91. Odessa School District #105 92. Okanogan School District #105 93. Omak School District #19 94. Onalaska School District #300 95. Onion Creek School District #30 96. Orchard Prairie School District #123 97. Orient School District #65 98. Orondo School District #13 99. Oroville School District #410 100. Othello School District #147 101. Palisades School District #102 102. Palouse School District #301 103. Pateros School District #122 104. Paterson School District #50 105. Pe Ell School District #301 106. Pioneer School District #402 107. Pomeroy School District #110 108. Prescott School District #402-37 109. Prosser School District #116 110. Pullman School District #267 |
|--|--|

111. Quincy School District #144-101
112. Rainier School District #307
113. Raymond School District #116
114. Reardan-Edwall School District #9
115. Republic School District #309
116. Ritzville School District #160-67
117. Riverside School District #416
118. Rochester School District #401
119. Rosalia School District #320
120. Royal School District #160
121. Saint John School District #322
122. San Juan Island School District
123. Satsop School District #104
124. Selkirk School District #70
125. Soap Lake School District #156
126. South Bend School District #118
127. Southside School District #42
128. Sprague School District #8
129. Star School District #54
130. Starbuck School District #35
131. Stehekin School District #69
132. Steptoe School District #304
133. Summit Valley School District #202
134. Taholah School District #77
135. Tekoa School District #265
136. Tenino School District #402
137. Toledo School District #237
138. Tonasket School District #404
139. Touchet School District #300
140. Union Gap School District #2
141. Valley School District #070
142. Wahluke School District #73
143. Waitsburg School District #401-100
144. Warden School District #146-161
145. Washtucna School District #109-43
146. Waterville School District #209
147. Wellpinit School District #49
148. West Valley School District #363
149. White Pass School District #303
150. Wilbur School District #200
151. Willapa School District #160
152. Wilson Creek School District #167-202
153. Winlock School District #232
154. Wishkah School District #117
155. Zillah School District

SCHEDULE OF EXPENSES

United Schools Insurance Program
For the Fiscal Year Ended August 31, 2013

Contracted Services:	
Third Party Administrator Fees	\$526,160
Actuary	20,088
Audit Expenses	21,860
Legal Fees	25,382
Other Consultant Fees (Lobbyist)	7,500
General Administrative Expenses:	
Miscellaneous & Supplies	28,838
Retreat/Board Meetings	14,290
Depreciation	12,500
Prelitigation Program	273,712
Account Application & Review	245,000
Account Education	110,395
Other:	
Medicare Reporting	4,500
Director's E&O	22,319
Underwriting Fees	1,075,302
 Total Operating Expenses	 <u><u>\$2,387,847</u></u>

(*Total Operating Expenses detailed on this schedule includes General and Administrative Expenses and Depreciation from the Statement of Net Assets.)



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
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