



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## United Schools Insurance Program

For the period September 1, 2019 through August 31, 2020

*Published April 27, 2021*

Report No. 1028239



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**Office of the Washington State Auditor  
Pat McCarthy**

April 27, 2021

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 Program's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## INDEPENDENT AUDITOR'S REPORT

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 September 1, 2019 through August 31, 2020**

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, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated April 22, 2021.

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Program'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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 Program'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 Program's financial statements are free from material misstatement, we performed tests of the Program'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 Program'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 Program'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.



Pat McCarthy

State Auditor

Olympia, WA

April 22, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **United Schools Insurance Program September 1, 2019 through August 31, 2020**

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, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed on page 9.

#### **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 Program'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 Program'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, 2020, 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.

## **Matters of Emphasis**

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 Program's basic financial statements as a whole. The List of Participating Members and DES 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 April 22, 2021 on our consideration of the Program'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 Program's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

April 22, 2021



## **FINANCIAL SECTION**

### **United Schools Insurance Program September 1, 2019 through August 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

#### **BASIC FINANCIAL STATEMENTS**

Balance Sheet – 2020

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Ten-Year Claims Development Information – 2020

Notes to Ten Year Claims Development Information – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

List of Participating Members – 2020

DES Schedule of Expenses – 2020

**UNITED SCHOOLS INSURANCE PROGRAM**  
**Management's Discussion and Analysis**  
**September 1, 2019 to August 31, 2020**

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, 2019. 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position. 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

	<u>2020</u>	<u>2019</u>
Current Assets	10,838,957	10,481,862
Noncurrent Assets	<u>0</u>	<u>0</u>
Total Assets	10,838,957	10,481,862
Deferred Outflows	<u>0</u>	<u>0</u>
Total Deferred Outflows	0	0
Current Liabilities	1,567,269	1,760,206
Noncurrent Liabilities	<u>2,334,003</u>	<u>2,040,550</u>
Total Liabilities	<u>3,901,273</u>	<u>3,800,756</u>
Deferred Inflows	<u>0</u>	<u>0</u>
Total Deferred Inflows	0	0
Unrestricted	<u>6,937,685</u>	<u>6,681,106</u>
Total Net Position	6,937,685	6,681,106
Operating Revenues		
Member Contributions	18,978,651	17,091,680
Non-Operating Revenues		
Interest Income	132,182	196,974
Unrealized Gain/Loss	<u>0</u>	<u>0</u>
Total Revenues	19,110,833	17,288,654
Operating Expenses	<u>18,854,255</u>	<u>16,830,761</u>
Total Expenses	18,854,255	16,830,761
Change in Net Position	256,579	457,893
Beginning Net Position	6,681,105	5,837,747
Prior Period Adjustment	0	385,456
Ending Net Position	6,937,684	6,681,105

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 Clear Risk Solutions, a third-party administrator, to carry out the day-to-day administrative, claims, and risk management services.

### **Financial Statement Analysis**

The financial condition of the United Schools Insurance Program improved again during the 2020 year. USIP experienced a greater than anticipated income. COVID-19 travel protocols drastically reduced the travel expenses of the Pool and also likely contributed to an overall reduction in claims activity. The pool's investments allow short term liquidity with favorable interest rates. Current liabilities are payables 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.

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, Clear Risk Solutions, 451 Diamond Drive, Ephrata, WA 98823.

**United Schools Insurance Program**  
**Balance Sheet**  
**As of August 31, 2020**

<u>ASSETS</u>	<u>2020</u>
<u>Current Assets:</u>	
Cash and Equivalents	150,688
Investments	10,273,019
Receivables:	
Member Contributions & Deductibles	1,588
Other Receivables	412,975
Pre Paid Expenses	688
TOTAL CURRENT ASSETS	<u>10,838,957</u>
Deferred Outflows	0
TOTAL DEFERRED OUTFLOWS	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>10,838,957</u></u>
 <u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	(2,026)
Unearned Member Assessments	24,048
Claims Reserves:	
IBNR	368,886
Open Claims (Case Reserves)	1,176,361
TOTAL CURRENT LIABILITIES	<u>1,567,269</u>
 <u>Noncurrent Liabilities:</u>	
Claims Reserves:	
IBNR	557,181
Open Claims (Case Reserves)	1,776,822
TOTAL NONCURRENT LIABILITIES	<u>2,334,003</u>
Deferred Inflows	0
TOTAL DEFERRED INFLOWS	<u>0</u>
TOTAL LIABILITIES AND DEFERRED I	<u><u>3,901,273</u></u>
 <u>NET POSITION</u>	
Unrestricted	<u>6,937,685</u>
TOTAL NET POSITION	<u><u>6,937,685</u></u>
TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	<u><u>10,838,956</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, 2020**

	<b>2020</b>
OPERATING REVENUES:	
Member Contributions	18,978,651
Miscellaneous Income	0
Total Operating Revenues	18,978,651
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses:	
Paid on Current Losses	1,639,596
Change in Loss Reserves	2,088,080
Unallocated Loss Adjustment Expenses:	
Paid Unallocated Loss Adjustment Expenses	1,148,149
Excess/Reinsurance Premiums	10,855,018
General and Administrative Expenses	3,123,412
Total Operating Expenses	18,854,255
OPERATING INCOME (LOSS)	124,397
NONOPERATING REVENUES(EXPENSES):	
Interest Income	132,182
Unrealized Gain/(Loss)	0
Total Nonoperating Revenues (Expenses)	132,182
CHANGE IN NET POSITION	256,579
TOTAL NET POSITION, September 1	6,681,105
Change in Accounting Principle	
TOTAL NET POSITION, August 31	6,937,684

See Accompanying Notes to Financial Statements

# United Schools Insurance Program

## STATEMENT OF CASH FLOWS

For The Fiscal Year Ended August 31, 2020

**2020**

### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from members	18,379,591
Cash payments to suppliers for goods and services	(10,908,889)
Cash payments for claims	(3,121,079)
Cash payments to third party administrator	(4,271,561)

Net Cash Provided (Used) for Operating Activities 78,062

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Income	132,182
Unrealized Gain/(Loss)	

Net Cash Provided (Used) for Investing Activities 132,182

Increase (Decrease) in Cash and Cash Equivalents 210,244

Cash and Equivalents, September 1 10,210,980

Prior Period Adjustment for Change in Accounting Principle

Cash and Equivalents, August 31 10,421,225

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

**2020**

OPERATING INCOME	124,397
(Increase) Decrease in Accounts Receivable	(151,477)
(Increase) Decrease in Prepaid Expenses	4,626
Increase (Decrease) in Unpaid Claims Liability	606,597
Increase (Decrease) in Unearned Member Assessments	(447,584)
Increase (Decrease) in Reinsurance Claims Settlement Advance	0
Increase (Decrease) for Payables	(58,497)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>78,062</u>

See Accompanying Notes to Financial Statements

# NOTES TO FINANCIAL STATEMENTS

## UNITED SCHOOLS INSURANCE PROGRAM

For the Period

September 1, 2019 through August 31, 2020

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 154 member districts as of August 31, 2020.

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, Clear Risk Solutions, 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 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. 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.

e. Investments - See Note 2.

f. 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.

g. 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.

h. 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.

i. Unpaid Claims

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

j. 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. Due to this agreement, it is not necessary for the USIP to carry a reserve for such expenses.

k. 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).

**NOTE 2 – DEPOSITS AND INVESTMENTS**

a. Deposits

Cash on hand at August 31, 2020 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$150,688. The bank balance was \$150,688 and the investment pool balance was \$10,273,019.

The USIP deposits 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

The USIP is a participant in the Grant County Investment Pool, an external investment pool. The responsibility for managing the pool resides with the County Treasurer. The pool is established from the RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The Grant County investment policy is established by the County Finance Committee, consisting of the County Treasurer, County Auditor, Chair of the Board of Commissioners and the Chief Accountant. The county external investing pool does not have a credit rating and had an average maturity of 1 days.

As of August 31, 2020, the USIP had the following investments:

Entity	Statement Balance	Fair Value (1.000)
Grant County Investment Pool	\$10,273,019	\$10,273,019
Total Investments	\$10,273,019	\$10,273,019

USIP values its investments at amortized cost rather than the fair value as per GASB 72 & 79. The difference between amortized and fair value is insignificant and the USIP has always received 100% of its funds requests upon withdrawals. Currently there are not any limitations or restrictions on withdrawals.

**NOTE 3 – RISK FINANCING LIMITS**

The following table reflects the risk financing limits on coverage policies issued and retained by USIP for the 2019-20 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES (In addition to the SIR)	SELF INSURED RETENTION	EXCESS LIMITS
<b>Property Loss:</b>			
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	\$25,000,000 occurrence and group annual aggregate; \$1,000,000 occurrence and annual aggregate and \$15,000,000 group annual aggregate for Flood Zones prefixed A or V
Earthquake	Greater of 2% of the total value or \$50,000 per occurrence	\$100,000	\$25,000,000 annual aggregate
Equipment Breakdown	\$2,500	\$7,500	\$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
<b>Liability Loss:</b>			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000	\$100,000	\$25,000,000 per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000	\$100,000	\$25,000,000 per occurrence; \$100,000,000 group annual aggregate
Sexual Abuse Liability	\$1,000	\$100,000	\$20,000,000 per occurrence; \$40,000,000 group annual aggregate
Wrongful Acts Liability	\$1,000	\$100,000	\$25,000,000 per claim; \$30,000,000 group annual aggregate

#### **NOTE 4 – 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>2019-20</u>
General Liability	\$100,000,000
Automobile Liability	No aggregate
Sexual Abuse Liability	\$40,000,000
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>2019-20</u>
General Liability	\$25,000,000
Automobile Liability	\$25,000,000
Sexual Abuse Liability	\$20,000,000
Wrongful Acts Liability	\$25,000,000
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 \$10,855,019. The estimated recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$218,364.

**NOTE 5 – 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.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The USIP’s third-party administrator and insurance broker is Clear Risk Solutions. Clear Risk Solutions uses Apex and Peachtree Special Risk to place insurance coverage for the pool. Clear Risk Solutions, Apex and Peachtree Special Risk are owned by the same parent company, Brown and Brown, Inc. Clear Risk Solutions runs its operations from Ephrata, Washington, Apex Insurance is located in Glen Allen, Virginia and Peachtree Special Risk is located in Atlanta, Georgia.

**NOTE 7 – 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:

	<b><u>2020</u></b>	<b><u>2019</u></b>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	<u>\$3,272,654</u>	<u>\$2,975,183</u>
<b>INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:</b>		
Provision for Insured Events of Current Year	\$3,470,810	\$3,231,500
Increases (Decreases) in Provision for Insured Events of Prior Years	<u>\$272,225</u>	<u>(\$1,504)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$3,743,035</u>	<u>\$3,229,996</u>
<b>PAYMENTS:</b>		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$1,639,596	\$1,729,644
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	\$1,496,843	\$1,202,881
Total Payments	<u>\$ 3,136,439</u>	<u>\$2,932,525</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$3,879,250</u>	<u>\$3,272,654</u>

**NOTE 8 - 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 80% 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.

		08/31/2020	08/31/2019
Primary Asset Test			
Primary Assets		\$ 10,401,685	\$9,685,361
Estimated Claims Liabilities at Expected Level		\$3,879,250	\$3,272,654
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		\$10,816,248	\$9,948,446
Estimated Claims at 80% Confidence Level		\$4,262,012	\$3,450,886
	Results	Pass	Pass

**NOTE 9 – SUBSEQUENT EVENTS**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measure to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The USIP has had no claims linked to COVID-19 presented as of the completion of this report. However, any claims that may be presented in the future would be addressed through the Incurred But Not Reported portion of the Pool’s financial report. The USIP has a stop-loss policy in place to protect the pool from future losses that may occur in the pool’s insurance layer if the Aggregate Stop Loss is breached during any fiscal year. The length of time these measures will be in place, and the full extent of the financial impact on the Program is unknown at this time.

**United Schools Insurance Program**  
**TEN YEAR CLAIMS DEVELOPMENT INFORMATION**  
 Fiscal and Policy Year Ended August 31, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Net earned required contribution and investment revenues										
Earned	11,841,514	11,826,251	12,364,809	13,006,097	13,344,324	14,480,431	15,102,716	15,548,538	17,288,654	19,110,834
Ceded	6,014,308	4,923,370	5,678,325	6,465,456	6,921,115	8,037,829	8,267,907	8,314,845	9,529,724	10,855,018
Net Earned	5,827,206	6,902,881	6,686,484	6,540,640	6,423,209	6,442,602	6,834,809	7,233,693	7,758,930	8,255,816
2. Unallocated expenses	2,645,535	3,344,559	3,533,477	3,570,866	3,597,494	3,744,441	3,837,949	3,938,896	4,115,077	4,271,561
AUDITOR FOOTING FOR CHECK	5,827,206	6,902,881	6,686,484	6,540,640	6,423,209	6,442,602	6,834,809	7,233,693	7,758,930	
	0	0	0	0	0	0	0	0	0	
3. Estimated incurred claims and expense, end of policy year										
Incurred	3,556,750	4,099,488	4,506,250	5,389,798	2,990,361	2,577,027	5,356,330	3,931,056	4,330,250	2,876,084
Ceded	1,165,500	1,633,238	2,215,000	2,594,798	491,075	157,027	2,206,330	1,005,000	1,098,750	594,726
Net incurred	2,391,250	2,466,250	2,291,250	2,795,000	2,499,286	2,420,000	3,150,000	2,926,056	3,231,500	3,470,810
4. Net paid (cumulative) as of:										
End of Policy Year	1,093,302	1,290,432	1,120,225	1,444,192	1,206,118	1,213,933	1,596,793	1,516,613	1,729,645	1,639,596
One year later	1,642,198	1,787,123	1,510,887	2,420,462	2,003,182	1,785,378	2,453,683	2,120,239	2,632,762	
Two years later	1,718,253	1,754,201	1,677,689	2,591,315	2,169,156	2,008,455	2,738,285	2,363,927		
Three years later	1,891,378	1,890,584	1,706,525	2,617,303	2,334,374	2,093,080	2,709,193			
Four years later	2,068,922	1,961,697	1,805,722	2,663,368	2,375,182	2,244,094				
Five years later	2,084,632	1,962,103	1,813,550	2,730,721	2,412,045					
Six years later	2,112,291	1,992,101	1,899,054	2,861,419						
Seven years later	2,138,226	1,993,770	1,897,614							
Eight years later	2,170,709	1,992,966								
Nine years later	2,178,918									
5. Reestimated ceded claims and expenses:	2,417,893	3,932,110	2,997,017	6,743,939	2,754,083	2,246,391	3,808,398	1,840,345	1,719,670	594,726
6. Reestimated net incurred claims and expense:										
End of Policy Year	2,391,250	2,466,250	2,291,250	2,795,000	2,499,286	2,420,000	3,150,000	2,926,056	3,231,500	3,470,810
One year later	2,425,000	2,401,250	2,256,250	2,945,000	2,470,000	2,390,000	3,200,000	2,851,056	3,443,595	
Two years later	2,404,627	2,281,250	2,130,000	2,871,501	2,361,500	2,302,000	3,174,223	2,766,723		
Three years later	2,409,225	2,197,258	2,014,898	2,732,959	2,496,786	2,308,943	3,143,852			
Four years later	2,366,562	2,139,758	1,918,241	2,750,548	2,494,286	2,363,841				
Five years later	2,300,217	2,025,423	1,883,256	2,843,048	2,487,807					
Six years later	2,300,217	1,992,101	1,911,847	3,011,090						
Seven years later	2,287,717	2,021,692	1,898,557							
Eight years later	2,232,155	2,001,443								
Nine years later	2,224,067									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year:	(167,183)	(464,807)	(392,693)	216,090	(11,479)	(56,159)	(6,148)	(159,333)	212,095	0



**UNITED SCHOOLS INSURANCE PROGRAM**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**September 1, 2019 through August 31, 2020**

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 2020 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  
2019-20

- |  |   |
|--|---|
| 1. Adna School District #226                 | 51. Hoquiam School District #28               |
| 2. Almira School District #17                | 52. Inchelium School District #70             |
| 3. Asotin-Anatone School District #420       | 53. Kahlotus School District #56              |
| 4. Benge School District #122                | 54. Keller School District #3                 |
| 5. Boistfort School District #234            | 55. Kettle Falls School District #212         |
| 6. Brewster School District #111             | 56. Kiona-Benton School District #52          |
| 7. Bridgeport School District #75            | 57. Kittitas School District #403             |
| 8. Cascade School District #228              | 58. LaCrosse School District #126             |
| 9. Cashmere School District #222             | 59. Lake Chelan School District #129          |
| 10. Cheney School District #360              | 60. Lake Quinault School District #97         |
| 11. Chewelah School District #36             | 61. Lamont School District #264               |
| 12. Clarkston School District #J250-185      | 62. Liberty Consolidated School District #362 |
| 13. Colfax School District #300              | 63. Lind School District #158                 |
| 14. College Place School District #250       | 64. Loon Lake School District #183            |
| 15. Colton Consolidated School District #306 | 65. Mansfield School District #207            |
| 16. Columbia (Burbank) School District #400  | 66. Manson School District #19                |
| 17. Columbia (Hunters) School District #206  | 67. Mary M. Knight School District #311       |
| 18. Colville School District #115            | 68. Mary Walker School District #207          |
| 19. Cosmopolis School District #99           | 69. McCleary School District #65              |
| 20. Coulee-Hartline School District #151     | 70. Medical Lake School District #326         |
| 21. Creston School District #73              | 71. Methow Valley School District #350        |
| 22. Curlew School District #50               | 72. Montesano School District #66             |
| 23. Cusick School District #59               | 73. Morton School District #214               |
| 24. Damman School District #7                | 74. Mossyrock School District #206            |
| 25. Davenport School District #207           | 75. Mount Adams School District #209          |
| 26. Dayton School District #2                | 76. Naches Valley School District #JT3        |
| 27. Deer Park School District #414           | 77. Napavine School District #14              |
| 28. Dixie School District #101               | 78. Nespelem School District #14              |
| 29. Easton School District #28               | 79. Newport Consolidated SD #56-415           |
| 30. Elma School District                     | 80. Nine Mile Falls School District #325-179  |
| 31. Endicott School District #308            | 81. North Beach School District #64           |
| 32. Entiat School District #127              | 82. North Central ESD #171                    |
| 33. Ephrata School District #165             | 83. North Franklin School District #51-162    |
| 34. ESD #113                                 | 84. North River School District #200          |
| 35. Evaline School District #36              | 85. Northport School District #211            |
| 36. Evergreen School District #205           | 86. Oakesdale School District #324            |
| 37. Finley School District #53               | 87. Oakville School District #400             |
| 38. Freeman School District #358             | 88. Ocosta School District #172               |
| 39. Garfield School District #302            | 89. Odessa School District #105               |
| 40. Goldendale School District #404          | 90. Okanogan School District #105             |
| 41. Grand Coulee Dam School District #301J   | 91. Omak School District #19                  |
| 42. Grandview School District #JT 116/200    | 92. Onalaska School District #300             |
| 43. Granger School District #204             | 93. Onion Creek School District #30           |
| 44. Grapeview School District #54            | 94. Orchard Prairie School District #123      |
| 45. Great Northern School District #312      | 95. Orient School District #65                |
| 46. Griffin School District #324             | 96. Orondo School District #13                |
| 47. Harrington School District #204          | 97. Oroville School District #410             |
| 48. Highland School District #203            | 98. Othello School District #147              |
| 49. Hockinson School District #98            | 99. Palisades School District #102            |
| 50. Hood Canal School District #404          | 100. Palouse School District #301             |

101. Pateros School District #122
102. Paterson School District #50
103. Pe Ell School District #301
104. Pioneer School District #402
105. Pomeroy School District #110
106. Prescott School District #402-37
107. Prosser School District #116
108. Pullman School District #267
109. Quileute Tribal School
110. Quincy School District #144-101
111. Rainier School District #307
112. Raymond School District #116
113. Reardan-Edwall School District #9
114. Republic School District #309
115. Ridgefield School District #121
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. Satsop School District #104
123. Selkirk School District #70
124. Soap Lake School District #156
125. South Bend School District #118
126. Southside School District #42
127. Sprague School District #8
128. Star School District #54
129. Starbuck School District #35
130. Stehekin School District #69
131. Steptoe School District #304
132. Summit Valley School District #202
133. Taholah School District #77
134. Tekoa School District #265
135. Tenino School District #402
136. Toledo School District #237
137. Tonasket School District #404
138. Touchet School District #300
139. Union Gap School District #2
140. Valley School District #070
141. Wahluke School District #73
142. Waitsburg School District #401-100
143. Warden School District #146-161
144. Washtucna School District #109-43
145. Waterville School District #209
146. Wellpinit School District #49
147. West Valley School District #363
148. White Pass School District #303
149. Wilbur School District #200
150. Willapa School District #160
151. Wilson Creek School District #167-202
152. Winlock School District #232
153. Wishkah School District #117
154. Zillah School District #20

## Schedule T-2

### DES SCHEDULE OF EXPENSES

#### United Schools Insurance Program For the Fiscal Year Ended August 31, 2020

Contracted Services:

Third Party Administrator Fee:	\$588,225
Actuary	\$16,100
Audit Expenses	\$31,905
Other Consultant Fees	\$8,820

General Administrative Expenses:

Legal Fees	\$6,074
Miscellaneous & Supplies	\$7,881
Retreat/Board Meetings	\$13,193
Prelitigation Program	\$407,353
Account Application & Review	\$245,000
Educational Services	\$76,074
Marketing	\$16,254
Liscenses/Dues/Subscriptions	\$4,467

Other:

Medicare Reporting	\$9,306
Director's E&O	\$41,627
Underwriting Fees	\$1,651,133

**Total Operating Expenses** \$3,123,412

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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