WASHINGTON SCHOOLS RISK MANAGEMENT POOL

Financial Statements
For the Fiscal Years Ended August 31, 2016 and 2015
With Independent Auditor's Report

PERKINS & CO

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
FOR THE FISCAL YEARS ENDED AUGUST 31, 2016 AND 2015
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Washington Schools Risk Management Pool
Tukwila, WA

We have audited the accompanying Financial Statements of Washington Schools Risk Management Pool (the "Pool") as of August 31, 2016, which comprise the Statements of Net Position and the related Statements of Revenues, Expenses, and Changes in Net Position, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Schools Risk Management Pool as of August 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

The *Governmental Accounting Standards Board* require that the Management's Discussion and Analysis on pages 4 through 8 and the Ten Year Loss Development Information on pages 26 through 27 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.

Perkins & Company, P.C.

April 24, 2017

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington Schools Risk Management Pool ("the Pool") is an interlocal cooperative established to provide its members a lower cost, shared risk pooling mechanism to purchase property/liability protection in lieu of independently purchasing higher cost commercial insurance. The interlocal cooperative provides a wide range of risk management services to its members to minimize and control the impact of claims. The membership in the Pool on August 31, 2016 consisted of 73 school districts, six educational service districts and seven interlocal cooperatives.

This section of the annual financial report presents our discussion and analysis of the Pool's financial performance during the fiscal year that ended on August 31, 2016. Please read it in conjunction with the Pool's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total Assets at $79,600,000; majority of the assets are cash and investments.
- Total Liabilities at $46,100,000; an increase of $8,900,000 from prior year. Increase is due to increased claim activity and unfavorable development of prior year claims.
- Net Position at $33,500,000; decrease of $16,900,000 from prior year.
- The Pool is funded at an actuarial solvency confidence level of 96%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – *management's discussion and analysis* (this section), the *financial statements*, and *required supplementary information*.

The financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows are included along with Notes to the Financial Statements to clarify unique accounting policies and financial information.

The Statement of Net Position includes all of the Pool's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position.

The Pool reports its activities as an enterprise fund. An enterprise fund is a proprietary fund, and as such uses full accrual accounting for its activities. The changes in net position presented on the Statement of Revenues, Expenses and Changes in Net Position are on an accrual basis and do not necessarily coincide with the Statement of Cash Flows which presents information about the cash receipts and cash payments during the year.

Condensed Statement of Net Position As of August 31:

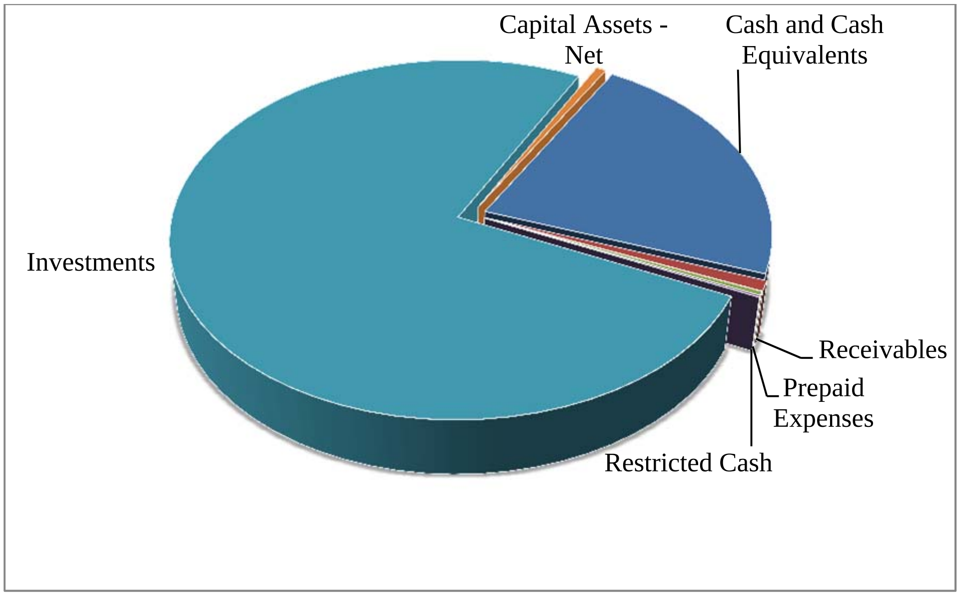
	2016	2015	% Change 2015 to 2016	2014	% Change 2014 to 2015
ASSETS					
Current and Other Assets	$ 79,117,375	$ 87,395,075	-9.47%	$ 88,266,767	-0.99%
Capital Assets	521,986	224,212	132.81%	84,567	165.13%
Total Assets	**79,639,361**	**87,619,287**	**-9.11%**	**88,351,334**	**-0.83%**
LIABILITIES					
Claims Liabilities	46,019,000	35,674,445	29.00%	38,566,710	-7.50%
Other Liabilities	107,832	1,515,929	-92.89%	1,603,390	-5.45%
Total Liabilities	**46,126,832**	**37,190,374**	**24.03%**	**40,170,100**	**-7.42%**
NET POSITION					
Invested in Capital Assets	521,986	224,212	132.81%	84,567	165.13%
Restricted	126,774	233,460	-45.70%	185,765	25.67%
Unrestricted	32,863,769	49,971,241	-34.23%	47,910,902	4.30%
Total Net Position	**$ 33,512,529**	**$ 50,428,913**	**-33.55%**	**$ 48,181,234**	**4.67%**

Assets

Total assets of the Pool decreased by 9.11% from $87,600,000 to $79,600,000. Cash and cash equivalents decreased by $13,500,000. Prepaid expenses also decreased $4,900. This was offset by the increase in reinsurance recoveries receivable of $143,500 and interest receivable of $51,000.

Capital assets increased $297,000 due to the additional expansion of office space. See footnote 8.

Total Assets

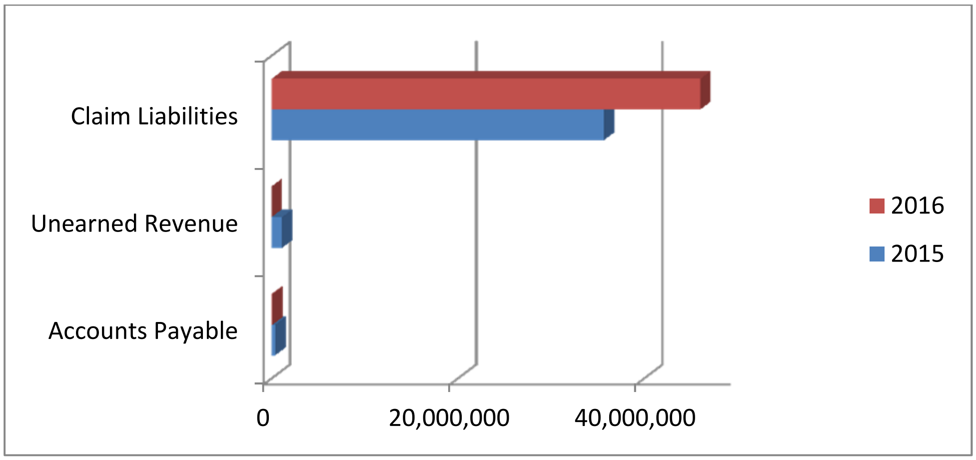


Liabilities

Other liabilities of the Pool decreased by 92.89% from $1,500,000 to $107,800. This is mostly due to unearned which revenue decreased by $1,100,000 and accounts payable which decreased by $275,000 from the prior year.

Claims liabilities increased by $10,300,000 from prior period. The increase is based upon an actuarial report completed by Bickmore Risk Services, an independent actuarial firm specializing in risk pools, to estimate anticipated program funding needs and program liabilities for outstanding claims. The increase in claims liabilities is due to additional large claim activity and unfavorable development of prior year claims.

Total Liabilities

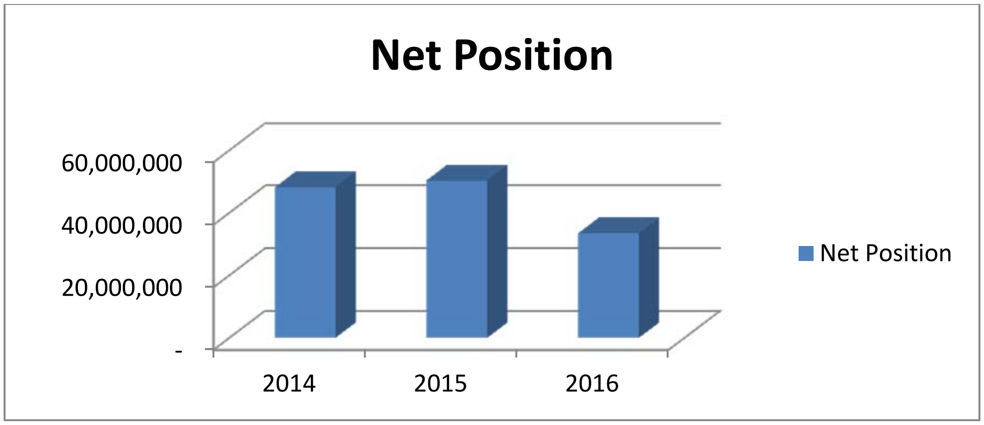


Net Position

The Pool's unrestricted net position decreased by $17,100,000 for the fiscal year ended August 31, 2016. Restricted assets for King County impaired investments experienced an unrealized loss of $125,000, and invested in capital assets increased by $297,000, primarily due to the office expansion.

During the year, operating revenues were $32,900,000 which is an increase of $1,300,000 from prior year. After subtracting expenses and claims estimates, the Pool ended the year with a net loss of $16,900,000.

At August 31, 2016, the Pool retained total equity of $33,500,000 as the net ending position.



	2016	2015	% Change 2015-2016	2014	% Change 2014-2015
REVENUES					
Member Contributions	$ 32,966,574	$ 31,573,660	4.41 %	$ 32,725,631	-3.52 %
Misc. Revenue	91,477	30,353	201.38 %	24,070	26.10 %
Gain on Disposal of Capital Assets	-	9,480	0.00 %	-	0.00 %
Investment Income	415,925	472,525	-11.98 %	507,285	-6.85 %
Total Revenues	**33,473,976**	**32,086,018**	**4.33** %	**33,256,986**	**-3.52** %
EXPENSES					
Claims Expense	32,503,091	12,686,365	156.20 %	13,406,361	-5.37 %
Excess Insurance and Reinsurance	11,915,578	11,943,614	-0.23 %	10,616,961	12.50 %
Administrative Expense	5,877,642	5,199,287	13.05 %	3,738,353	39.08 %
Depreciation Expense	94,049	9,073	936.58 %	119,158	-92.39 %
Total Expenses	**50,390,360**	**29,838,339**	**68.88** %	**27,880,833**	**7.02** %
CHANGE IN NET POSITION	(16,916,384)	2,247,679	-852.62 %	5,376,153	-58.19 %
Beginning Net Positon	50,428,913	48,181,234	4.67 %	42,805,081	12.56 %
Ending Net Position	**33,512,529**	**50,428,913**	**-33.55 %**	**48,181,234**	**4.67 %**

Revenues

The Pool's revenues were $33,500,000. The Pool's primary source for revenues is member contributions. Revenue from member contributions increased by $1,400,000 from fiscal years 2014-15 and 2015-16.

The Pool's non-operating revenues consist mainly of earnings on fixed income investments. Investment earnings decreased by $56,600 as of the end of the fiscal year.

Expenses

The Pool's expenses increased by $20,500,000 (68.88%) from $29,800,000 in fiscal year 2014-15, to $50,300,000 in fiscal year 2015-16. Excess insurance decreased by $28,000. Administrative expenses increased by $678,000. Claims expense increased $19,800,000.

Description of Facts or Conditions Expected to have a Significant Effect on Financial Position or Results of Operations

At present, there are no known facts or conditions that are expected to have a significant effect on the financial position or results of operations.

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
STATEMENTS OF NET POSITION
AUGUST 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash	$ 17,720,779	$ 31,265,314
Accounts receivable, net	278,360	82,609
Interest receivable	148,474	97,445
Reinsurance/Recoveries receivable	307,055	359,285
Investments	10,013,260	30,085,801
Prepaid expenses	268,798	273,769
Total current assets	28,736,726	62,164,223
RESTRICTED CASH	87,849	130,602
CAPITAL ASSETS, NET	521,986	224,212
NON-CURRENT INVESTMENTS	50,292,800	25,100,250
TOTAL ASSETS	79,639,361	87,619,287
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of claims liabilities	17,500,000	14,200,000
Accounts payable	107,832	382,852
Unearned revenue	-	1,133,077
Total current liabilities	17,607,832	15,715,929
NON-CURRENT CLAIMS LIABILITIES	28,519,000	21,474,445
TOTAL LIABILITIES	46,126,832	37,190,374
NET POSITION		
Invested in capital assets	521,986	224,212
Restricted	126,774	233,460
Unrestricted	32,863,769	49,971,241
TOTAL NET POSITION	$ 33,512,529	$ 50,428,913

The accompanying notes are an integral part of these financial statements

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Member contributions	$ 32,966,574	$ 31,573,660
Miscellaneous revenue	91,477	30,353
TOTAL OPERATING REVENUES	33,058,051	31,604,013
OPERATING EXPENSES		
Claims expense	32,503,091	12,686,365
Excess insurance and reinsurance	11,915,578	11,943,614
Administrative expense	5,877,642	5,199,287
Depreciation expense	94,049	9,073
TOTAL OPERATING EXPENSES	50,390,360	29,838,339
INCOME (LOSS) FROM OPERATIONS	(17,332,309)	1,765,674
OTHER INCOME		
Investment income	415,925	472,525
Gain on sale of capital assets	-	9,480
TOTAL OPERATING EXPENSES	415,925	482,005
CHANGE IN NET POSITION	(16,916,384)	2,247,679
NET POSITION BEGINNING OF YEAR	50,428,913	48,181,234
NET POSITION END OF YEAR	$ 33,512,529	$ 50,428,913

The accompanying notes are an integral part of these financial statements

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions received	$ 31,833,497	$ 31,344,947
Excess recoveries received, net	3,755,684	1,099,438
Claims and claim adjustment expenses paid	(26,057,741)	(14,810,239)
Excess and reinsurance insurance expenses paid	(11,910,607)	(12,194,308)
General and administrative expenses paid	(6,061,171)	(5,027,682)
Net cash provided by (used by) operating activities	(8,440,338)	412,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of equipment	(538,823)	(148,718)
Cash received for tenant allowance	147,000	-
Gain on sale of equipment	-	(9,480)
Proceeds from disposal of equipment	-	9,480
Net cash used in capital and related financing activities	(391,823)	(148,718)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in restricted cash	42,753	37,725
Purchase of investment securities	(45,281,781)	(5,030,375)
Proceeds from sales and maturities of investments	40,228,644	5,034,375
Investment income received	298,010	613,705
Net cash provided by (used in) investing activities	(4,712,374)	655,430
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,544,535)	918,868
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,265,314	30,346,446
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,720,779	$ 31,265,314

The accompanying notes are an integral part of these financial statements

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	$ (17,332,309)	$ 1,765,674
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	94,049	9,073
Changes in assets and liabilities:		
Accounts receivable, net	80,925	(222,571)
Reinsurance receivable	(224,432)	2,090,400
Prepaid expenses	4,971	(250,694)
Accounts payable and accrued expenses	(275,020)	141,252
Unearned revenue	(1,133,077)	(228,713)
Claims liabilites	10,344,555	(2,892,265)
Net cash provided by (used in) operating activities	$ (8,440,338)	$ 412,156
SUPPLEMENTARY INFORMATION		
Noncash investing and financing transactions		
Change in fair market value of investments	(66,872)	72,294

The accompanying notes are an integral part of these financial statements

NOTE 1 - GENERAL INFORMATION

Nature of Operations - The Washington Schools Risk Management Pool (the "Pool") was formed on August 30, 1986, pursuant to Chapter 48.62 of the Revised Code of Washington ("RCW"). The purpose of the Pool is to join together in a cooperative manner to provide its members the capability and authority to jointly purchase property/liability insurance, establish and maintain a reserve to pay for self-insurance coverage, provide a plan of self-insurance, and provide related services, including a cooperative program of risk management. The membership of the Pool at August 31, 2016 consisted of 78 school districts, seven educational service districts and seven interlocal cooperatives.

The Board of Directors, comprised of one representative from each member district, elects an Executive Board of nine voting members representing school districts and one voting member representing interlocal cooperatives. In addition, each Educational Service District appoints a non-voting member to govern the Pool.

Admission - Membership of the Pool shall be open to each individual school district, educational service district or interlocal cooperative of school districts and/or educational service districts in the State of Washington. Any school district or educational service district or interlocal cooperative interested in becoming a member of the Pool shall submit a written and signed application on a form approved by the Executive Board to the administrator of the Pool. The Executive Board, at any regular meeting or at any special meeting of the Executive Board called specifically for that purpose, may either approve or disapprove the application. Districts may join the Pool if approved by a two-thirds vote of the Pool's Executive Board. School districts joining the Pool must remain members for a minimum of three years.

Withdrawal - A member may withdraw from the Pool by giving written notice by May 31st of any year. The member must remain in the Pool until August 31st of the third subsequent year (two years and three months' notice).

Underwriting - Pool underwriting and rate-setting policies have been established after consultation with actuaries. Pool members are subject to a supplemental assessment in the event of deficiencies. There is no limit on the amount of annual premium increases. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. The allocation of the liabilities for each member would be determined by the Executive Board. If the Pool were dissolved, after claims runoff, the members would receive the net assets. The allocation would be in proportion to each member's contribution less obligations (including incurred but not reported claims).

The fiscal year ending August 31, 2016 was the 30th year of operation for the Pool.

Reporting Entity - The Pool's reporting entity includes all activities (operations of its officers and Board of Directors as they relate to the Pool) considered to be part of (controlled by or dependent on) the Pool. This includes financial activity relating to all of the membership years of the Pool. In determining its reporting entity, the Pool considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in the financial statements principally because the Pool does not exercise oversight responsibility over any members.

Recently Issued Accounting Standards - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* (ASU No. 2016-02). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Pool are presented on the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been rendered. The Pool applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations, except where superseded by Governmental Accounting Standards Board ("GASB") pronouncements. Liabilities for reserves for open claims and claims incurred but not reported have been recorded in the Pool's financial statements.

The accounting records of the Pool are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The Pool also follows the accounting standards established by the Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended by the GASB Statement 30, *Risk Financing Omnibus*.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the Pool to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Pool has elected not to follow subsequent private-sector guidance.

Description of Programs

Property/Liability Program

The Property/Liability Program was established for the purpose of operating and maintaining a self-insurance program. The Property/Liability fund is established and maintained for member contributions, to be used for the payment of, but not limited to, the following:

- Self-insured claim payments
- Insurance premiums
- Claims administration expenses
- Investigative costs
- Legal costs
- Expert witness fees
- Audit costs
- Broker fees
- Property appraisal fees
- Miscellaneous

Property Coverage

Member Deductible:	$1,000 to $100,000
Self-Insured Retention ("SIR"):	$1M Southwest Washington Risk Management Insurance Cooperative ("SWRMIC") has an SIR of $250,000
Excess Coverage:	$500M in excess of $1M from Lexington

Equipment Breakdown Coverage

Member Deductible:	$1,000 to $25,000
Pool Deductible:	$25,000 from Hartford Steam Boiler Insurance
Excess Coverage:	Included in property coverage

Liability Coverage

Member Deductible:	$0 to $375,000
Self-Insured Retention:	$1M SWRMIC and Seattle Public Schools have an SIR of $250,000
Reinsurance Coverage:	$9M in excess of $1M from United Educators
Excess Coverage:	$10M in excess of $10M from Chartis

Fund Accounting - The accounts of the Pool are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Pool's funds have been combined for the presentation of the financial statements. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, changes in net position, revenues and expenses. The Pool maintains one fund that is considered a Proprietary-Enterprise Fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where determination of net income is necessary or useful for sound financial administration.

Statement of Cash Flows - The Pool considers interest on investments to be non-operating revenue; therefore, investment income is presented in the investing section of the Statement of Cash Flows.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, cash and cash equivalents include all cash in banks, the Washington State Local Government Investment Pool, King County Investment Pool, and all highly liquid debt instruments purchased with original maturity of three months or less.

The carrying amount of the Pool's cash is covered by federal depository insurance up to $250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with Washington law requiring the depository bank to pledge securities as collateral.

Accounts Receivables - Premiums are billed to member districts in August of each year with full payment due by October, or half due in October and half due in February. These receivables are recorded in the fiscal year when due. Payments received in August for the following fiscal year are recorded as deferred revenue.

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At August 31, 2016 and 2015, the total accounts receivable portfolio was considered collectible. Interest on investments is recorded in the year the interest is earned.

Reinsurance Receivable - Claims incurred in excess of self-insured retention thresholds are recovered by the Pool. Also included is subrogation receivables which are due from third parties for amounts incurred on individual claims. There were no such receivables at August 31, 2016. The receivables at the year ended August 31, 2015 totaled $63,780.

Recoveries receivable consist of member deductible and subrogational recoveries owed to the Pool. The balance at the years ended August 31, 2016 and 2015 was $836,506 and $756,612, respectively.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management individually reviews all delinquent receivables. The valuation allowance includes any receivable balances that are determined to be uncollectible. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The allowance for doubtful accounts for subrogation receivables was $589,436 and $461,107 at August 31, 2016 and 2015, respectively.

Unearned Revenue/Prepaid Expenses - The policy year-end for the programs is August 31. As such, certain revenues are treated as unearned and certain expenses as prepaid. This is to reflect proper matching of revenues and expenses for the fiscal year-end financial statements.

Investments - Effective July 1, 1997, the Pool adopted GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Pool records its cash in the Washington State Local Government Investment Pool and King County Investment Pool at fair market value. Changes in fair market value are reported as revenue in the Statement of Revenues, Expenses and Changes in Net Position.

The fair market value of cash in both the Washington State Local Government Investment Pool and the King County Investment Pool has been determined by the sponsoring government based on quoted market prices. The Pool's investments in the Investment Pools have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

Capital Assets and Depreciation - Capital assets are carried at cost. Depreciation and amortization are provided for over the estimated useful lives of the assets using the straight-line method. The estimated useful life used for vehicles is five years. The estimated useful lives used for furniture and equipment range from five to 15 years. Computers are depreciated over four years. Depreciation expense was $94,049 and $9,073 for the fiscal years ended August 31, 2016 and 2015, respectively.

Reinsurance/Excess Insurance - The Pool purchases excess insurance to reduce its exposure to large losses on its property and liability claims. The Pool does not report claims cost or liability that are the responsibility of the reinsurance/excess insurance carrier.

Unpaid Claim Liabilities (Claims Payable, Claims Incurred but Not Reported, and Liability for Unallocated Loss Adjustment Expenses) - Each program establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled, and 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 estimated ultimate liability for unpaid claims. Because actual claims 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, claims 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 and 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.

Contribution Income - Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Revenues mainly consist of premium contributions from members. Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense on insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. The activities of the Pool consist solely of risk management programs and claims management activities related to the coverages described above. The reporting entity does not include any other component units with the criterion prescribed by Generally Accepted Accounting Principles ("GAAP").

Member contributions are recognized as revenues in the period for which insurance protection is provided. If the Pool's Board of Directors determines that the insurance funds for a program are insufficient to pay losses, the Pool may impose a supplemental assessment on all participating members. Anticipated investment income is not considered in determining supplemental assessments. Supplemental assessments are recognized as income in the period assessed.

Unallocated Loss Adjustment Expense ("ULAE") - The liability for ULAE includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. This liability is determined by the actuary during the annual actuarial risk assessment.

Management Estimates - The preparation of financial statements, in conformity with GAAP in the Unites States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

Income Taxes - Pursuant to revenue ruling number 90-74, *Income of Municipal Risk Pools,* is excluded from gross income under Internal Revenue Code Section 115(1).

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

Restricted Assets - All assets held with external restrictions on use must be classified as restricted assets. Per Washington Administrative Code 82-60-03001, assets held to meet the 80% confidence level should be reported as restricted. The Pool's Executive Board requires a 90% confidence level.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, restricted cash and investments consisted of the following at August 31, 2016 and 2015:

	2016	2015
Cash and Cash Equivalents:		
Funds Held by King Country Treasurer		
King County Investment Pool	$ 38,925	$ 121,792
Washington State Treasurer:		
Local Government Investment Pool	3,215,371	18,287,897
Cash in Bank – US Bank	14,466,483	12,855,625
	17,720,779	31,265,314
Restricted Cash:		
Funds Held by King County Treasurer		
King County Investment Pool	87,849	130,602
Investments:		
US Agency Securities	60,306,060	55,186,051
Total	$ 78,114,688	$ 86,581,967

Investments Authorized by Washington State and the Pool's Investment Policy
Washington State law and the Pool's Investment Policy authorize the Pool to invest in obligations of the United States Treasury and instrumentalities, bankers' acceptances issued in the secondary market, primary certificates of deposit issued by Washington State qualified public depositories as defined under RCW 39.58, the State Treasurer's Local Government Investment Pool and King County's Investment Pool.

During the fiscal year ended August 31, 2012, the Pool Executive Board authorized the Pool to appoint a Treasurer. Prior to transition, all noninvested cash was held in an external investment pool administered by King County, Washington. The Pool transferred funds from the King County Treasurer's Office to a Washington State qualified public depository and to the Washington State Treasurer's Local Government Investment Pool. Fund 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").

The Pool contracted with an investment advisor to make recommendations to the Treasurer regarding potential investment options. Based on those recommendations, the Pool purchased federal agency-backed securities which are held in trust by a third party custodial bank. All investments are stated at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The Pool intends to hold time deposits and securities until maturity.

Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the

sensitivity of the fair values of the Pool's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Pool's investments by maturity:

		Remaining Maturity (in years)		
Investment Type	Amount	Less than 1 year	1 to 3 years	3 to 5 years
Federal Agency Securities	$ 25,253,145	$ -	$ 20,146,970	$ 5,106,175
US Treasury Securities	35,052,915	10,013,260	25,039,655	-
Total	$ 60,306,060	$ 10,013,260	$ 45,186,625	$ 5,106,175

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of year-end for each investment type:

Investment Type	Moody's Ratings as of August 31, 2016	Amount
Federal Agency Securities	AAA	$ 25,253,145
US Treasury securities	AAA	35,052,915
State Investment Pool	Not Rated	3,215,371
King County Investment Pool	Not Rated	195,695
King County Impaired Investment Pool	Not Rated	87,849
Total		$ 63,804,975

Concentration of Investment Risk

The investment policy of the Pool contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Revised Code of Washington. Investments in any one issuer (other than US Treasury securities and external investment pools) that represented 5.0% or more of total Pool investments are as follows:

Issuer	Investment Type	Amount	Percent
FHLB	Federal agency securities	$ 5,018,000	8%
FHLMC	Federal agency securities	10,034,000	17%
FNMA	Federal agency securities	10,201,145	17%
T-Notes	Treasury Securities	35,052,915	58%
Total		$ 60,306,060	100%

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Washington State's Public Deposit Protection Commission ("PDPC") approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral. It also minimizes participating banks and thrifts liability for defaulting institutions. No public funds on deposit in public depositaries have been lost since the Public Deposit Protection Act was created in 1969.

As of August 31, 2016, there were no deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

The Pool's Investment Policy requires a third-party safekeeping or custody of securities. By arranging to have securities held by a third party, governments can effectively minimize safekeeping or custodial risk in an investment transaction.

In a third-party safekeeping agreement, the government arranges for a firm other than the party that sold the investment to provide for the transfer and safekeeping of the securities. Financial firms should not serve as both government broker-dealer and custodian. Safekeeping represents a financial institution's obligation to act on behalf of the owner under the owner's control. Custody is a more clearly defined control position by the agent responding to the owner's requirements. Custody normally does not take place in the governmental entities depository bank.

In addition, the Pool's Investment Policy requires that investments be settled in a delivery-versus-payment ("DVP") basis. In this procedure, the buyer's payment for securities is due at the time of delivery. Security delivery and payment occur simultaneously. This practice ensures that no funds are at risk in an investment transaction as funds are not released until securities are delivered, ensuring the governmental entity has either money or securities at all times during the transaction.

As of August, 31, 2016, all federal agency securities owned by the Pool are in the Pool's name and held by a third-party custodian authorized by the Washington State Treasurer's Office.

Investment in King County Investment Pool

This pool is not registered by the SEC and does not operate in a manner consistent with the SEC's rule 2a-7 which would allow it to be treated as a money market fund for basis of presentation. There is no regulatory oversight of the King County Investment Pool.

The fair value of the Pool's proportionate share of the King County Investment Pool is not the same as the value of the investment pool shares. The value of the investment pool shares is cost.

Impaired Investments - As of August 31, 2016, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool ("Impaired Pool") held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The Pool's share of the impaired investment pool principal is $156,770 and the Pool's fair value of these investments is $87,849.

Interest Rate Risk - As of August 31, 2016, the King County Investment Pool's average duration was one year. As a means of limiting its exposure to rising interest rates, securities purchased in the King County Investment Pool must have a final maturity, or weighted average life, no longer than five years. While the King County Investment Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The King County Investment Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk - As of August 31, 2016, the Pool's investment in the King County Investment Pool was not rated by a nationally recognized statistical rating organization ("NRSRO"). In compliance with state statutes, King County Investment Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Concentration of Credit Risk

The following is a breakdown of the King County Investment Pool holdings for August 2016:

	Average ($000)	% of Portfolio
U.S. Agency Securities	$ 1,667,755	28.7%
Treasury Securities	2,082,696	35.8%
Local Government Investment Pool	533,230	9.2%
Bank Corporate note	1,032,651	17.7%
Commercial paper	337,932	5.8%
US Agency mortgage backed securities	6,060	0.1%
Repurchase agreements	158,000	2.7%
	$ 5,818,324	100%

Investment in Washington State Local Government Investment Pool ("LGIP")

The Pool is a voluntary participant in the LGIP managed by the Washington State Treasurer's Office. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission ("SEC"). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

The fair value of the Pool's investment in this pool are reported in the accompanying financial statements at amounts based upon the Pool's pro-rata share of the fair value provided by the LGIP for the entire LGIP portfolio (in relation to the amortized cost of that portfolio).

Fair Value Measurement

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value:

Level 1 – Inputs are quoted prices in active markets for identical assets.

Level 2 – Inputs are significant other observable inputs.

Level 3 – Inputs are significant unobservable inputs.

Investments fair value measurements are as follow at August 31, 2016:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ 35,565,338	$ -	$ -	$ 35,565,338
Repurchase Agreements	991,154	-	-	991,154
Asset Back Securities	-	-	-	-
Federal Agency Securities	25,253,145	1,625,901	-	26,879,046
Medium Term Corporate Notes	-	345,269	-	345,269
Municipal Bond	-	-	-	-
Certificate of Deposit	-	24,168	-	24,168
Total	$ 61,809,637	$ 1,995,338	$ -	$ 63,804,975

Investments fair value measurements are as follow at August 31, 2015:

Description	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ 58,207,417	$ -	$ -	$ 58,207,417
Repurchase Agreements	4,860,973	-	-	4,860,973
Asset Back Securities	-	-	-	-
Federal Agency Securities	-	8,751,022	-	8,751,022
Medium Term Corporate Notes	-	1,770,276	-	1,770,276
Municipal Bond	-	-	-	-
Certificate of Deposit	-	136,732	-	136,732
Total	$ 63,068,390	$ 10,658,030	$ -	$ 73,726,420

NOTE 4 - CAPITAL ASSETS

Capital assets at August 31, 2016 and 2015 consist of the following:

	2016	2015
Vehicles and equipment	$ 1,218,869	$ 837,036
Less accumulated depreciation	(696,883)	(659,341)
	521,986	177,695
Construction in process	-	46,517
Net capital assets	$ 521,986	$ 224,212

NOTE 5 - WASHINGTON STATE RISK MANAGER RULES AND CONFIDENCE LEVEL

Washington Administrative Code ("WAC") 200-100 requires the Pool 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.

	2016	2015
Primary Asset Test:		
Primary assets	$ 77,880,082	$ 84,814,000
Unpaid claims - expected level	46,019,000	35,632,000
Results	PASS	PASS
Primary and Secondary Test:		
Secondary assets	1,129,461	1,066,000
Primary and secondary assets	79,009,543	85,880,000
Unpaid Claims - 80% Confidence Level	57,239,000	46,088,000
Results	PASS	PASS

The Board of the Pool has adopted a board action to maintain a 90% confidence level measured by an actuary study. To maintain this level, the Pool has reserved an additional $20,416,000 of Net Position as projected by the actuarial study, which is included in unrestricted net position on the Statement of Net Position. As of August 31, 2016, the Pool was at a 96% confidence level.

NOTE 6 - EXCESS INSURANCE

The Pool uses reinsurance agreements to reduce its exposure to large losses on liability claims. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Pool for the risks reinsured. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of August 31, 2016, no amount was deducted from claims liability for reinsurance. The amount deducted from claims liabilities for reinsurance as of August 31, 2015 was $63,780.

NOTE 7 - UNPAID CLAIMS LIABILITY

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 represents changes in liabilities for the Pool during the years ended August 31, 2016 and 2015:

	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	$ 35,674,445	$ 38,566,710
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	25,133,900	18,030,616
Increase (decrease) in provision for insured events of prior year	6,968,191	(5,137,251)
Change in unallocated loss adjustment expenses	401,000	(207,000)
Total incurred claims and claim adjustment expenses	32,503,091	12,686,365
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	5,858,392	4,909,334
Claims and claim adjustment expenses attributable to insured events of prior years	16,300,144	10,669,296
Total payments	22,158,536	15,578,630
Total unpaid claims and claim adjustment expenses at end of year	$ 46,019,000	$ 35,674,445

The components of unpaid claims liabilities are:

	2016	2015
Reserve for open claims	$ 26,525,000	$ 17,629,526
Claims incurred but not reported (IBNR)	17,209,000	16,160,919
Unallocated loss adjustment expenses (ULAE)	2,285,000	1,884,000
	46,019,000	35,674,445
Current portion	17,500,000	14,200,000
Noncurrent portion	$ 28,519,000	$ 21,474,445

NOTE 8 - OPERATING LEASE

In November 2014, the Pool extended a lease with Washington Cities Insurance Authority for office space. Rent expense for the years ended August 31, 2016 and 2015 totaled $234,906 and $171,788, respectively. The following are the minimum lease payments under the terms of the lease:

Year Ended August 31:

2017	$ 240,972
2018	240,972
2019	240,972
2020	248,220
2021	248,220
Total future *minimum* lease payments	$ 1,219,356

NOTE 9 - RELATED PARTY TRANSACTIONS

The Pool contracts with Puget Sound ESD ("PSESD") for payroll and human resources. Payroll services include salaries and staff benefits and an annual fee for human resource services, and are detailed in an annual, renewable contract. For the years ended August 31, 2016 and 2015, the Pool paid PSESD $2,940,011 and $2,956,475, respectively, for personnel and related administrative costs. No amounts were due to PSESD at August 31, 2016. Amounts due to PSESD at August 31, 2015 and included in the accounts payable were $235,379.

NOTE 10 - SUBSEQUENT EVENTS

The Pool's management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended August 31, 2016 through April 24, 2017, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
TEN YEARS CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
AUGUST 31, 2016

		Policy Year Ended August 31: (In Thousands)									
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Required contributions and investment revenue										
	Earned	$ 26,440	$ 25,118	$ 28,120	$ 29,165	$ 31,732	$ 33,254	$ 32,902	$ 33,257	$ 32,086	$ 33,474
	Ceded	8,899	8,622	9,705	10,262	10,467	10,263	10,717	10,617	11,944	11,916
		17,541	16,496	18,415	18,903	21,265	22,991	22,185	22,640	20,142	21,558
2	Unallocated expenses (included dividend to members)	3,347	3,229	4,073	3,734	4,079	7,332	4,925	3,858	5,208	5,972
3	Estimated claims and expense, end of policy year										
	Incurred	21,290	11,437	23,070	19,835	23,860	28,961	24,611	27,168	26,184	25,134
	Ceded	-	-	6,069	5,854	8,849	9,541	8,570	9,111	8,154	-
	Net incurred	$ 21,290	$ 11,437	$ 17,001	$ 13,981	$ 15,011	$ 19,420	$ 16,041	$ 18,057	$ 18,030	$ 25,134
4	Net paid (cumulative) as of:										
	end of policy year	7,010	1,903	4,354	3,534	4,294	3,483	3,776	4,294	4,909	5,858
	one year later	12,533	3,716	6,464	6,527	6,516	6,778	7,247	8,493	11,136	
	two years later	16,850	6,272	8,184	7,835	7,057	8,890	9,056	11,288		
	three years later	18,915	8,135	9,101	9,412	7,665	11,646	12,027			
	four years later	21,029	9,401	9,846	9,802	8,863	13,435				
	five years later	21,956	10,019	9,966	9,869	9,279					
	six years later	22,533	10,219	9,990	9,906						
	seven years later	23,738	10,954	12,114							
	eight years later	24,654	11,057								
	nine years later	23,844									
5	Reestimated ceded claims and expenses	31,246	390	7,996	196	277	1,140	3,382	4,838	8,154	-
6	Reestimated net incurred claims and expnese:										
	end of policy year	21,290	11,437	17,001	13,981	15,011	19,420	16,041	18,057	18,030	
	one year later	21,664	10,535	15,980	13,441	13,149	16,259	14,760	15,199	23,310	
	two years later	23,260	11,102	12,416	13,173	11,776	14,533	14,634	17,864		
	three years later	23,398	11,145	12,336	12,296	11,285	14,656	15,144			
	four years later	23,273	11,147	12,036	11,937	10,788	15,168				
	five years later	23,697	10,965	11,237	10,708	11,082					
	six years later	24,398	10,981	11,042	10,189						
	seven years later	24,340	11,423	12,707							
	eight years later	25,035	11,198								
	nine years later	23,845									
7	Increase (decrease) in estimated incurred losses and expenses from end of accident year	$ 2,555	$ (239)	$ (4,294)	$ (3,792)	$ (3,929)	$ (4,252)	$ (897)	$ (193)	$ 5,280	$ -

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED) (CONFIRMED)
FOR THE 10-YEAR PERIOD ENDED AUGUST 31, 2016
(In Thousands of Dollars)

The Comparative Schedule of Claims Development Information presented as required supplemental information illustrates how the Washington Schools Risk Management Pool's earned revenue (net of reinsurance) and investment income compared 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 10 years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenues and investment revenues, 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 expense not allocable to individual claims.

3. This line shows the 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 of rows shows the cumulative 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. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and 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 estimated. 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.