



Financial Statements
For the Fiscal Years Ended August 31, 2019 and 2018
With Independent Auditor's Report



**WASHINGTON SCHOOLS RISK MANAGEMENT POOL
FOR THE FISCAL YEARS ENDED AUGUST 31, 2019 AND 2018
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**WASHINGTON SCHOOLS RISK MANAGEMENT POOL
BOARD OF DIRECTORS**

Chair

Diana Reaume, Quillayute Valley School District

Vice Chair

Thomas Jay, Skykomish School District

Board Members

Jason Thompson, Marysville School District

Krestin Bahr, Eatonville School District

Erin Murphy, Bainbridge Island School District

Dr. Kathi Weight, Steilacoom Historical School District

Lydia Sellie, Edmonds School District

Clairmonte Cappelle, PSESD Worker's Compensation Trust

Linda McDermott (interim), Spokane School District

Joli Valentino, Puget Sound ESD

Lisa Matthews, NW ESD 189

Monica Hunsaker, Olympic ESD 114

Jerry McDermott, NEW ESD 101

Michelle Dearlove, ESD 123

Gavin Hottman, ESD 112

Executive Director

Deborah Callahan

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Washington Schools Risk Management Pool
Tukwila, WA

Report on the Financial Statements

We have audited the accompanying Financial Statements of Washington Schools Risk Management Pool (the "Pool") as of August 31, 2019 and 2018, 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 audits. 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 Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Schools Risk Management Pool as of August 31, 2019 and 2018, and the results of its operations and its cash flows for the years 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, the Reconciliation of Claims Liability by Type of Coverage, and the Ten Year Claims Development Information on pages 27 through 30 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2020, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Pool's internal control over financial reporting and compliance.

Perkins & Company, P.C.

January 23, 2020

WASHINGTON SCHOOLS RISK MANAGEMENT POOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington Schools Risk Management Pool (“Pool” or “WSRMP”) 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, 2019 consisted of 80 school districts, seven educational service districts, and six 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, 2019. Please read it in conjunction with the Pool’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total Assets at \$82.1M; majority of the assets are cash and investments.
- Total Liabilities at \$60.8M.
- Net Position at \$21.3M.
- The Pool is funded at an actuarial solvency confidence level of 90%.

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.

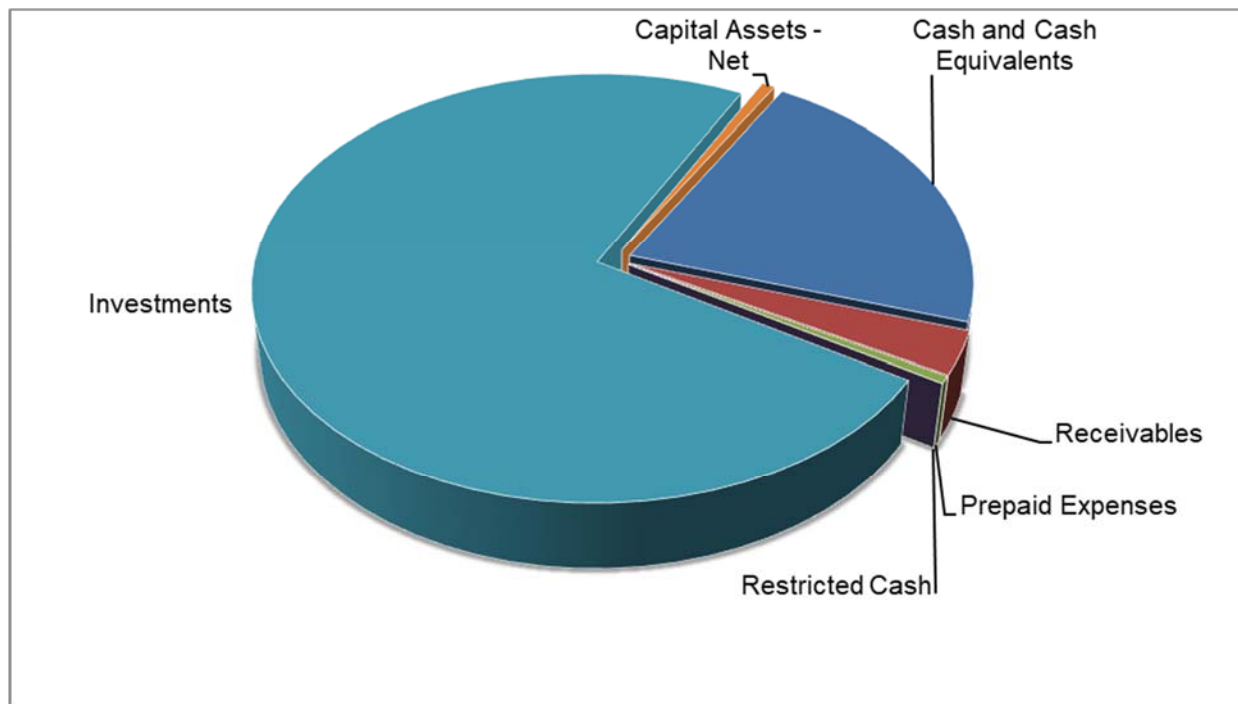
Condensed Statement of Net Position as of August 31:

| | <u>2019</u> | <u>2018</u> | <u>% Change 2018-2019</u> | <u>2017</u> | <u>% Change 2017-2018</u> |
|----------------------------|----------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| ASSETS | | | | | |
| Current and Other Assets | \$ 81,524,001 | \$ 74,876,938 | 8.88 % | \$ 69,887,488 | 7.14 % |
| Capital Assets | 566,562 | 592,586 | -4.39 % | 567,267 | 4.46 % |
| Total Assets | <u>\$82,090,563</u> | <u>\$75,469,524</u> | <u>8.77 %</u> | <u>\$70,454,755</u> | <u>7.12 %</u> |
| LIABILITIES | | | | | |
| Claims Liabilities | \$ 57,011,750 | \$ 48,828,425 | 16.76 % | \$ 50,579,038 | -3.46 % |
| Other Liabilities | 3,760,745 | 5,771,068 | -34.83 % | 3,785,306 | 52.46 % |
| Total Liabilities | <u>\$60,772,495</u> | <u>\$54,599,493</u> | <u>11.31 %</u> | <u>\$54,364,344</u> | <u>0.43 %</u> |
| NET POSITION | | | | | |
| Invested in Capital Assets | \$ 566,562 | \$ 592,586 | -4.39 % | \$ 567,267 | 4.46 % |
| Unrestricted | 20,751,506 | 20,277,445 | 2.34 % | 15,523,144 | 30.63 % |
| Total Net Position | <u>\$21,318,068</u> | <u>\$20,870,031</u> | <u>2.15 %</u> | <u>\$16,090,411</u> | <u>29.70 %</u> |

Assets

Total assets of WSRMP increased by 8.77% from \$75.5 million to \$82.1 million.

Total Assets

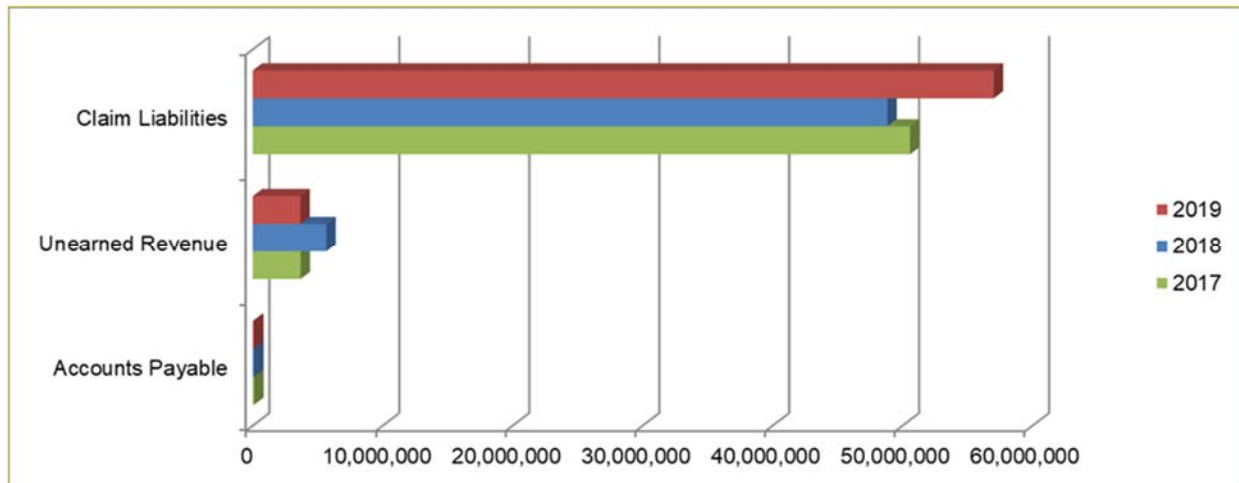


Liabilities

Other liabilities decreased by 34.83% from \$5.8 million to \$3.8 million due changes in unearned contributions.

Claims liabilities increased by \$8.2 million from prior period. The increase is based upon an actuarial report completed by Milliman, an independent actuarial firm specializing in risk pools, to estimate anticipated program funding needs and program liabilities for outstanding claims. The decrease in claims liabilities is due to active claims closures by the claims department.

Total Liabilities

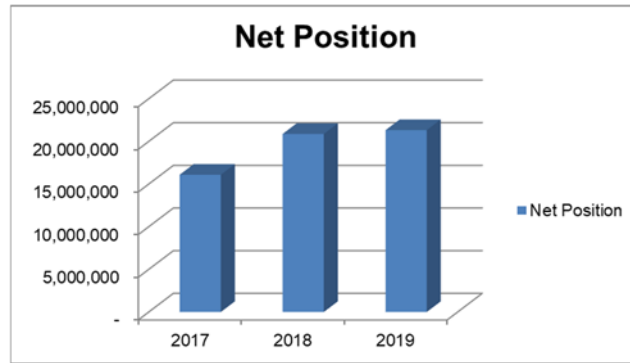


Net Position

The Pool's *unrestricted* net position increased by \$448 thousand for the fiscal year ended August 31, 2019. Capital assets decreased by \$26 thousand due to normal activity.

During the year, operating revenues were \$56 million which is an increase of \$7.4 million from prior year. This increase was due to the contribution increase budgeted after subtracting expenses and claims estimates, the pool ended the year with a net income of \$448 thousand.

At August 31, 2019, WSRMP total net position of \$21.3M.



Condensed Statement of Revenues, Expenses and Changes in Net Position as of August 31:

| | <u>2019</u> | <u>2018</u> | <u>% Change 2018-2019</u> | <u>2017</u> | <u>% Change 2017-2018</u> |
|----------------------------------|----------------------------|----------------------------|-------------------------------|-------------------------------|-------------------------------|
| REVENUES | | | | | |
| Member Contributions | \$ 56,072,386 | \$ 48,663,588 | 15.22 % | \$ 33,308,731 | 46.10 % |
| Miscellaneous Revenue | 56,304 | 120,425 | -53.25 % | 49,842 | 141.61 % |
| Gain on Sale of Capital Assets | 20,617 | 7,000 | 194.53 % | 4,189 | 67.10 % |
| Investment Income | 2,834,294 | 525,551 | 439.30 % | 495,661 | 6.03 % |
| Total Revenues | <u>\$58,983,601</u> | <u>\$49,316,564</u> | <u>19.60 %</u> | <u>\$33,858,423</u> | <u>45.66 %</u> |
| EXPENSES | | | | | |
| Claims Expense | \$ 36,617,037 | \$ 24,884,561 | 47.15 % | \$ 31,176,776 | -20.18 % |
| Excess Insurance and Reinsurance | 15,515,372 | 13,560,197 | 14.42 % | 12,061,231 | 12.43 % |
| Administrative Expense | 6,276,354 | 5,964,844 | 5.22 % | 7,953,100 | -25.00 % |
| Depreciation Expense | 126,801 | 127,342 | -0.42 % | 89,434 | 42.39 % |
| Total Expenses | <u>\$58,535,564</u> | <u>\$44,536,944</u> | <u>31.43 %</u> | <u>\$51,280,541</u> | <u>-13.15 %</u> |
| CHANGE IN NET POSITION | <u>\$ 448,037</u> | <u>\$ 4,779,620</u> | <u>-90.63 %</u> | <u>\$ (17,422,118)</u> | <u>-127.43 %</u> |
| Beginning Net Position | <u>20,870,031</u> | <u>16,090,411</u> | <u>29.70 %</u> | <u>33,512,529</u> | <u>-51.99 %</u> |
| Ending Net Position | <u>\$21,318,068</u> | <u>\$20,870,031</u> | <u>2.15 %</u> | <u>\$16,090,411</u> | <u>29.70 %</u> |

Revenues

2018-19

The Pool's revenues were \$56.1 million. The primary source for revenues is member contributions. Member contributions increased \$7.4 million from the fiscal year 2017-18. Non-operating revenues consist mainly of earnings on investments. Investment earnings increased by \$2.3 million over the prior year due to market value changes and more favorable earning rates.

2017-18

The Pool's revenues were \$48.8 million. The primary source for revenues is member contributions. Revenue from member contributions increased \$15.4 million from the fiscal year 2016-17. Non-operating revenues consist mainly of earnings on fixed income investments. Investment earnings increased by \$29,891 for the fiscal year.

Expenses

2018-19

The Pool's expenses increased by \$14 million (31.43%) from \$44.5 million in fiscal year 2017-18 to \$58.5 million in fiscal year 2018-19. Claims expense increased by \$11.7 million, based on estimates by the independent actuary. Excess insurance increased by \$2 million. Administrative expenses increased by \$312 thousand.

2017-18

The Pool's expenses decreased by \$6.7 million (13.15%) from \$51.3 million in fiscal year 2016-17 to \$44.5 million in fiscal year 2017-18. Claims expense decreased by \$6.3 million, based on estimates by the independent actuary. Excess insurance increased by \$1.5 million. Administrative expenses decreased by \$2 million due to the completion of the security grants.

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

The Pool members have faced an unprecedented increase in sexual abuse claims in addition to increases in costs for liability claims in general. These increases in volume and cost has put demands on the Pool's net position. The Board and management are strengthening program funding, engaging with member districts offering additional resources to address this exposure and developing additional expert resources for members to strengthen their policies and procedures.

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
STATEMENTS OF NET POSITION
AUGUST 31, 2019 AND 2018

| | 2019 | 2018 |
|---------------------------------------|---------------|---------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 17,759,097 | \$ 25,991,278 |
| Accounts receivable, net | 41,211 | 287,209 |
| Interest receivable | 406,450 | 174,761 |
| Reinsurance/Recoveries receivable | 2,246,819 | 3,459,365 |
| Investments | 23,054,672 | 15,023,085 |
| Prepaid expenses | 432,886 | 362,027 |
| Total current assets | 43,941,135 | 45,297,725 |
| CAPITAL ASSETS, NET | 566,562 | 592,586 |
| NON-CURRENT INVESTMENTS | 37,582,866 | 29,579,213 |
| TOTAL ASSETS | 82,090,563 | 75,469,524 |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES: | | |
| Current portion of claims liabilities | 20,000,000 | 20,000,000 |
| Accounts payable | 100,578 | 110,044 |
| Unearned revenue | 3,660,167 | 5,661,024 |
| Total current liabilities | 23,760,745 | 25,771,068 |
| NON-CURRENT CLAIMS LIABILITIES | 37,011,750 | 28,828,425 |
| TOTAL LIABILITIES | 60,772,495 | 54,599,493 |
| <u>NET POSITION</u> | | |
| Invested in capital assets | 566,562 | 592,586 |
| Unrestricted | 20,751,506 | 20,277,445 |
| TOTAL NET POSITION | \$ 21,318,068 | \$ 20,870,031 |

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, 2019 AND 2018

| | 2019 | 2018 |
|--|---------------|---------------|
| OPERATING REVENUES: | | |
| Member contributions | \$ 56,072,386 | \$ 48,663,588 |
| Miscellaneous revenue | 56,304 | 120,425 |
| TOTAL OPERATING REVENUES | 56,128,690 | 48,784,013 |
| OPERATING EXPENSES: | | |
| Claims expense | 36,617,037 | 24,884,561 |
| Excess insurance and reinsurance | 15,515,372 | 13,560,197 |
| Administrative expense | 6,276,354 | 5,964,844 |
| Depreciation expense | 126,801 | 127,342 |
| TOTAL OPERATING EXPENSES | 58,535,564 | 44,536,944 |
| INCOME (LOSS) FROM OPERATIONS | (2,406,874) | 4,247,069 |
| OTHER INCOME: | | |
| Investment income | 2,834,294 | 525,551 |
| Gain on sale of capital assets | 20,617 | 7,000 |
| TOTAL OTHER INCOME | 2,854,911 | 532,551 |
| CHANGE IN NET POSITION | 448,037 | 4,779,620 |
| NET POSITION, BEGINNING OF YEAR | 20,870,031 | 16,090,411 |
| NET POSITION, END OF YEAR | \$ 21,318,068 | \$ 20,870,031 |

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, 2019 AND 2018

| | 2019 | 2018 |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Contributions received | \$ 57,031,324 | \$ 47,861,920 |
| Change in claims recovery receivable | (1,444,947) | 3,748,058 |
| Claims and claim adjustment expenses paid, net of recoveries | (28,433,712) | (26,635,174) |
| Excess reinsurance and insurance expenses paid | (15,515,372) | (13,560,197) |
| General and administrative expenses paid | (6,356,679) | (6,026,077) |
| Net cash provided by operating activities | 5,280,614 | 5,388,530 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investment securities | (46,892,364) | (19,892,557) |
| Proceeds from sales and maturities of investments | 31,905,850 | 29,933,488 |
| Investment earnings | 1,553,879 | 878,388 |
| Net cash provided by (used in) investing activities | (13,432,635) | 10,919,319 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of capital assets | (83,043) | (145,661) |
| Gain on sale of capital assets | (20,617) | (7,000) |
| Proceeds from disposal of capital assets | 23,500 | 7,000 |
| Net cash used in capital and related financing activities | (80,160) | (145,661) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (8,232,181) | 16,162,188 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 25,991,278 | 9,829,090 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 17,759,097 | \$ 25,991,278 |

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, 2019 AND 2018

| | 2019 | 2018 |
|---|----------------|--------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) | | |
| TO CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Income (loss) from operations | \$ (2,406,874) | \$ 4,247,069 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation expense | 126,801 | 127,342 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 245,998 | (227,570) |
| Reinsurance receivable | 1,212,546 | 1,067,485 |
| Prepaid expenses | (70,859) | (60,945) |
| Accounts payable and accrued expenses | (9,466) | (288) |
| Unearned revenue | (2,000,857) | 1,986,050 |
| Claims liabilities | 8,183,325 | (1,750,613) |
| Net cash provided by operating activities | \$ 5,280,614 | \$ 5,388,530 |

SUPPLEMENTARY INFORMATION

| | | |
|--|--------------|--------------|
| Noncash investing and financing transactions | | |
| Unrealized gain (loss) in fair market value of investments | \$ 1,082,303 | \$ (345,751) |

The accompanying notes are an integral part of these financial statements

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018

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. At August 31, 2019, the membership of the Pool consisted of 80 school districts, seven educational service districts, and six 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 ended August 31, 2019 was the 33rd 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017, in certain instances. Management is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. 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 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 \$10,000
Self-Insured Retention ("SIR"): \$1M
Southwest Washington Risk Management Insurance Cooperative ("SWRMIC") has an SIR of \$250,000
Spokane School District has an SIR of \$100,000
Excess Coverage: \$500M in excess of \$1M from Lexington

Equipment Breakdown Coverage

Member Deductible: \$1,000 to \$25,000
Pool Deductible: \$5,000
Excess Coverage: Included in property coverage

Liability Coverage

Member Deductible: \$1,000 to \$50,000
Self-Insured Retention: \$1M
SWRMIC has an SIR of \$250,000, Seattle Public Schools has an SIR of \$5,000 to \$250,000, and Spokane School District has an SIR of \$100,000 to \$250,000
Reinsurance Coverage: \$9M in excess of \$1M from United Educators
Excess Coverage: \$10M in excess of \$30M from Allied World
\$5M in excess of \$10M from Evanston Insurance Company
\$10M in excess of \$20M from Underwriters at Lloyds, London

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 Statements of Cash Flows.

Cash and Cash Equivalents - For purposes of the Statements 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.

Contributions Receivable - Contributions 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 April. These receivables are recorded in the fiscal year when due. Payments received in August for the following fiscal year are recorded as unearned 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, 2019 and 2018, the total accounts receivable portfolio was considered collectible.

Reinsurance Recoveries 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. These receivables totaled \$2,020,817 and \$409,533 at August 31, 2019 and 2018, respectively.

Recoveries receivable consist of member deductible and subrogation recoveries owed to the Pool. The balance at August 31, 2019 and 2018 was \$987,513 and \$978,807, respectively.

The carrying value 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 \$816,020 and \$887,026 at August 31, 2019 and 2018, 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 Statements 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. Interest on investments is recorded in the year the interest is earned.

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 \$126,801 and \$127,342 for the fiscal years ended August 31, 2019 and 2018, respectively.

Excess Insurance / Reinsurance - 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 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 United 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 and investments consisted of the following at August 31:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Cash and Cash Equivalents: | | |
| Funds Held by King County Treasurer | | |
| King County Investment Pool | \$ 1,327 | \$ 1,486 |
| Washington State Treasurer: | | |
| Local Government Investment Pool | 15,012,538 | 11,826,974 |
| Cash in Bank – US Bank | <u>2,745,232</u> | <u>14,162,818</u> |
| | 17,759,097 | 25,991,278 |
| Investments: | | |
| US Agency Securities | 54,623,807 | 40,552,084 |
| US Corporate Securities | 6,013,731 | 3,952,714 |
| Uninvested Cash in Investment account ⁽¹⁾ | <u>-</u> | <u>97,500</u> |
| | 60,637,538 | 44,602,298 |
| Total | <u>\$ 78,396,635</u> | <u>\$ 70,593,576</u> |

(1) At August 31, 2018, the Pool's investment portfolio includes uninvested cash of \$97,500. This is included in investments as it is the Pools' strategy for investment management and is not included in cash to be used for current operations.

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's Executive Board authorized the Pool to appoint a Treasurer. Prior to transition, all non-invested 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:

| <u>Investment Type</u> | <u>Amount</u> | <u>Remaining Maturity (in years)</u> | | |
|------------------------------|----------------------|--------------------------------------|----------------------|---------------------|
| | | <u>Less than 1 year</u> | <u>1 to 3 years</u> | <u>3 to 5 years</u> |
| Federal Agency Securities | \$ 11,123,111 | \$ - | \$ 11,123,111 | \$ - |
| US Treasury Securities | 24,056,920 | 11,982,546 | 12,074,374 | - |
| US Corporate Securities | 6,013,731 | 6,013,731 | - | - |
| US Obligations | 19,443,776 | 5,058,395 | 14,385,381 | - |
| Total | <u>\$ 60,637,538</u> | <u>\$ 23,054,672</u> | <u>\$ 37,582,866</u> | <u>\$ -</u> |

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:

| <u>Investment Type</u> | <u>Moody's Ratings as of August 31, 2019</u> | <u>Amount</u> |
|-----------------------------|--|----------------------|
| US Treasury Securities | Aaa | \$ 24,056,920 |
| US Obligations | Aaa | 19,443,776 |
| Federal Agency Securities | Aaa | 11,123,111 |
| US Corporate Securities | Aa3 | 1,995,217 |
| US Corporate Securities | Aa1 | 2,001,027 |
| US Corporate Securities | A1 | 2,017,487 |
| State Investment Pool | Not Rated | 15,012,538 |
| King County Investment Pool | Not Rated | 1,327 |
| Total | | <u>\$ 75,651,403</u> |

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:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Amount</u> | <u>Percent</u> |
|---------------|---------------------------|---------------------|----------------|
| T-Notes | Treasury Securities | \$24,056,920 | 40% |
| FHLB | US Obligations | 19,443,776 | 32% |
| FNMA | Federal Agency Securities | 11,123,111 | 18% |
| Other | US Corporate Securities | 6,013,731 | 10% |
| Total | | <u>\$60,637,538</u> | <u>100%</u> |

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, 2019:

| Description | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|----------------------|---------------------|-------------|----------------------|
| U.S. Treasury Notes | \$ 24,056,920 | \$ - | \$ - | \$ 24,056,920 |
| Federal Agency Securities | 11,123,111 | - | - | 11,123,111 |
| Medium Term Corporate Notes | - | 6,013,731 | - | 6,013,731 |
| US Obligations | 19,443,776 | - | - | 19,443,776 |
| Total | <u>\$ 54,623,807</u> | <u>\$ 6,013,731</u> | <u>\$ -</u> | <u>\$ 60,637,538</u> |

Investments fair value measurements are as follow at August 31, 2018:

| Description | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|----------------------|---------------------|-------------|----------------------|
| U.S. Treasury Notes | \$ 10,908,084 | \$ - | \$ - | \$ 10,908,084 |
| Federal Agency Securities | 29,644,000 | - | - | 29,644,000 |
| Medium Term Corporate Notes | - | 3,952,714 | - | 3,952,714 |
| Uninvested Cash | 97,500 | - | - | 97,500 |
| Total | <u>\$ 40,649,584</u> | <u>\$ 3,952,714</u> | <u>\$ -</u> | <u>\$ 44,602,298</u> |

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 depositories have been lost since the Public Deposit Protection Act was created in 1969.

As of August 31, 2019, 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, 2019, 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, 2019, 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 \$73,853 and the Pool's fair value of these investments is \$0.

Interest Rate Risk - As of August 31, 2019, 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, 2019, 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 2019:

| | <u>Average (\$000)</u> | <u>% of Portfolio</u> |
|--|----------------------------|-----------------------|
| U.S Treasury Notes | \$ 2,751,193 | 40% |
| U.S. Agency Securities | 1,745,246 | 26% |
| Bank Corporate Notes | 1,142,179 | 17% |
| Local Government Investment Pool | 828,213 | 12% |
| Commercial paper | 195,124 | 3% |
| Repurchase agreements | 130,484 | 2% |
| U.S. Agency mortgage backed securities | 3,486 | 0% |
| | <u>\$ 6,795,925</u> | <u>100%</u> |

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).

NOTE 4 – CAPITAL ASSETS, NET

Capital assets at August 31, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------------|-------------------|
| Vehicles and equipment | \$ 1,094,803 | \$ 1,106,919 |
| Less: accumulated depreciation | <u>(528,241)</u> | <u>(514,333)</u> |
| Net capital assets | <u>\$ 566,562</u> | <u>\$ 592,586</u> |
| | | |
| Beginning net capital assets | \$ 592,586 | \$ 567,266 |
| Add: capital additions | 103,660 | 152,662 |
| Less: net retirements | (2,883) | - |
| Less: depreciation | <u>(126,801)</u> | <u>(127,342)</u> |
| Ending net capital assets | <u>\$ 566,562</u> | <u>\$ 592,586</u> |

NOTE 5 – 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, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 48,828,425 | \$ 50,579,038 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current year | 33,149,897 | 26,278,543 |
| Increase in provision for insured events of prior year | 3,057,707 | (1,673,628) |
| Increase in unallocated loss adjustment expenses | 409,433 | 279,646 |
| Total incurred claims and claim adjustment expenses | <u>36,617,037</u> | <u>24,884,561</u> |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current year | 8,666,833 | 6,461,616 |
| Claims and claim adjustment expenses attributable to insured events of prior years | 19,766,879 | 20,173,558 |
| Total payments | <u>28,433,712</u> | <u>26,635,174</u> |
| Total unpaid claims and claim adjustment expenses at end of year | <u>\$ 57,011,750</u> | <u>\$ 48,828,425</u> |
| Reserve for open claims | \$ 22,867,641 | \$ 18,675,938 |
| Claims incurred but not reported (IBNR) | 30,964,253 | 27,382,064 |
| Unallocated loss adjustment expenses (ULAE) | 3,179,856 | 2,770,423 |
| | <u>57,011,750</u> | <u>48,828,425</u> |
| Current portion | <u>20,000,000</u> | <u>20,000,000</u> |
| Noncurrent portion | <u>\$ 37,011,750</u> | <u>\$ 28,828,425</u> |

NOTE 6 – 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.

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|---------------|---------------|
| Primary Asset Test: | | |
| Primary assets | \$ 74,635,891 | \$ 64,822,508 |
| Unpaid claims - expected level | \$ 57,011,750 | \$ 48,828,425 |
| Results | PASS | PASS |
| Primary and Secondary Test: | | |
| Secondary assets | \$ 3,693,928 | \$ 4,875,948 |
| Primary and secondary assets | \$ 78,329,819 | \$ 69,698,456 |
| Unpaid Claims - 80% Confidence Level | \$ 66,760,759 | \$ 60,441,093 |
| Results | PASS | PASS |

The Board of the Pool has adopted a board action to maintain a 90% confidence level measured by an actuary study. As of August 31, 2019, the Pool was at an 90% confidence level.

NOTE 7 – 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. The amount deducted from claims liabilities as of August 31, 2019 and 2018 for reinsurance totaled \$2,020,817 and \$409,533, respectively.

NOTE 8 – OPERATING LEASE

The Pool has a lease with Washington Cities Insurance Authority for office space. Rent expense for the years ended August 31, 2019 and 2018 totaled \$240,972 and \$238,374, respectively. The following are the minimum lease payments under the terms of the lease:

Year Ended August 31:

| | |
|--|-------------------|
| 2020 | \$ 248,220 |
| 2021 | 248,220 |
| Total future <i>minimum</i> lease payments | <u>\$ 496,440</u> |

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, 2019 and 2018, the Pool paid PSESD \$3,684,062 and \$3,460,161, respectively, for personnel and related administrative costs. Amounts due to PSESD at August 31, 2019 included in accounts payable totaled \$4,025. No amounts were due to PSESD at August 31, 2018.

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, 2019 through January 23, 2020, 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
RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF COVERAGE
YEAR ENDED AUGUST 31, 2019 (UNAUDITED)**

The schedule below presents the changes in losses and loss adjustment expenses for 2019 for the Pool's eight types of coverage:

| | <u>Auto Liability</u> | <u>APD</u> | <u>General Liability</u> | <u>E&O</u> | <u>EPL</u> | <u>Investigation</u> | <u>SPE</u> | <u>Property</u> | <u>Total</u> |
|---|-----------------------|-------------------|--------------------------|----------------------|---------------------|----------------------|-------------------|---------------------|----------------------|
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 5,129,106 | \$ 207,452 | \$ 10,850,937 | \$ 25,164,431 | \$ 4,589,015 | \$ 415,981 | \$ 688,447 | \$ 1,783,056 | \$ 48,828,425 |
| Incurred claims and claim adjustment expenses: | | | | | | | | | |
| Provision for insured events of current year | 5,967,489 | 2,734,086 | 5,237,948 | 8,708,083 | 3,218,001 | 2,081,836 | 1,515,031 | 3,687,423 | 33,149,897 |
| Increase (decrease) in provision for insured events of prior years | 1,088,588 | (438,920) | 3,552,988 | (799,403) | 612,990 | 214,507 | (8,200) | (1,164,843) | 3,057,707 |
| Change in unallocated loss adjustment expenses | 195,226 | 12,136 | 237,449 | (117,590) | 36,174 | 15,917 | 2,754 | 27,367 | 409,433 |
| Total incurred claims and claim adjustment expenses | <u>7,251,303</u> | <u>2,307,302</u> | <u>9,028,385</u> | <u>7,791,090</u> | <u>3,867,165</u> | <u>2,312,260</u> | <u>1,509,585</u> | <u>2,549,947</u> | <u>36,617,037</u> |
| Payments: | | | | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of current year | 1,069,051 | 2,313,549 | 276,030 | 553,020 | 247,133 | 1,401,659 | 1,026,561 | 1,779,830 | 8,666,833 |
| Claims and claim adjustment expenses attributable to insured events of prior years | <u>2,593,528</u> | <u>(227,418)</u> | <u>4,307,884</u> | <u>8,912,101</u> | <u>2,892,279</u> | <u>618,043</u> | <u>421,771</u> | <u>248,691</u> | <u>19,766,879</u> |
| Total payments | <u>3,662,579</u> | <u>2,086,131</u> | <u>4,583,914</u> | <u>9,465,121</u> | <u>3,139,412</u> | <u>2,019,702</u> | <u>1,448,332</u> | <u>2,028,521</u> | <u>28,433,712</u> |
| Total unpaid claims and claim adjustment expenses at end of year (undiscounted) | <u>\$ 8,717,830</u> | <u>\$ 428,623</u> | <u>\$ 15,295,408</u> | <u>\$ 23,490,400</u> | <u>\$ 5,316,768</u> | <u>\$ 708,539</u> | <u>\$ 749,700</u> | <u>\$ 2,304,482</u> | <u>\$ 57,011,750</u> |
| The components of unpaid claims liabilities are: | | | | | | | | | |
| Reserve for Open Claims | \$ 5,431,754 | \$ 204,688 | \$ 7,018,638 | \$ 6,136,261 | \$ 1,014,298 | \$ 515,688 | \$ 629,355 | \$ 1,916,959 | \$ 22,867,641 |
| Claims Incurred But Not Reported (IBNR) | 2,799,835 | 200,028 | 7,423,662 | 16,043,952 | 4,005,925 | 153,332 | 78,530 | 258,989 | 30,964,253 |
| Unallocated Loss Adjustment Expenses (ULAE) | 486,241 | 23,907 | 853,108 | 1,310,187 | 296,545 | 39,519 | 41,815 | 128,534 | 3,179,856 |
| | <u>\$ 8,717,830</u> | <u>\$ 428,623</u> | <u>\$ 15,295,408</u> | <u>\$ 23,490,400</u> | <u>\$ 5,316,768</u> | <u>\$ 708,539</u> | <u>\$ 749,700</u> | <u>\$ 2,304,482</u> | <u>\$ 57,011,750</u> |

**WASHINGTON SCHOOLS RISK MANAGEMENT POOL
RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF COVERAGE
YEAR ENDED AUGUST 31, 2018 (UNAUDITED)**

The schedule below presents the changes in losses and loss adjustment expenses for 2018 for the Pool's eight types of coverage:

| | <u>Auto Liability</u> | <u>APD</u> | <u>General Liability</u> | <u>E&O</u> | <u>EPL</u> | <u>Investigation</u> | <u>SPE</u> | <u>Property</u> | <u>Total</u> |
|---|-----------------------|-------------------|--------------------------|----------------------|---------------------|----------------------|-------------------|---------------------|----------------------|
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 4,189,309 | \$ 267,978 | \$ 12,033,507 | \$ 24,812,238 | \$ 3,197,934 | \$ 948,721 | \$ 964,550 | \$ 4,164,801 | \$ 50,579,038 |
| Incurred claims and claim adjustment expenses: | | | | | | | | | |
| Provision for insured events of current year | 2,807,036 | 1,622,430 | 4,167,644 | 9,836,599 | 2,211,539 | 1,655,994 | 1,256,122 | 2,721,179 | 26,278,543 |
| Increase (decrease) in provision for insured events of prior years | (61,871) | (161,069) | (9,500) | 650,770 | 162,388 | (477,801) | (399,311) | (1,377,234) | (1,673,628) |
| Change in unallocated loss adjustment expenses | 84,711 | (1,427) | 23,067 | 205,892 | 102,888 | (23,118) | (8,438) | (103,929) | 279,646 |
| Total incurred claims and claim adjustment expenses | <u>2,829,876</u> | <u>1,459,934</u> | <u>4,181,211</u> | <u>10,693,261</u> | <u>2,476,815</u> | <u>1,155,075</u> | <u>848,373</u> | <u>1,240,016</u> | <u>24,884,561</u> |
| Payments: | | | | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of current year | 784,562 | 1,415,319 | 283,907 | 714,415 | 94,388 | 1,311,295 | 704,647 | 1,153,083 | 6,461,616 |
| Claims and claim adjustment expenses attributable to insured events of prior years | 1,105,517 | 105,141 | 5,079,874 | 9,626,653 | 991,346 | 376,520 | 419,829 | 2,468,678 | 20,173,558 |
| Total payments | <u>1,890,079</u> | <u>1,520,460</u> | <u>5,363,781</u> | <u>10,341,068</u> | <u>1,085,734</u> | <u>1,687,815</u> | <u>1,124,476</u> | <u>3,621,761</u> | <u>26,635,174</u> |
| Total unpaid claims and claim adjustment expenses at end of year (undiscounted) | <u>\$ 5,129,106</u> | <u>\$ 207,452</u> | <u>\$ 10,850,937</u> | <u>\$ 25,164,431</u> | <u>\$ 4,589,015</u> | <u>\$ 415,981</u> | <u>\$ 688,447</u> | <u>\$ 1,783,056</u> | <u>\$ 48,828,425</u> |
| The components of unpaid claims liabilities are: | | | | | | | | | |
| Reserve for Open Claims | \$ 3,208,665 | \$ 19,385 | \$ 4,924,350 | \$ 7,001,027 | \$ 1,331,424 | \$ 647,626 | \$ 680,838 | \$ 862,623 | 18,675,938 |
| Claims Incurred But Not Reported (IBNR) | 1,629,426 | 176,297 | 5,310,928 | 16,735,627 | 2,997,220 | (255,247) | (31,452) | 819,265 | 27,382,064 |
| Unallocated Loss Adjustment Expenses (ULAE) | 291,015 | 11,770 | 615,659 | 1,427,777 | 260,371 | 23,602 | 39,061 | 101,168 | 2,770,423 |
| | <u>\$ 5,129,106</u> | <u>\$ 207,452</u> | <u>\$ 10,850,937</u> | <u>\$ 25,164,431</u> | <u>\$ 4,589,015</u> | <u>\$ 415,981</u> | <u>\$ 688,447</u> | <u>\$ 1,783,056</u> | <u>\$ 48,828,425</u> |

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
AUGUST 31, 2019
(In Thousands of Dollars)

| | Policy Year Ended August 31 (In Thousands): | | | | | | | | | |
|---|---|------------|------------|------------|-----------|-----------|-----------|------------|-----------|-----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 1 Required contributions and investment revenue | | | | | | | | | | |
| Earned | \$ 29,165 | \$ 31,732 | \$ 33,254 | \$ 32,902 | \$ 33,257 | \$ 32,086 | \$ 33,474 | \$ 33,859 | \$ 49,317 | \$ 58,982 |
| Ceded | 10,262 | 10,466 | 10,264 | 10,717 | 10,617 | 11,944 | 11,916 | 12,061 | 13,560 | 15,515 |
| Net earned | 18,903 | 21,266 | 22,990 | 22,185 | 22,640 | 20,142 | 21,558 | 21,798 | 35,757 | 43,467 |
| 2 Unallocated expenses (includes dividend to members) | 3,734 | 4,079 | 7,332 | 4,925 | 3,858 | 5,208 | 5,972 | 5,993 | 6,031 | 6,403 |
| 3 Estimated claims and expense, end of policy year | | | | | | | | | | |
| Incurred | 19,835 | 23,860 | 28,961 | 24,611 | 27,168 | 26,184 | 33,897 | 38,847 | 38,445 | 48,665 |
| Ceded | 5,854 | 8,849 | 9,541 | 8,570 | 9,111 | 8,154 | 8,763 | 10,209 | 13,560 | 15,515 |
| Net incurred | \$ 13,981 | \$ 15,011 | \$ 19,420 | \$ 16,041 | \$ 18,057 | \$ 18,030 | \$ 25,134 | \$ 28,638 | \$ 24,885 | \$ 33,150 |
| 4 Net paid (cumulative) as of: | | | | | | | | | | |
| end of policy year | 3,534 | 4,294 | 3,483 | 3,776 | 4,294 | 4,909 | 5,858 | 7,182 | 6,462 | 8,667 |
| one year later | 6,527 | 6,516 | 6,778 | 7,247 | 8,493 | 11,136 | 13,289 | 14,084 | 12,405 | |
| two years later | 7,835 | 7,057 | 8,890 | 9,056 | 11,288 | 14,528 | 16,574 | 17,958 | | |
| three years later | 9,412 | 7,665 | 11,646 | 12,027 | 15,826 | 19,463 | 19,673 | | | |
| four years later | 9,802 | 8,863 | 13,435 | 13,158 | 19,499 | 19,478 | | | | |
| five years later | 9,869 | 9,279 | 13,661 | 12,305 | 20,303 | | | | | |
| six years later | 9,906 | 10,573 | 13,621 | 13,894 | | | | | | |
| seven years later | 10,036 | 10,972 | 13,862 | | | | | | | |
| eight years later | 11,366 | 11,207 | | | | | | | | |
| nine years later | 11,735 | | | | | | | | | |
| 5 Reestimated ceded claims and expenses: | 605 | 30 | 493 | 999 | 445 | 16,271 | 2,896 | 10,209 | 6,164 | 5,155 |
| 6 Reestimated net incurred claims and expense: | | | | | | | | | | |
| end of policy year | 13,981 | 15,011 | 19,420 | 16,041 | 18,057 | 18,030 | 25,134 | 28,638 | 24,885 | 33,150 |
| one year later | 13,441 | 13,149 | 16,259 | 14,760 | 15,199 | 23,310 | 23,679 | 24,276 | 25,170 | |
| two years later | 13,173 | 11,776 | 14,533 | 14,634 | 17,864 | 21,924 | 25,390 | 26,442 | | |
| three years later | 12,296 | 11,285 | 14,656 | 15,144 | 19,602 | 23,434 | 24,670 | | | |
| four years later | 11,937 | 10,788 | 15,168 | 14,848 | 22,895 | 23,196 | | | | |
| five years later | 10,708 | 11,082 | 14,812 | 12,727 | 22,159 | | | | | |
| six years later | 10,189 | 12,008 | 13,782 | 13,969 | | | | | | |
| seven years later | 10,967 | 11,263 | 14,010 | | | | | | | |
| eight years later | 11,802 | 11,277 | | | | | | | | |
| nine years later | 11,745 | | | | | | | | | |
| 7 Increase (decrease) in estimated incurred losses and expenses from end of accident year | \$ (2,236) | \$ (3,734) | \$ (5,410) | \$ (2,072) | \$ 4,102 | \$ 5,166 | \$ (464) | \$ (2,196) | \$ 285 | \$ - |
| Change from prior year: | \$ (57) | \$ 14 | \$ 228 | \$ 1,242 | \$ (736) | \$ (238) | \$ (720) | \$ 2,166 | \$ 285 | |

WASHINGTON SCHOOLS RISK MANAGEMENT POOL
NOTES TO TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
(CONTINUED)
FOR THE 10-YEAR PERIOD ENDED AUGUST 31, 2019
(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.

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

Board of Directors
Washington Schools Risk Management Pool
Tukwila, WA

We have audited, in accordance with the 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 Washington Schools Risk Management Pool (the "Pool") as of August 31, 2019, 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, and have issued our report thereon dated January 23, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matter

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Perkins & Company, P.C.

January 23, 2020