



**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**

Financial Statements

For the Fiscal Years Ended August 31, 2023 and 2022

With Independent Auditor's Report



**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**FOR THE FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022**  
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**WASHINGTON SCHOOLS RISK MANAGEMENT POOL  
BOARD OF DIRECTORS**

**Chair**

Dr. Kathi Weight, Steilacoom Historical School District

**Vice Chair**

Dr. Jo Moccia, South Whidbey Island

**Board Members**

John Hannah, Morton School District  
Erin Murphy, Bainbridge Island School District  
Krestin Bahr, Peninsula School District  
Craig Numata, Spokane School District  
Marnie Allen, Southwest Washington Risk Management Insurance Cooperative  
José Domenich, San Juan Island School District  
Dr. James Everett, Meridian School District  
Lydia Sellie, Edmonds School District

**Ex-Officio**

Gavin Hottman, ESD 112  
Joli Valentino, Puget Sound ESD 121  
Lisa Matthews, NW ESD 189  
Kassidy Probert, NEW ESD 101  
Michelle Dearlove, ESD 123  
Nicole Roel, Olympic ESD 114

**Emeritus**

Diana Reaume

**Executive Director**

Deborah Callahan

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Washington Schools Risk Management Pool  
Tukwila, WA

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Washington Schools Risk Management Pool (the Pool) as of August 31, 2023 and 2022, 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.

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, 2023 and 2022, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pool and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Report on Required Supplementary Information***

The *Governmental Accounting Standards Board* require that the Management's Discussion and Analysis on pages 5 through 9, the Reconciliation of Claims Liability by Line of Coverage, the Ten-Year Claims Development Information, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Employer Pension Contributions, and the Notes to Required Supplementary Information, on pages 37 through 42 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 9, 2024, 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 solely 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 the effectiveness of the Pool's 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.

Portland, Oregon  
January 9, 2024

## **WASHINGTON SCHOOLS RISK MANAGEMENT POOL MANAGEMENT'S DISCUSSION AND ANALYSIS**

Washington Schools Risk Management Pool (the 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, 2023 consisted of 78 school districts, five 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, 2023. Please read it in conjunction with the Pool's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- Total Assets at \$121M; majority of the assets are cash and investments
- Total Liabilities at \$105M
- Net Position at \$16.4M

### **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.

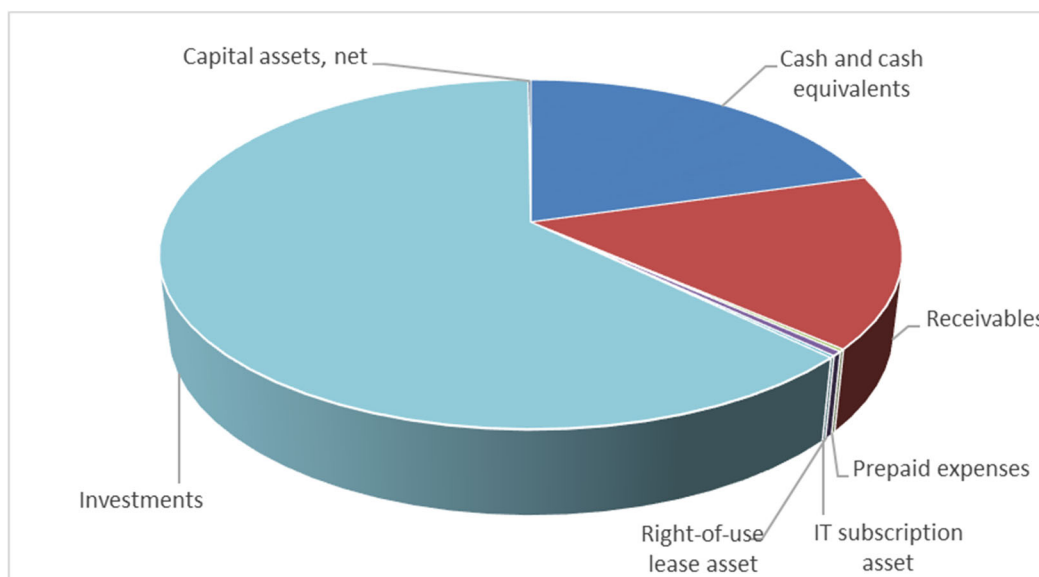
**Condensed Statement of Net Position as of August 31:**

	<u>2023</u>	<u>2022</u>	<u>% Change 2022-2023</u>	<u>2021</u>	<u>% Change 2021-2022</u>
<b>ASSETS</b>					
Current and Other Assets	\$ 120,369,936	\$ 106,246,161	13.29 %	\$ 85,685,754	24.00 %
Long-term Receivables	-	-	0.00 %	7,095,512	-100.00 %
Right-of-Use Lease Asset	520,812	699,376	-25.53 %	-	0.00 %
IT Subscription Asset	230,814	-	100.00 %	-	0.00 %
Capital Assets, Net	174,202	78,571	121.71 %	143,375	-45.20 %
<b>Total Assets</b>	<b><u>\$ 121,295,764</u></b>	<b><u>\$ 107,024,108</u></b>	<b><u>13.33 %</u></b>	<b><u>\$ 92,924,641</u></b>	<b><u>15.17 %</u></b>
<b>DEFERRED OUTFLOWS</b>					
	\$ 770,303	\$ 602,976	27.75 %	\$ -	0.00 %
<b>LIABILITIES</b>					
Claims Liabilities	\$ 96,535,100	\$ 83,757,252	15.26 %	\$ 68,979,446	21.42 %
Lease Liability	523,081	685,692	-23.71 %	-	100.00 %
IT Subscription Liability	226,632	-	100.00 %	-	0.00 %
Pension Liability	284,677	201,432	41.33 %	-	100.00 %
Other Liabilities	7,661,981	6,854,773	11.78 %	531,535	1,189.62 %
<b>Total Liabilities</b>	<b><u>\$ 105,231,471</u></b>	<b><u>\$ 91,499,149</u></b>	<b><u>15.01 %</u></b>	<b><u>\$ 69,510,981</u></b>	<b><u>31.63 %</u></b>
<b>DEFERRED INFLOWS</b>					
	\$ 422,044	\$ 542,756	-22.24 %	\$ -	100.00 %
<b>NET POSITION</b>					
Invested in Capital Assets	\$ 174,202	\$ 78,571	121.71 %	\$ 143,375	-45.20 %
Unrestricted	16,238,350	15,506,608	4.72 %	23,270,285	-33.36 %
<b>Total Net Position</b>	<b><u>\$ 16,412,552</u></b>	<b><u>\$ 15,585,179</u></b>	<b><u>5.31 %</u></b>	<b><u>\$ 23,413,660</u></b>	<b><u>-33.44 %</u></b>

**Assets**

Total assets of WSRMP increased by 13.33% from \$107 million to \$121 million.

**Total Assets**



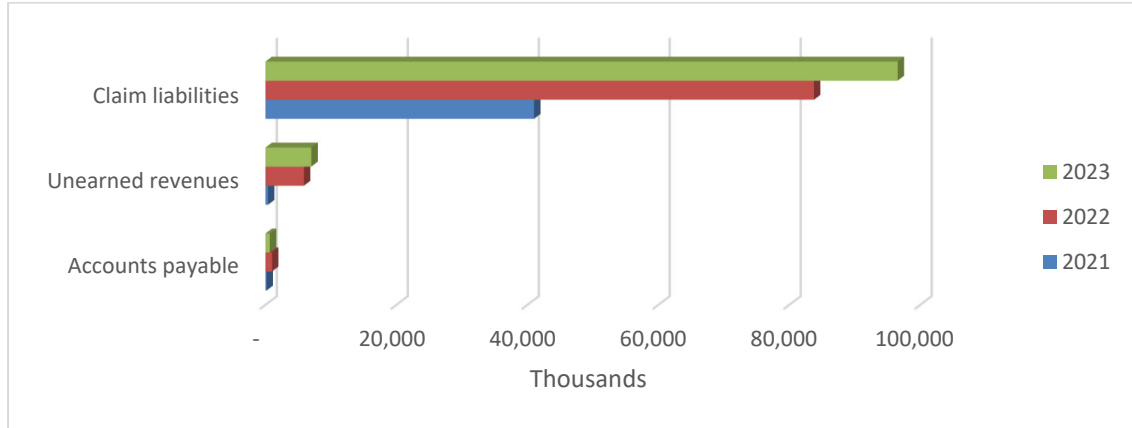


## Liabilities

Total liabilities increased by 15.01% from \$91.5 million to \$105 million.

Claims liabilities increased by \$12.7 million.

## Total Liabilities

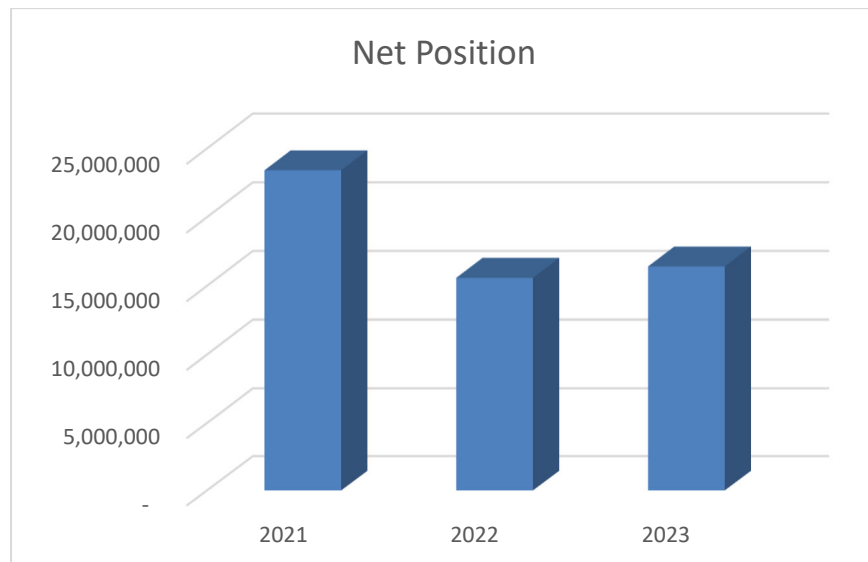


## Net Position

The Pool's *unrestricted* net position increased by \$732 thousand for the fiscal year ended August 31, 2023.

During the year, operating revenues were \$91.4 million which is an increase of \$9.7 million from prior year. This increase was due to the contribution increase budgeted. After subtracting expenses, claims estimates, and investment income, the Pool ended the year with an increase to net position of \$820 thousand.

At August 31, 2023, WSRMP total net position of \$16.4 million.



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

	<u>2023</u>	<u>2022</u>	<u>% Change 2022-2023</u>	<u>2021</u>	<u>% Change 2021-2022</u>
<b>REVENUES</b>					
Member Contributions	\$ 91,373,017	\$ 81,678,017	11.87 %	\$ 66,553,268	22.73 %
Miscellaneous Revenue	-	27,450	-100.00 %	-	100.00 %
(Loss) Gain on Sale of Capital Assets	7,500	275	2,627.27 %	(224,433)	-100.12 %
Investment Income	2,436,023	(2,516,359)	-196.81 %	229,326	-1,197.28 %
<b>Total Revenues</b>	<b>\$ 93,816,540</b>	<b>\$ 79,189,383</b>	<b>18.47 %</b>	<b>\$ 66,558,161</b>	<b>18.98 %</b>
<b>EXPENSES</b>					
Claims Expense	\$ 47,383,539	\$ 51,664,508	-8.29 %	\$ 39,043,116	32.33 %
Excess Insurance and Reinsurance	34,949,024	25,701,878	35.98 %	20,545,416	25.10 %
Administrative Expense	10,218,082	9,446,542	8.17 %	8,036,186	17.55 %
Depreciation Expense	36,994	64,166	-42.35 %	118,953	-46.06 %
Lease amortization expense	178,564	178,564	0.00 %	-	100.00 %
SBITA amortization expense	230,815	-	100.00 %	-	0.00 %
<b>Total Expenses</b>	<b>\$ 92,997,018</b>	<b>\$ 87,055,658</b>	<b>6.82 %</b>	<b>\$ 67,743,671</b>	<b>28.51 %</b>
<b>CHANGE IN NET POSITION</b>					
	\$ 819,522	\$ (7,866,275)	-110.42 %	\$ (1,185,510)	563.54 %
Beginning Net Position	15,585,179	23,413,662	-33.44 %	24,599,172	-4.82 %
Effect of adoption of GASB 96	7,851	-			
Effect of adoption of GASB 87	-	37,792			
Beginning Net Position, Adjusted	15,593,030	23,451,454			
<b>Ending Net Position</b>	<b>\$ 16,412,552</b>	<b>\$ 15,585,179</b>	<b>5.31 %</b>	<b>\$ 23,413,662</b>	<b>-33.44 %</b>

**Revenues**

**2022-23**

The Pool's revenues were \$93.8 million. The primary source for revenues is member contributions. Revenue from member contributions increased \$9.7 million from the fiscal year 2021-22. Non-operating revenues consist mainly of earnings on fixed income investments. Investment earnings increased by \$4.96 million for the fiscal year.

**2021-22**

The Pool's revenues were \$79.2 million. The primary source for revenues is member contributions. Revenue from member contributions increased \$15.1 million from the fiscal year 2020-21. Non-operating revenues consist mainly of earnings on fixed income investments. Investment earnings decreased by \$2.7 million for the fiscal year.

## **Expenses**

### **2022-23**

The Pool's expenses increased by \$6 million (6.90%) from \$87 million in fiscal year 2021-22 to \$93 million in fiscal year 2022-23. Claims expense decreased by \$4.3 million, based on estimates by the independent actuary. Excess insurance increased by \$9.2 million. Administrative expenses increased by \$772 thousand.

### **2021-22**

The Pool's expenses increased by \$19.3 million (28.51%) from \$67.7 million in fiscal year 2020-21 to \$87 million in fiscal year 2021-22. Claims expense increased by \$12.6 million, based on estimates by the independent actuary. Excess insurance increased by \$5.2 million. Administrative expenses increased by \$1.4 million.

## **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 sex abuse claims in addition to increases in costs for liability claims in general. These increases in volume and cost have 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, 2023 AND 2022**

	2023	2022
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 24,913,743	\$ 32,491,537
Accounts receivable, net	8,145	16,795
Interest receivable	435,943	337,595
Reinsurance/Recoveries receivable	18,935,307	5,533,893
Investments	14,040,141	6,123,076
Prepaid expenses	253,344	410,105
Total current assets	58,586,623	44,913,001
<b>NON-CURRENT ASSETS:</b>		
Long term portion of investments	61,783,313	61,333,160
Right-of-use lease asset	520,812	699,376
IT subscription asset	230,814	-
Capital assets, net	174,202	78,571
	62,709,141	62,111,107
<b>DEFERRED OUTFLOW OF RESOURCES</b>	770,303	602,976
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	\$ 122,066,067	\$ 107,627,084

The accompanying notes are an integral part of these financial statements.

**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**STATEMENTS OF NET POSITION (continued)**  
**AUGUST 31, 2023 AND 2022**

	2023	2022
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of claims liabilities	\$ 24,000,000	\$ 28,000,000
Accounts payable	663,247	987,718
Current portion of lease liability	171,012	160,549
Current portion of IT subscription liability	226,632	-
Unearned revenue	6,998,734	5,867,055
Total current liabilities	32,059,625	35,015,322
<b>NON-CURRENT LIABILITIES:</b>		
Claims liabilities	72,535,100	55,757,252
Lease liability	352,069	525,143
Pension liability	284,677	201,432
	73,171,846	56,483,827
<b>DEFERRED INFLOW OF RESOURCES</b>	422,044	542,756
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	105,653,515	92,041,905
<b><u>NET POSITION</u></b>		
Invested in capital assets	174,202	78,571
Unrestricted	16,238,350	15,506,608
<b>TOTAL NET POSITION</b>	\$ 16,412,552	\$ 15,585,179

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, 2023 AND 2022**

	2023	2022
<b>OPERATING REVENUES:</b>		
Member contributions	\$ 91,373,017	\$ 81,678,017
Miscellaneous revenue	-	27,450
<b>TOTAL OPERATING REVENUES</b>	91,373,017	81,705,467
<b>OPERATING EXPENSES:</b>		
Claims expense	47,383,539	51,664,508
Excess insurance and reinsurance	34,949,024	25,701,878
Administrative expense	10,218,082	9,446,542
Depreciation expense	36,994	64,166
Lease amortization expense	178,564	178,564
Subscription amortization expense	230,815	-
<b>TOTAL OPERATING EXPENSES</b>	92,997,018	87,055,658
<b>LOSS FROM OPERATIONS</b>	(1,624,001)	(5,350,191)
<b>OTHER INCOME (LOSS) :</b>		
Investment income (loss)	2,436,023	(2,516,359)
Gain on sale of capital assets	7,500	275
<b>TOTAL OTHER INCOME (LOSS)</b>	2,443,523	(2,516,084)
<b>CHANGE IN NET POSITION</b>	819,522	(7,866,275)
<b>NET POSITION, BEGINNING OF YEAR</b>	15,585,179	23,413,662
<b>EFFECTS OF ADOPTION OF GASB 87</b>	-	37,792
<b>EFFECTS OF ADOPTION OF GASB 96</b>	7,851	-
<b>NET POSITION, BEGINNING OF YEAR, ADJUSTED</b>	15,593,030	23,451,454
<b>NET POSITION, END OF YEAR</b>	\$ 16,412,552	\$ 15,585,179

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, 2023 AND 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Contributions received	\$ 92,513,346	\$ 87,222,444
Change in claims recovery receivable	17,188,846	17,126,918
Claims and claim adjustment expenses paid, net of recoveries	(65,195,951)	(47,761,988)
Excess reinsurance and insurance expenses paid	(34,757,477)	(25,604,351)
General and administrative expenses paid	(10,754,587)	(8,497,488)
Net cash (used in) provided by operating activities	(1,005,823)	22,485,535
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(26,487,167)	(60,879,578)
Proceeds from sales and maturities of investments	17,823,251	39,526,647
Investment earnings	2,634,373	1,222,911
Net cash used in investing activities	(6,029,543)	(20,130,020)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(125,125)	-
Proceeds from disposal of capital assets	-	363
Capitalized lease payments	(179,302)	(179,211)
Capitalized IT subscription payments	(238,001)	-
Net cash used in capital and related financing activities	(542,428)	(178,848)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(7,577,794)	2,176,667
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	32,491,537	30,314,870
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 24,913,743	\$ 32,491,537

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, 2023 AND 2022**

	2023	2022
<b>RECONCILIATION OF OPERATING LOSS TO CASH</b>		
<b>PROVIDED BY OPERATING ACTIVITIES:</b>		
Loss from operations	\$ (1,624,001)	\$ (5,350,191)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	36,994	64,166
Lease amortization and interest expense	195,255	203,319
IT subscription amortization and interest expense	241,670	-
Pension liability	(204,794)	141,212
Changes in assets and liabilities:		
Accounts receivable, net	8,650	23,205
Reinsurance receivable	(13,401,414)	(843,881)
Prepaid expenses	156,761	51,147
Long term reinsurance receivable	-	7,095,513
Accounts payable	(324,471)	829,467
Unearned revenue	1,131,679	5,493,772
Claims liabilities	12,777,848	14,777,806
Net cash (used in) provided by operating activities	\$ (1,005,823)	\$ 22,485,535

**SUPPLEMENTARY INFORMATION**

Noncash investing and financing transactions

Change in unrealized gain (loss) in fair market value of investments	\$ 296,698	\$ 3,732,751
GASB 96 adjustment to net position	\$ 7,851	\$ -
IT subscription asset recorded through accrual of IT subscription liability	\$ 461,629	\$ -
GASB 87 adjustment to net position	\$ -	\$ 37,792
Right-of-use lease asset recorded through accrual of lease liability	\$ -	\$ 892,820

The accompanying notes are an integral part of these financial statements.



**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2023 AND 2022**

**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, 2023, the membership of the Pool consisted of 78 school districts, five 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 31<sup>st</sup> of any year. The member must remain in the Pool until August 31<sup>st</sup> 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, 2023 was the 37th 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 June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU is intended to provide financial statement users with more useful information about expected credit losses on financial assets held by a reporting entity at each reporting date. The new standard replaces the existing incurred loss impairment methodology with a methodology that requires consideration of a broader range of reasonable and supportable forward-looking information to estimate all expected credit losses. This is effective for fiscal years and interim periods within those years beginning after December 15, 2022. Management has not yet evaluated the impact of the 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 No. 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

*Self-Insured Retention (SIR):* \$1M; except \$250,000 - Flood excess of National Flood Insurance Program - Flood Zone A; 5% of total insurable values – Earthquake, and \$100,000 per occurrence – Builder’s Risk (WSRMP)  
Some members have separate SIRs that do not erode WSRMP’s SIR

*Excess Coverage:* \$500M Property, inclusive of the \$1M WSRMP SIR

## Equipment Breakdown Coverage

*Pool Deductible:* \$25,000

*Coverage:* \$250M

## Liability Coverage

*Self-Insured Retention (SIR):* \$2M / \$3M annual aggregate deductible / 10% co-pay (WSRMP)  
Some members have separate SIRs that do not erode WSRMP’s SIR

### *Primary Reinsurance*

*Coverage:* \$8M up to \$24M annual aggregate for all members in excess of \$2M SIR / \$3M annual aggregate deductibles / 10% co-pay

*1<sup>st</sup> Excess Coverage:* \$5M up to \$25M annual aggregate for all members in excess of \$10M

*2<sup>nd</sup> Excess Coverage:* \$5M up to \$25M annual aggregate for all members in excess of \$15M

*3<sup>rd</sup> Excess Coverage:* \$5M annual aggregate for all members in excess of \$20M

*4<sup>th</sup> Excess Coverage:* \$5M annual aggregate for all members in excess of \$25M

*For a total accumulated limit of \$30M*

**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 Receivable** - 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 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, 2023 and 2022, the total accounts receivable portfolio was considered collectible.

**Reinsurance Receivable** - Claims incurred in excess of self-insured retention thresholds are recovered by the Pool. Also included are subrogation receivables which are due from third parties for amounts incurred on individual claims. The receivables at August 31, 2023 and 2022 totaled \$18,773,076 and \$5,371,526, respectively.

Recoveries receivable consist of member deductible and subrogation recoveries owed to the Pool. The balances at August 31, 2023 and 2022 were \$160,854 and \$156,145 net of allowances, 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 \$1,332,906 and \$980,449 at August 31, 2023 and 2022, 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** - The Pool accounts for investments in accordance with GASB Statement No. 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 is provided for over the estimated useful lives of the assets using the straight-line method. The capitalization threshold is \$5,000 for capital assets. 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 \$36,994 and \$64,166 for the fiscal years ended August 31, 2023 and 2022, respectively.

**Leases** - The Pool accounts for leases in accordance with GASB Statement No. 87, *Leases*, which defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined under the standard as having both the right to obtain present service capacity and the right to determine the nature and manner of use. The standard requires a lessee to record a right-of-use (ROU) asset and a lease liability on the statements of net position for all leases with terms longer than 12 months. All leases will be classified as financing, based on the foundational principle that leases are financing of a right to use an underlying asset.

The Pool has established a capitalization threshold for ROU assets of \$200,000 in aggregate payments during the lease term. The determination of whether an arrangement is a lease is made at the lease's inception. Management only reassesses its determination if the terms and conditions of the contract are changed. Amortization is provided for over the life of the lease contract using the straight-line method.

**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 in the United States of America (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, 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*, the Pool 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.

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of all state-sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Recently Adopted Accounting Standards** – On September 1, 2022, the Pool adopted GASB Statement No. 96, *Subscription Based IT Arrangements* (SBITA). A SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor) IT software, alone or in combination with tangible capital assets (the underlying IT asset), as specified in the contract, for a period of time in an exchange or exchange-like transaction. The new standard requires a subscription asset and a corresponding liability to be recognized on the statement of financial position for any SBITA arrangements. The guidance requires that changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. The Pool did not consider it practicable to retroactively apply this Statement to financial statements for the year ended August 31, 2022. The effect of adopting this Statement was an increase to beginning net position of \$7,851, for the cumulative effect on prior year's having adopted the new standard. The adjustment was primarily related to differences in expenses under the criteria of the new standard. Upon adoption of this Statement, the Pool recognized a \$461,629 IT subscription asset and a \$453,778 IT subscription liability on its statement of net position.

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

	2023	2022
Cash and Cash Equivalents:		
Funds Held by King County Treasurer		
King County Investment Pool	\$ 290	\$ 611
Washington State Treasurer:		
Local Government Investment Pool	19,906,110	27,189,943
Cash in Bank – US Bank	5,007,343	5,300,983
	\$ 24,913,453	\$ 32,490,926

	<u>2023</u>	<u>2022</u>
Investments:		
US Agency Securities	\$ 41,095,315	\$ 26,597,837
US Corporate Securities	17,473,401	23,347,550
Municipal Bonds	17,183,050	17,488,724
Uninvested Cash in Investment account <sup>(1)</sup>	<u>71,688</u>	<u>22,125</u>
	<u>75,823,454</u>	<u>67,456,236</u>
Total	<u>\$ 100,737,197</u>	<u>\$ 99,947,773</u>

(1) At August 31, 2023 and 2022, the Pool's investment portfolio includes uninvested cash. 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.

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>
US Treasury Securities	\$41,095,315	\$ 6,853,354	\$30,772,763	\$ 3,469,198
US Corporate Securities	17,473,401	7,115,100	9,457,512	900,789
Municipal Bonds	<u>17,183,050</u>	-	<u>15,793,465</u>	<u>1,389,585</u>
Total	<u>\$75,751,766</u>	<u>\$13,968,454</u>	<u>\$56,023,740</u>	<u>\$ 5,759,572</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, 2022</u>	<u>Amount</u>
US Treasury Securities	Aaa	\$ 41,095,315
US Corporate Securities	Aaa	1,933,978
US Corporate Securities	Aa2	6,981,006
US Corporate Securities	Aa3	1,918,127
US Corporate Securities	A1	6,640,290
Municipal Bond	Aaa	2,753,747
Municipal Bond	Aa1	8,589,293
Municipal Bond	Aa2	5,077,545
Municipal Bond	Aa3	762,465
Total		<u>\$ 75,751,766</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>
Other	US Corporate Securities	\$ 17,473,401	23%
T-Notes	Treasury Securities	41,095,315	54%
Other	Other Bonds & Securities	17,183,050	23%
Total		<u>\$ 75,751,766</u>	<u>100%</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 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, 2023, 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 entity's 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, 2023, 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 with the Securities and Exchange Commission (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, 2023, 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 \$35,621 and the Pool's fair value of these investments is \$0.

**Interest Rate Risk** - As of August 31, 2023, 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, 2023, 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 US Treasury securities, US 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 depositories, 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 2023:

	Average (\$000)	% of Portfolio
US Agency Securities	\$ 3,162,353	33%
State Investment Pool	2,103,734	22%
US Agency Treasury Notes	2,451,967	26%
Bank Corporate Notes	173,808	2%
Repurchase Agreements	213,000	2%
Commercial Paper	1,209,450	13%
Overnight Deposits	4,125	0%
US Agency Mortgage-Backed Securities	167,809	2%
	<u>\$ 9,486,246</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 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 is 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.

Investment fair value measurements are as follows at August 31, 2023:

Description	Level 1	Level 2	Level 3	Total
US Treasury Notes	\$ 41,095,315	\$ -	\$ -	\$ 41,095,315
Medium Term Corporate Securities	-	17,473,401	-	17,473,401
Municipal Bonds	17,183,050	-	-	17,183,050
Total	<u>\$ 58,278,365</u>	<u>\$ 17,473,401</u>	<u>\$ -</u>	<u>\$ 75,751,766</u>

Investment fair value measurements are as follows at August 31, 2022:

Description	Level 1	Level 2	Level 3	Total
US Treasury Notes	\$ 26,597,837	\$ -	\$ -	\$ 26,597,837
Medium Term				
Corporate Securities	-	23,347,550	-	23,347,550
Municipal Bonds	17,488,724	-	-	17,488,724
Total	<u>\$ 44,086,561</u>	<u>\$ 23,347,550</u>	<u>\$ -</u>	<u>\$ 67,434,111</u>

#### NOTE 4 – CAPITAL ASSETS

Capital assets at August 31, 2023 and 2022 consist of the following:

	2023	2022
Vehicles and equipment	\$ 429,092	\$ 420,600
Work in progress	96,817	-
Less: accumulated depreciation	(351,707)	(342,029)
Net capital assets	<u>\$ 174,202</u>	<u>\$ 78,571</u>
Beginning net capital assets	\$ 78,571	\$ 143,375
Add: capital additions	132,625	-
Less: net retirements	-	(638)
Less: depreciation	(36,994)	(64,166)
Ending net capital assets	<u>\$ 174,202</u>	<u>\$ 78,571</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, 2023 and 2022:

	2023	2022
Unpaid claims and claim adjustment expenses at beginning of year	\$ 83,757,252	\$ 68,979,446
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	43,227,504	39,771,861
Change in provision for insured events of prior year	2,806,035	11,242,647
Change in unallocated loss adjustment expenses	1,350,000	650,000
Total incurred claims and claim adjustment expenses	<u>47,383,539</u>	<u>51,664,508</u>

	<u>2023</u>	<u>2022</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ 10,303,687	\$ 9,238,667
Claims and claim adjustment expenses attributable to insured events of prior years	<u>24,302,004</u>	<u>27,648,035</u>
Total payments	<u>34,605,691</u>	<u>36,886,702</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 96,535,100</u>	<u>\$ 83,757,252</u>
Reserve for open claims	\$ 33,809,667	\$ 28,690,215
Claims incurred but not reported (IBNR)	57,525,433	51,217,037
Unallocated loss adjustment expenses (ULAE)	<u>5,200,000</u>	<u>3,850,000</u>
	96,535,100	83,757,252
Current portion	<u>24,000,000</u>	<u>28,000,000</u>
Noncurrent portion	<u>\$ 72,535,100</u>	<u>\$ 55,757,252</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>2023</u>	<u>2022</u>
Primary Asset Test:		
Primary assets	\$ 92,040,825	\$ 93,092,999
Unpaid claims - expected level	\$ 96,535,100	\$ 83,757,252
Results	NOT MET	PASS
Primary and Secondary Test:		
Secondary assets	\$ 20,558,567	\$ 6,376,959
Primary and secondary assets	\$112,599,392	\$ 99,469,958
Unpaid Claims - 80% Confidence Level	\$113,000,657	\$ 97,398,469
Results	NOT MET	PASS

The Pool has not met the required regulatory guidelines for primary and secondary assets for the year ended August 31, 2023. The Pool has notified the state risk manager and is prepared to take corrective action, if considered necessary.

## NOTE 7 – EXCESS INSURANCE

The Pool uses both excess and 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, 2023 and 2022 for reinsurance totaled \$8,613,582 and \$15,001,841, respectively.

## NOTE 8 – LEASE COMMITMENTS

The Pool leases office space in Tukwila, Washington. There are no variable payments or residual value guarantees included in the measurement of the ROU asset and lease liability. The Pool's lease agreements generally contain lease and non-lease components. Non-lease components, which primarily include common area maintenance and repair costs, are variable in nature and are excluded from lease payments used in the calculation of the ROU asset and lease liability. Non-lease components are presented as variable lease expense and are included in administrative expense on the statement of revenues, expenses, and changes in net position.

The discount rate used in the measurement of the ROU asset and lease liability is 3.00%, based on the rate of interest the Pool would be charged to borrow an amount equal to the payments for a similar asset type and under similar terms at the lease commencement date. As of August 31, 2023, the Pool has not entered into any additional lease agreements that have not yet commenced.

The right-of-use lease asset consists of the following at August 31:

	<u>2023</u>	<u>2022</u>
ROU lease asset	\$ 892,820	\$ 892,820
Less: accumulated amortization	<u>(372,008)</u>	<u>(193,444)</u>
Net capital assets	<u>\$ 520,812</u>	<u>\$ 699,376</u>

The following are the future principal and interest payments under the terms of the lease:

<u>Year ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 171,012	\$ 13,358	\$ 184,370
2025	179,670	8,109	187,779
2026	172,399	2,597	174,996
Total	<u>\$ 523,081</u>	<u>\$ 24,063</u>	<u>\$ 547,145</u>

## NOTE 9 – IT SUBSCRIPTIONS

The Pool contracts with various vendors for the right to use information technology (IT) software. The Pool has established a capitalization threshold for IT subscription assets of \$200,000 in aggregate payments during the contract term. The determination of whether an arrangement is a SBITA is made at the contract's inception. Management only reassesses its determination if the terms and conditions of the contract are changed. Amortization is provided for over the life of the SBITA contract using the

straight-line method. Upon adoption of GASB Statement No. 96, *Subscription based IT arrangements (SBITA)*, the Pool recognized a \$461,629 IT subscription asset and a \$453,778 IT subscription liability on its statement of net position. There are no variable payments included in the measurement of the SBITA liability.

The discount rate used in the measurement of the IT subscription asset and liability is 3.00%, based on the rate of interest the Pool would be charged to borrow an amount equal to the payments for a similar asset type and under similar terms at the contract commencement date. As of August 31, 2023, the Pool has not entered into any additional IT subscription agreements that have not yet commenced.

The subscription IT asset consists of the following at August 31, 2023:

Subscription IT asset	\$ 461,629
Less: accumulated amortization	<u>(230,815)</u>
Net subscription IT asset	<u><u>\$ 230,814</u></u>

The current SBITA contract expires on September 1, 2024. Future principal and interest payments under the terms of the SBITA are \$226,631 and \$3,744, respectively.

**NOTE 10 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ended August 31, 2023:

Pension liabilities	\$ 441,518
Pension assets	\$ 156,841
Deferred outflows of resources	\$ 770,303
Deferred inflows of resources	\$ 422,044
Pension expense	\$ 204,794

**State Sponsored Pension Plans**

State Sponsored Pension Plans General Information Pool is required to provide retirement benefits for substantially all qualifying employees through the Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington. Generally accepted accounting principles require, among other provisions, that the Pool recognize its proportionate share of the DRS plans’ funded status. The Pool has no independent ability to fund or satisfy pension liabilities outside of Washington State’s legislatively adopted contribution rates. Assessments now and in the future are made based on the legislatively mandated rates and are paid by the Pool on salaries and wages, as earned, in future years.

DRS, a department within the primary government of the state of Washington, issues a publicly available annual comprehensive financial report that includes financial statements and required supplementary information for each plan. The DRS annual comprehensive financial report may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov), or obtained by writing to: Washington State Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

## **Plan Participation**

Substantially all the Pool's full-time and qualifying part-time employees participate in the School Employees' Retirement System. Membership & Plan Benefits employees are members of SERS Plan 2/3.

## **School Employees' Retirement System (SERS)**

SERS was established by the legislature in 1998, and the plan became effective in 2000. SERS retirement benefit provisions are established in RCW 41.34 and 41.35. SERS is a cost-sharing, multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

## **Plan Contributions**

The member contribution rates for SERS Plans 2 and 3 are established by the Pension Funding Council based upon the rates set by the Legislature. Employers do not contribute to the defined contribution portions of SERS Plan 3. Under current law the employer must contribute 100% of the employer-required contribution.

The employer and employee contribution rates for the SERS plan are effective as of September 1. Participating employers in SERS contribute to the Public Employees' Retirement System (PERS) Plan 1 Unfunded Actuarial Accrued Liability (UAAL) based on their plan 2/3 employer contributions. The employer contribution rates for the PERS Plan 1 UAAL are effective as of July 1.

The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 are listed below:

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
SERS Plan 2/3	7.76%	7.76 - 15%
PERS Plan 1 UAAL	3.85%	-
Administrative Fee	0.18%	-
Total	<u>11.79%</u>	<u>7.76 - 15%</u>

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022 to June 30, 2023, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary Increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

**Mortality Rates**

Mortality rates used in the plans were developed using the Society of Actuaries’ Pub.H-2010 Mortality rates, which vary by member status as the base table. The Office of the State Actuary (OSA) applies age offsets for each system to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale to project mortality rates for every year after the 2010 base table.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the actuarial assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return, a 7.00% on pension plan investments was applied to determine the total pension liability.

**Long-term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.00% was determined using a building-block-method. In selecting the assumptions, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided. WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.



### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the table below. The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long- term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

### Sensitivity of the Net Pension Liability

The table below presents the Pool's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate. Amounts are calculated by plan using the Pool's allocation percentage.

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Net Pension Liability (Asset)	\$ 1,897,046	\$ 284,646	\$ (1,052,774)

### Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

### Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Pool reported a total pension liability for its proportionate share of the net pension (liabilities) and assets as of August 31:

	2023	2022
SERS Plan 2/3	\$ 156,841	\$ 248,806
PERS Plan 1 UAAL	\$ (441,518)	\$ (450,238)

As of June 30, the Pool's proportionate share of the collective net pension liability is reported below:

	2023	2022	Change
SERS Plan 2/3	0.109568%	0.092613%	0.016955%
PERS Plan 1 UAAL	0.019342%	0.016170%	0.003172%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability was measured as of June 30, 2023, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2022, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended August 31, 2023, the Pool recognized total pension income (expense) as follows:

	<u>2023</u>	<u>2022</u>
SERS Plan 2/3	\$ 172,464	\$ 346,152
PERS Plan 1 UAAL	<u>32,330</u>	<u>(487,364)</u>
	<u>\$ 204,794</u>	<u>\$ (141,212)</u>

### Deferred Outflows of Resources and Deferred Inflows of Resources

As of August 31, 2023, the Pool reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>PERS Plan 1 UAAL</u>		
Differences between projected and actual investment earnings	\$ -	\$ 49,805
Pension contributions made subsequent to measurement date	<u>36,290</u>	<u>-</u>
Total	<u>\$ 36,290</u>	<u>\$ 49,805</u>
<u>SERS Plan 2/3</u>		
Changes of assumptions	\$ 266,730	\$ -
Differences between expected and actual experience	391,378	-
Differences between projected and actual investment earnings	-	244,926
Differences between employer's contributions and proportionate share of contributions	-	9,161
Change in employer's proportion	-	118,152
Pension contributions made subsequent to measurement date	<u>75,905</u>	<u>-</u>
Total	<u>\$ 734,013</u>	<u>\$ 372,239</u>

Total All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 266,730	\$ -
Differences between expected and actual experience	391,378	-
Differences between projected and actual investment earnings	-	294,731
Differences between employer's contributions and proportionate share of contributions	-	9,161
Change in employer's proportion	-	118,152
Pension contributions made subsequent to measurement date	112,195	-
Total	\$ 770,303	\$ 422,044

The \$112,195 reported as Deferred Outflows of Resources related to pensions resulting from Pool's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending August 31, 2024.

As of August 31, 2022, the Pool reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1 UAAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 74,618
Pension contributions made subsequent to measurement date	37,492	-
Total	\$ 37,492	\$ 74,618
SERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 281,348	\$ 20,281
Differences between expected and actual experience	205,715	-
Differences between projected and actual investment earnings	-	367,216
Differences between employer's contributions and proportionate share of contributions	-	80,641
Pension contributions made subsequent to measurement date	78,421	-
Total	\$ 565,484	\$ 468,138

Total All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 281,348	\$ 20,281
Differences between expected and actual experience	205,715	-
Differences between projected and actual investment earnings	-	441,834
Differences between employer's contributions and proportionate share of contributions	-	80,641
Pension contributions made subsequent to measurement date	115,913	-
Total	\$ 602,976	\$ 542,756

The \$115,916 reported as Deferred Outflows of Resources related to pensions resulting from Pool's contributions subsequent to the measurement date were recognized as a reduction of the net pension liability during the year ending August 31, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension income (expense) as follows:

Year ended August 31,	PERS 1 UAAL	SERS 2/3
2024	\$ (33,885)	\$ (21,990)
2025	(42,615)	(73,993)
2026	26,276	250,954
2027	419	87,901
2028	-	39,516
Thereafter	-	3,421

**NOTE 11 – POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS**

**Access to Other Post Employment Medical Benefits through the Washington State Health Care Authority (HCA)**

Washington State, through the HCA, administers a defined benefit other post-employment (OPEB) plan. The Public Employees' Benefits Board (PEBB) created under the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through PEBB.

The relationship between the PEBB OPEB plan and its employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to sharing of benefit costs.

Participation in the plan is administered by HCA as a single employer defined benefit OPEB plan. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

### **General Description**

Employers participating in the PEBB OPEB plan include Washington State general government agencies, higher education institutions, K-12 school and educational service districts and political subdivisions. Additionally, PEBB's OPEB plan is available to retirees of K-12 school districts and educational service districts who do not participate in PEBB for insurance for their active employees. RCW 41.05.085 provides that contribution requirements of participating employers and of plan members are established by, and may be amended by, the HCA Board of Directors. Participating employers and active plan members are required to contribute the established benefit rates. All K-12 school districts and educational service districts contribute the same rate, which is set annually, as an amount per pro-rated full-time equivalent (FTE) under RCW 28A.400.410. Employers do not have the ability to contribute additionally to funding against future liabilities or impact funding progress on the actuarially determined liability of the HCA's PEBB OPEB plan.

The PEBB OPEB plan provides healthcare insurance benefits (medical and dental) for retirees and their dependents. Retired members may only elect dental coverage if they have elected medical coverage. The PEBB OPEB plan offers eighteen medical plans and three dental plans. All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by current PEBB retirees. When a retiree or covered dependent becomes eligible for Medicare, the retiree or covered dependent must enroll in Medicare Parts A and B in order to maintain eligibility for retiree coverage.

Employees Covered by Benefit Terms District employees are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under SERS:

- Age 65 with 5 years of service for Plan 2
- Age 55 with 20 years of service for Plan 2
- Age 55 with 10 years of service for Plan 3

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

It is not possible to determine the number of inactive employees entitled to, but not yet receiving benefit payments. Retiring employees apply for benefits at their discretion, may be otherwise working and not eligible for benefits or be deceased. This data is not monitored by the District, HCA or the state of Washington.

### **Election Assumptions**

65% of employees are assumed to elect medical and dental benefits upon retirement and 45% of employees are assumed to enroll eligible dependents as of the retirement date. 100% of employees are assumed to enroll in Medicare, once eligible, after initial participation.

### **Claims Cost Assumptions**

Subsidies provided by PEBB and valued in the actuarial valuation include the following:

- Explicit medical subsidy for post-65 retirees and spouses – WSRMP does not offer any explicit subsidy
- Implicit medical and dental subsidy

The implicit medical subsidy is the difference between the total cost of medical benefits and premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average and therefore can be expected to have lower average health costs. (For post-65 retirees and spouses, the retiree does not pay the full premium due to the explicit subsidy discussed above.) Under generally accepted accounting principles, the total cost of benefit payments is to be based on claims costs or age-adjusted premiums approximating claims costs. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption, varied by age and sex. Implicit subsidies for dental coverage is also reflected in the actuarial valuation

### **OPEB Liability**

The Pool does not offer any explicit OPEB benefits. The only potential liability would be related to the implicit rate subsidy. The Pool has not yet calculated the implicit subsidy liability at this time but plans to estimate this in the future.

### **NOTE 12 - 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, 2023 through January 9, 2024, 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 CLAIM LIABILITIES BY LINE OF COVERAGE (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED AUGUST 31, 2023**

	<u>Auto Liability</u>	<u>APD</u>	<u>General Liability</u>	<u>E&amp;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	\$ 10,309,289	\$ 347,641	\$ 16,084,689	\$ 45,174,022	\$ 6,817,946	\$ 1,119,450	\$ 934,429	\$ 2,969,786	\$ 83,757,252
Incurred claims and claim adjustment expenses:									
Provision for insured events of current year	4,306,085	5,059,355	5,444,122	16,293,005	2,780,573	3,103,999	1,426,035	4,814,330	43,227,504
Increase (decrease) in provision for insured events of prior years	(1,245,481)	(156,166)	1,156,514	2,489,313	385,203	342,450	(31,936)	(133,862)	2,806,035
Change in unallocated loss adjustment expenses	91,982	47,265	334,095	801,738	51	15,993	(4,380)	63,256	1,350,000
Total incurred claims and claim adjustment expenses	<u>3,152,586</u>	<u>4,950,454</u>	<u>6,934,731</u>	<u>19,584,056</u>	<u>3,165,827</u>	<u>3,462,442</u>	<u>1,389,719</u>	<u>4,743,724</u>	<u>47,383,539</u>
Payments:									
Claims and claim adjustment expenses attributable to insured events of current year	814,398	3,957,464	162,612	355,478	22,389	2,101,540	942,702	1,947,104	10,303,687
Claims and claim adjustment expenses attributable to insured events of prior years	2,142,592	166,530	2,928,866	10,970,149	4,142,437	1,228,175	665,382	2,057,873	24,302,004
Total payments	<u>2,956,990</u>	<u>4,123,994</u>	<u>3,091,478</u>	<u>11,325,627</u>	<u>4,164,826</u>	<u>3,329,715</u>	<u>1,608,084</u>	<u>4,004,977</u>	<u>34,605,691</u>
Total unpaid claims and claim adjustment expenses at end of year (undiscounted)	<u>\$ 10,504,885</u>	<u>\$ 1,174,101</u>	<u>\$ 19,927,942</u>	<u>\$ 53,432,451</u>	<u>\$ 5,818,947</u>	<u>\$ 1,252,177</u>	<u>\$ 716,064</u>	<u>\$ 3,708,533</u>	<u>\$ 96,535,100</u>
The components of unpaid claims liabilities are:									
Reserve for Open Claims	\$ 3,800,024	\$ 921,747	\$ 8,574,018	\$ 14,647,154	\$ 1,345,801	\$ 836,286	\$ 462,517	\$ 3,222,120	\$ 33,809,667
Claims Incurred But Not Reported (IBNR)	6,139,001	189,109	10,280,477	35,907,082	4,159,700	348,441	214,975	286,648	57,525,433
Unallocated Loss Adjustment Expenses (ULAE)	565,860	63,245	1,073,447	2,878,215	313,446	67,450	38,572	199,765	5,200,000
	<u>\$ 10,504,885</u>	<u>\$ 1,174,101</u>	<u>\$ 19,927,942</u>	<u>\$ 53,432,451</u>	<u>\$ 5,818,947</u>	<u>\$ 1,252,177</u>	<u>\$ 716,064</u>	<u>\$ 3,708,533</u>	<u>\$ 96,535,100</u>



**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**RECONCILIATION OF CLAIM LIABILITIES BY LINE OF COVERAGE (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED AUGUST 31, 2022**

	<u>Auto Liability</u>	<u>APD</u>	<u>General Liability</u>	<u>E&amp;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	<u>\$ 8,558,931</u>	<u>\$ 203,349</u>	<u>\$ 15,604,313</u>	<u>\$ 34,930,084</u>	<u>\$ 5,613,725</u>	<u>\$ 815,333</u>	<u>\$ 1,035,522</u>	<u>\$ 2,218,189</u>	<u>\$ 68,979,446</u>
Incurred claims and claim adjustment expenses:									
Provision for insured events of current year	5,636,393	2,465,980	6,251,354	12,923,566	2,936,573	2,940,455	1,503,066	5,114,474	39,771,861
Increase (decrease) in provision for insured events of prior years	(712,459)	(307,294)	(2,399,748)	15,598,750	234,541	73,368	(139,963)	(1,104,548)	11,242,647
Change in unallocated loss adjustment expenses	76,824	6,546	15,458	456,048	52,971	13,632	(5,086)	33,607	650,000
Total incurred claims and claim adjustment expenses	<u>5,000,758</u>	<u>2,165,232</u>	<u>3,867,064</u>	<u>28,978,364</u>	<u>3,224,085</u>	<u>3,027,455</u>	<u>1,358,017</u>	<u>4,043,533</u>	<u>51,664,508</u>
Payments:									
Claims and claim adjustment expenses attributable to insured events of current year	689,420	2,118,339	152,325	198,649	189,098	2,060,352	892,484	2,938,000	9,238,667
Claims and claim adjustment expenses attributable to insured events of prior years	2,560,980	(97,399)	3,234,363	18,535,778	1,830,764	662,987	566,626	353,936	27,648,035
Total payments	<u>3,250,400</u>	<u>2,020,940</u>	<u>3,386,688</u>	<u>18,734,427</u>	<u>2,019,862</u>	<u>2,723,339</u>	<u>1,459,110</u>	<u>3,291,936</u>	<u>36,886,702</u>
Total unpaid claims and claim adjustment expenses at end of year (undiscounted)	<u>\$ 10,309,289</u>	<u>\$ 347,641</u>	<u>\$ 16,084,689</u>	<u>\$ 45,174,021</u>	<u>\$ 6,817,948</u>	<u>\$ 1,119,449</u>	<u>\$ 934,429</u>	<u>\$ 2,969,786</u>	<u>\$ 83,757,252</u>
The components of unpaid claims liabilities are:									
Reserve for Open Claims	\$ 3,990,976	\$ 301,503	\$ 4,749,779	\$ 13,082,081	\$ 2,639,100	\$ 855,002	\$ 671,562	\$ 2,400,212	\$ 28,690,215
Claims Incurred But Not Reported (IBNR)	5,844,435	30,158	10,595,558	30,015,463	3,865,453	212,991	219,915	433,064	51,217,037
Unallocated Loss Adjustment Expenses (ULAE)	473,878	15,980	739,352	2,076,477	313,395	51,456	42,952	136,510	3,850,000
	<u>\$ 10,309,289</u>	<u>\$ 347,641</u>	<u>\$ 16,084,689</u>	<u>\$ 45,174,021</u>	<u>\$ 6,817,948</u>	<u>\$ 1,119,449</u>	<u>\$ 934,429</u>	<u>\$ 2,969,786</u>	<u>\$ 83,757,252</u>

**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**TEN YEARS CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)**  
**FOR THE YEAR ENDED AUGUST 31, 2023**

	Policy Year Ended August 31 (In Thousands):									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1 Required contributions and investment revenue										
Earned	\$ 33,257	\$ 32,086	\$ 33,474	\$ 33,859	\$ 49,317	\$ 58,982	\$ 60,840	\$ 66,558	\$ 79,189	\$ 93,817
Ceded	10,617	11,944	11,916	12,061	13,560	15,515	17,595	20,545	25,702	34,949
Net earned	22,640	20,142	21,558	21,798	35,757	43,467	43,245	46,013	53,487	58,868
2 Unallocated expenses (includes dividend to members)	3,858	5,208	5,972	5,993	6,031	6,403	7,217	8,155	9,689	10,664
3 Estimated claims and expense, end of policy year										
Incurred	27,168	26,184	33,897	37,981	39,839	48,665	45,825	29,738	42,597	45,094
Ceded	9,111	8,154	8,763	10,209	13,560	15,515	17,595	4,746	2,825	1,866
Net incurred	\$ 18,057	\$ 18,030	\$ 25,134	\$ 27,772	\$ 26,279	\$ 33,150	\$ 28,230	\$ 24,992	\$ 39,772	\$ 43,228
4 Net paid (cumulative) as of:										
end of policy year	4,294	4,909	5,858	7,182	6,462	8,667	7,054	4,275	9,239	10,304
one year later	8,493	11,136	13,289	14,084	12,405	14,407	14,429	7,763	16,379	
two years later	11,288	14,528	16,574	17,958	18,012	22,946	19,235	12,944		
three years later	15,826	19,463	19,673	20,750	20,669	27,545	24,191			
four years later	19,499	19,478	21,256	22,126	22,048	28,434				
five years later	20,303	21,472	22,073	22,812	25,008					
six years later	21,046	21,582	22,836	23,818						
seven years later	21,026	21,634	23,380							
eight years later	21,066	21,799								
nine years later	21,068									
5 Reestimated ceded claims and expenses:	102	17,840	5,829	9,867	8,828	23,072	24,248	3,986	9,792	1,866
6 Reestimated net incurred claims and expense:										
end of policy year	18,057	18,030	25,134	27,772	26,279	33,150	28,230	24,992	39,772	43,228
one year later	15,199	23,310	23,679	24,276	25,170	34,503	29,598	23,746	46,501	
two years later	17,864	21,924	25,390	26,442	25,491	36,165	30,887	22,330		
three years later	19,602	23,434	24,670	24,836	27,005	36,790	30,236			
four years later	22,895	23,196	25,385	26,225	26,963	35,233				
five years later	22,159	22,535	24,552	25,345	27,720					
six years later	21,201	23,151	24,775	25,707						
seven years later	22,144	22,973	24,726							
eight years later	21,829	22,729								
nine years later	21,862									
7 Increase (decrease) in estimated incurred losses and expenses from end of accident year	\$ 3,805	\$ 4,699	\$ (408)	\$ (2,065)	\$ 1,441	\$ 2,083	\$ 2,006	\$ (2,662)	\$ 6,729	\$ -
Change from prior year:	\$ 33	\$ (244)	\$ (49)	\$ 362	\$ 757	\$ (1,557)	\$ (651)	\$ (1,416)	6,729	

**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)**  
**AS OF JUNE 30, 2023**

**PERS 1 UAAL**

Years Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2023	0.193420%	\$ 441,518	\$ 3,449,335	12.80%	19.84%
2022	0.016170%	\$ 450,238	\$ 2,671,192	16.86%	23.44%

**SERS 2/3**

Years Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2023	0.109568%	\$ (156,841)	\$ 3,449,335	-4.55%	-1.54%
2022	0.092613%	\$ (248,806)	\$ 2,671,192	-9.31%	-3.17%

**WASHINGTON SCHOOLS RISK MANAGEMENT POOL**  
**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS (UNAUDITED)**  
**FOR THE YEAR ENDED AUGUST 31, 2023**

**PERS 1 UAAL**

Years Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Employer's covered employee payroll	Contributions as a percentage of covered employee payroll
2023	\$ 131,800	\$ (131,800)	\$ -	\$ 3,449,335	3.82%
2022	\$ 99,101	\$ (99,101)	\$ -	\$ 2,671,192	3.71%

**SERS 2/3**

Years Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Employer's covered employee payroll	Contributions as a percentage of covered employee payroll
2023	\$ 267,217	\$ (267,217)	\$ -	\$ 3,449,335	7.75%
2022	\$ 207,285	\$ (207,285)	\$ -	\$ 2,671,192	7.76%

# **WASHINGTON SCHOOLS RISK MANAGEMENT POOL**

## **Notes to Required Supplemental Information**

### **NOTE 1 – CLAIMS DEVELOPMENT**

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.

### **NOTE 2 – PENSION PLANS**

The Pool became a member of SERS in September 2021, as such no data is available prior to this date. There have been no changes to the benefit terms, significant changes in the employees covered under the benefit terms, or in the use of different assumptions.

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

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), which comprise the statement of financial position as of August 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9 2024.

***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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Pool’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on



the financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Perkins & Company, P.C.

Portland, Oregon  
January 9, 2024