



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Schools Insurance Association of Washington

Grant County

For the period September 1, 2013 through August 31, 2014

Published April 16, 2015

Report No. 1014004





Washington State Auditor Troy Kelley

April 16, 2015

Board of Directors
Schools Insurance Association of Washington
Ephrata, Washington

Report on Financial Statements

Please find attached our report on the Schools Insurance Association of Washington's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	27

**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**

**Schools Insurance Association of Washington
Grant County
September 1, 2013 through August 31, 2014**

Board of Directors
Schools Insurance Association of Washington
Ephrata, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Schools Insurance Association of Washington, Grant County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated April 8, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

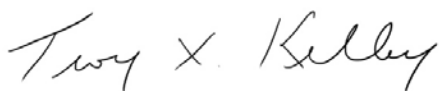
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

April 8, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Schools Insurance Association of Washington Grant County September 1, 2013 through August 31, 2014

Board of Directors
Schools Insurance Association of Washington
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Schools Insurance Association of Washington, Grant County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Pool's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schools Insurance Association of Washington, as of August 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 and ten year claims development information on pages 23 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

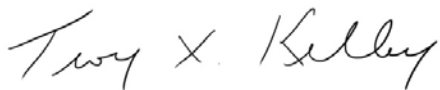
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements as a whole. The List of Members and

the DES Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

April 8, 2015

FINANCIAL SECTION

Schools Insurance Association of Washington Grant County September 1, 2013 through August 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – 2014

Notes to Ten Year Claims Development Information – 2014

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2014

DES Schedule of Expenses – 2014

SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON
Management's Discussion and Analysis
September 1, 2013 through August 31, 2014

The management of the Schools Insurance Association of Washington (SIAW) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the SIAW for the fiscal year ending August 31, 2014. Readers of this analysis are encouraged to consider the information presented here in conjunction with the attached financial statements and related notes.

Overview of the Financial Statements

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

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

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

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

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

SIAW - Condensed Financial Information

	2014	2013
Current Assets	15,883,920	15,100,155
Non-Current Assets	<u>9,332</u>	<u>0</u>
Total Assets	15,893,252	15,100,155
Current Liabilities	4,703,855	3,891,055
Noncurrent Liabilities	<u>7,504,925</u>	<u>7,097,330</u>
Total Liabilities	12,208,780	10,988,385
Unrestricted	<u>3,684,473</u>	<u>4,111,770</u>
Total Net Position	3,684,473	4,111,770
Operating Revenues		
Member Contributions	28,010,718	25,822,691
Non Operating Revenues		
Interest Income	<u>291,806</u>	<u>179,151</u>
Total Revenues	28,302,524	26,001,842
Operating Expenses	<u>28,731,106</u>	<u>24,612,897</u>
Total Expenses	28,731,106	24,612,897
Income Before Contributions, Transfers, Special or Extraordinary Items	(428,582)	1,388,945
Capital Contributions	0	15,552
Change in Net Position	<u>(428,582)</u>	<u>1,404,497</u>
Beginning Net Position	4,111,770	2,707,273
Prior Period Adjustment	1,285	0
Ending Net Position	<u><u>3,684,473</u></u>	<u><u>4,111,770</u></u>

The Schools Insurance Association of Washington (SIAW) is a property and liability risk and insurance pooling program for schools with enrollments in excess of 2,000 students. The SIAW was formed in 1995 with seven founding school districts. Current membership in the program consists of forty-two districts. A board of directors, elected by the membership, governs the program. The Board of Directors contracts with Canfield, a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, and risk management services.

Financial Statement Analysis

The Schools Insurance Association of Washington total revenues increased by \$2,300,682 and expenditures increased by \$4,118,209 from the prior year. The net position of SIAW declined this year. The Board made the decision to use some of its equity to offset the costs of renewal premium for the 13-14 year, therefore, SIAW had a net loss this year. The pool's current assets consist of cash and equivalents and receivables from both members and the SIAW's excess/reinsurance carrier. The pool's investments are held in the Grant County Investment Pool. These investments allow short-term liquidity with favorable interest rates. Current liabilities consist of unpaid claims liabilities, unearned member premiums and accounts payable. The pool utilizes the services of an actuary to determine that adequate reserves have been set aside to cover any potential future claims. In addition, the SIAW purchases a stop loss policy as another layer of protection to its membership. The SIAW does not have any other restrictions or commitments that affect the availability of pool resources for future use.

Requests for Information

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

Schools Insurance Association of Washington

Balance Sheet As of August 31, 2014

	<u>2014</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Equivalents	\$2,220,766
Investments	\$13,282,035
Receivables	
Member Contributions & Deductibles	\$13,920
Reinsurance/Stop Loss Recoverable	\$365,897
Pre Paid Expense	\$1,303
TOTAL CURRENT ASSETS	<u>\$15,883,920</u>
<u>Non-Current Assets:</u>	
Member Contributions	<u>\$9,332</u>
TOTAL NON-CURRENT ASSETS	\$9,332
TOTAL ASSETS	<u><u>\$15,893,252</u></u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Claim Reserves:	
IBNR	\$1,559,738
Open Claims (Case Reserves)	\$1,525,791
Accounts Payable	\$34,273
Unearned Member Premiums	\$1,584,054
TOTAL CURRENT LIABILITIES	<u>\$4,703,855</u>
<u>Noncurrent Liabilities:</u>	
Claim Reserves:	
IBNR	\$3,793,747
Open Claims (Case Reserves)	\$3,711,177
TOTAL NONCURRENT LIABILITIES	<u>\$7,504,925</u>
TOTAL LIABILITIES	<u>\$12,208,780</u>
<u>NET POSITION</u>	
Unrestricted	\$3,684,473
TOTAL NET POSITION	<u>\$3,684,473</u>
TOTAL NET POSITION & LIABILITIES	<u><u>\$15,893,252</u></u>

See Accompanying Notes to Financial Statements

Schools Insurance Association of Washington

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION For The Fiscal Years Ended August 31, 2014

	2014
OPERATING REVENUES:	
Member Contributions	\$28,010,718
Total Operating Revenues	<u>\$28,010,718</u>
OPERATING EXPENSES:	
Incurred Loss/Loss Adjustment Expenses -	
Paid on Current Losses	\$1,858,128
Change in Loss Reserves	\$2,746,545
Unallocated Loss Adjustment Expenses -	
Paid Unallocated Loss Adjustment Expenses	\$2,266,649
Excess/Reinsurance Premiums	\$17,860,818
General and Administrative Expenses	\$3,998,966
Total Operating Expenses	<u>\$28,731,106</u>
OPERATING INCOME (LOSS)	<u>(\$720,388)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$291,806
Total Nonoperating Revenues (Expenses)	\$291,806
Income Before Contributions, Transfers, Special and Extraordinary Items	(\$428,582)
Capital Contributions	\$0
CHANGE IN NET POSITION	<u>(\$428,582)</u>
TOTAL NET POSITION, September 1	<u><u>\$4,111,770</u></u>
Prior Period Adjustment	\$1,285
TOTAL NET POSITION, August 31	<u><u>\$3,684,472</u></u>

See Accompanying Notes to Financial Statements

Schools Insurance Association of Washington

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended August 31, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$28,158,920
Cash payments to suppliers for goods and services	(\$27,509,169)
Net Cash Provided (Used) by Operating Activities	<u>\$649,751</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Membership Reserve Buy-In	<u>\$3,110</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$3,110</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>\$291,806</u>
Net Cash Provided (Used) by Investing Activities	<u>\$291,806</u>
Increase (Dec) in Cash and Cash Equivalents	\$944,667
Cash and Equivalents, September 1	<u>\$14,558,134</u>
Cash and Equivalents, August 31	<u>\$15,502,801</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
	2014
OPERATING INCOME	(\$720,388)
(Increase) Decrease in Accounts Receivable	\$149,505
(Increase) Decrease in Prepaid Expenses	(\$1,303)
Increase (Decrease) in Unpaid Claims Liabilities	\$87,560
Increase (Decrease) in Accounts Payable	(\$140,335)
Increase (Decrease) in Prior Period Adjustments	\$1,285
Increase (Decrease) in Deferred Revenue	<u>\$1,273,427</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$649,751</u>

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON

For the Period September 1, 2013 through August 31, 2014

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. **Reporting Entity**

The Schools Insurance Association of Washington (SIAW) was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The SIAW was formed on September 1, 1995 for purposes of the joint purchase of insurance and/or joint self-insuring and/or joint hiring or contracting for risk management purposes, claims administration and all other functions necessary to carry out provisions of the Interlocal Agreement. There were 42 member districts as of August 31, 2014.

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

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

The pool is governed by an eight-member Board of Directors elected by each member's designated voting representative. It is felt the individual districts are best able to select their own representatives to manage their insurance association. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

b. **Basis of Accounting**

The accounting records of the SIAW are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapters 39.34 and 43.09. The SIAW also follows the accounting standards established by the Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and*

Financial Reporting for Risk Financing and Related Insurance Issues as amended by the GASB Statement 30, *Risk Financing Omnibus* and the GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

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

Operating revenues are from member contributions and non-operating revenue is interest income. Operating expenses include payment of claims, general and administrative costs, and reinsurance costs.

c. Cash and Cash Equivalents

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

d. Receivables

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

e. Investments - See Note 3.

f. Unpaid Claims Liabilities

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

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

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

g. Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risk reinsured. The SIAW does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to reinsurers during 2014 were \$17,860,818.

h. Member Premium and Unearned Premiums

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

i. Unpaid Claims

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

j. Reserve for Unallocated Loss Adjustment Expenses

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

k. Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 – DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

As of August 31, 2014, the SIAW had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Investment in Grant County Investment Pool	<u>\$13,282,035</u>	<u>\$13,282,035</u>
Total Investments	<u>\$13,282,035</u>	<u>\$13,282,035</u>

SIAW values its investments at current market value.

NOTE 4 – RISK FINANCING LIMITS / SELF-INSURED RETENTION

The following table reflects the risk financing limits on coverage policies issued and retained by SIAW for the 2013-14 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$10,000	\$250,000	\$150,000,000 per occurrence
Flood	\$25,000 per occurrence; \$500,000 per occurrence for Flood Zones prefixed A or V	\$250,000	\$25,000,000 annual aggregate
Earthquake	5% per building, per structure, subject to a \$100,000 minimum	\$0	\$25,000,000 annual aggregate
Equipment Breakdown	\$10,000 (10% of Loss subject to \$10,000 Minimum on Perishable Goods)	\$0	\$100,000,000 per occurrence
Employee Dishonesty	\$5,000	\$250,000	\$1,000,000 per occurrence
Auto Comp and Collision	\$2,500 Standard Some Vehicles Vary per Schedule	\$250,000	\$150,000,000 per occurrence
Liability Loss:			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000	\$100,000	\$25,000,000 per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	\$2,500	\$100,000	\$25,000,000 per occurrence; \$150,000,000 group annual aggregate
Wrongful Acts Liability	\$2,500	\$100,000	\$25,000,000 per claim; \$150,000,000 group annual aggregate

NOTE 5 – REINSURANCE AND EXCESS INSURANCE CONTRACTS

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

<u>Excess/Re-Insurance Contracts</u>	<u>2013-2014</u>
General Liability	\$150,000,000
Automobile Liability	No aggregate
Wrongful Acts Liability	\$150,000,000
Property	\$150,000,000
Equipment Breakdown	100,000,000
Employee Dishonesty	No aggregate

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

<u>Excess/Re-Insurance Contracts</u>	<u>2013-2014</u>
General Liability	\$25,000,000
Automobile Liability	\$25,000,000
Wrongful Acts Liability	\$25,000,000
Property	\$150,000,000
Equipment Breakdown	\$100,000,000
Employee Dishonesty	\$1,000,000

There have been no settlements that have exceeded coverage in the past three years.

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$17,860,818. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$35,000.

NOTE 6 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Interlocal Agreement provides for supplemental assessments to members in the event the pool lacks resources to pay claims. The SIAW has never made a supplemental assessment. Members buy into the equity of the program when they join. This is shown as a member receivable on the balance sheet and a noncapital contribution on the cash flow statement. This calculation is based upon pool's net position, total insured student enrollment and new member's student enrollment.

NOTE 7 – RELATED PARTY TRANSACTIONS

The SIAW's third party administrator and insurance broker is Canfield. Canfield uses Apex and Peachtree Special Risk to place insurance coverage for the pool. Both Canfield, Apex and Peachtree Special Risk are owned by the same parent company, Brown and Brown, Inc.

NOTE 8 PRIOR PERIOD ADJUSTMENTS

There was a prior period adjustment of \$1,285 for a refund that belonged in 2013.

NOTE 9 – UNPAID CLAIMS LIABILITY

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

	<u>2014</u>	<u>2013</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	<u>\$10,502,893</u>	<u>\$10,346,091</u>
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$5,600,000	\$4,975,000
Increases (Decreases) in Provision for Insured Events of Prior Year	<u>(\$2,853,455)</u>	<u>(\$1,563,322)</u>
Total Insured Claims and Claim Adjustment Expenses	<u>\$2,746,545</u>	<u>\$3,411,678</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$1,858,128	\$1,176,957
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>\$800,857</u>	<u>\$2,077,919</u>
Total Payments	<u>\$2,658,985</u>	<u>\$3,254,876</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$10,590,453</u>	<u>\$10,502,893</u>

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

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

		08/31/2014	08/31/2013
Primary Asset Test			
Primary Assets		\$13,907,726	\$14,072,642
Estimated Claims Liabilities at Expected Level		\$10,590,453	\$10,502,893
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		\$14,274,926	\$14,614,663
Estimated Claims at 70% Confidence Level		\$10,915,453	\$10,803,996
	Results	Pass	Pass

Schools Insurance Association of Washington

TEN YEAR CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended August 31, 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Net earned required contribution and investment revenues										
Earned	14,921,093	16,635,841	18,313,197	19,870,932	19,693,942	20,082,282	21,790,359	24,089,897	26,001,842	28,302,524
Ceded	9,960,861	11,485,555	12,469,382	12,398,846	11,836,686	13,201,620	13,157,039	13,054,974	14,079,544	17,860,818
Net earned	4,960,232	5,150,286	5,843,815	7,472,086	7,857,256	6,880,662	8,633,320	11,034,923	11,922,298	10,441,706
2. Unallocated expenses	878,464	994,022	1,154,098	1,232,572	3,264,075	3,858,520	3,066,948	5,699,351	5,944,718	6,265,615
3. Estimated claims and expenses, end of policy year:										
Incurred										
Ceded				4,451,555	16,204,602	31,125,638	6,123,500	6,970,000	23,215,000	6,312,059
Net incurred	3,076,258	2,958,912	4,083,008	4,451,555	11,853,418	27,925,638	831,625	1,825,000	18,240,000	712,059
4. Net paid (cumulative) as of:					4,351,184	3,200,000	5,291,875	5,145,000	4,975,000	5,600,000
End of Policy Year	1,886,900	2,258,109	2,261,536	2,343,718	879,829	983,077	1,474,811	1,369,518	1,176,957	1,858,128
One year later	2,353,873	2,627,863	2,580,543	1,541,356	1,391,123	1,272,753	2,444,092	2,365,903	2,394,020	
Two years later	3,054,326	2,969,115	1,621,236	2,303,620	2,151,555	2,263,681	3,180,313	3,129,837		
Three years later	3,505,052	2,105,192	2,724,916	2,944,068	2,899,979	2,920,559	3,497,274			
Four years later	2,679,174	2,455,117	3,252,261	3,417,418	3,503,410	3,105,688				
Five years later	3,034,398	2,700,195	3,436,986	3,729,831	3,696,202					
Six years later	2,996,015	2,867,282	3,504,286	3,752,324						
Seven years later	3,101,348	2,906,791	3,579,286							
Eight years later	3,130,304	2,930,683								
Nine years later	3,149,111									
5. Reestimated ceded claims and expenses	3,471,513	16,647,395	18,478,822	14,592,185	19,577,337	41,024,428	11,512,014	7,534,108	18,516,511	712,059
6. Reestimated net incurred claims and expenses:										
End of Policy Year	4,176,115	4,257,403	5,453,956	5,885,290	4,351,184	3,200,000	5,291,875	5,145,000	4,975,000	5,600,000
One year later	4,118,784	4,968,395	5,239,742	3,049,284	4,330,000	3,200,000	4,990,000	5,321,875	4,905,000	
Two years later	4,548,255	4,629,855	3,615,927	4,152,500	4,387,500	3,577,000	4,932,971	5,160,000		
Three years later	4,497,267	3,396,422	4,108,500	4,107,500	4,335,000	3,574,316	4,935,000			
Four years later	3,500,354	3,120,000	3,825,000	4,090,000	4,211,290	3,390,401				
Five years later	3,171,294	3,250,000	3,635,887	3,969,621	3,957,391					
Six years later	3,093,658	3,052,645	3,652,802	3,832,432						
Seven years later	3,197,972	3,042,140	3,642,751							
Eight years later	3,162,972	3,027,059								
Nine years later	3,232,972									
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	156,714	68,147	(440,257)	(619,123)	(393,793)	190,401	(356,875)	15,000	(70,000)	0

SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON
REQUIRED SUPPLEMENTAL INFORMATION
September 1, 2013 through August 31, 2014

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

1. Ten-Year Claims Development Information

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

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the pool including overhead and claims expenses not allocable to individual claims.
3. This section shows the pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 2014 re-estimations are based on actuary liability and property ultimate losses of the net layer, net of the stop loss. Re-estimations in prior years used a variety of methods including actuary liability estimates and management property estimates and aggregate stop losses. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
7. This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

LIST OF PARTICIPATING MEMBERS
SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON

Battle Ground	Moses Lake
Bellevue	North Thurston
Bellingham	Olympia
Bethel	Richland
Bremerton	Renton
Central Kitsap	Sequim
Central Valley	Selah
Centralia	Shelton
Chehalis	Snohomish
Eastmont	Snoqualmie Valley
East Valley	South Kitsap
Ellensburg	Sultan
Evergreen	Sunnyside
Ferndale	Toppenish
Granite Falls	Tumwater
Highline	Wapato
Kennewick	Wenatchee
Kent	West Valley
Lakewood	Vancouver
Longview	Yakima
Mead	Yelm

DES SCHEDULE OF EXPENSES

Schools Insurance Association of Washington
For the Fiscal Year Ended August 31, 2014

Contracted Services:

Third Party Administrator Fees	335,109
Risk Management	597,983
Audit Expenses	41,818
Legal Fees	16,094
Other Consultant Fees (Lobbyist)	17,725
Actuary	17,888

General Administrative Expenses:

Miscellaneous & Supplies	29,444
Retreat/Board Meetings/Travel	29,383
Prelitigation Program	308,652
Inservices/Training Simulators	200,892
Licenses/Dues/Subscriptions	4,490
Marketing	10,733
Bank Charges	152

Other:

Medicare Reporting	4,500
Underwriting Fees	2,355,397
Director's E&O	28,706
Total Operating Expenses	<u>3,998,966</u>

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
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