

Office of Financial Management
Local Government Self Insurance Program
Report
for
Schools Insurance Association of Washington

Issued June 3, 2009

April 3, 2009

Shannon Stuber
Program Administrator
Local Government Self Insurance Program
Department of Risk Management
Office of Financial Management
PO Box 41027
Olympia, WA 98504-1027

Dear Sir:

In accordance with procedures established by the state risk manager, we conducted an examination of

Schools Insurance Association of Washington

otherwise referred to as the “Pool” or “SIAW”

SCOPE OF EXAMINATION:

This full-scope examination was conducted by the Local Government Self-Insurance Program (LGSIP) in the Office of Risk Management. The examination covered the years ended August 31, 2002, 2003, 2004, 2005, 2006, 2007 and 2008.

Our regulatory examination included such tests of the records and such other procedures as we considered necessary in the circumstances. The accuracy of the information provided by SIAW is the responsibility of the Pool’s management. Our responsibility is to determine compliance with rules and standards adopted by the state risk manager in conjunction with the Property and Liability Advisory Board based on the information provided. Our examination included a review of the Pool’s management and operational practices, an evaluation of the adequacy of reserves and a review of actuarially determined liabilities. In addition, our examination included tests to provide reasonable assurance that the Pool was in compliance with applicable laws and with rules adopted by the state risk manager.

The Pool is audited annually by the Washington State Auditor’s Office. The Auditor expressed unqualified opinions on the Pool’s financial statements for the calendar years 2002 through 2006. We placed substantial reliance on the audited financial statements for calendar years 2002 through 2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the years ended August 31, 2007 and 2008. We placed

high reliance on the work of the Pool's actuary and therefore did not conduct an independent review of the actuary's findings as part of the examination.

GENERAL HISTORY:

Schools Insurance Association of Washington is a public entity joint self-insurance program operating in the State of Washington. The Pool began operations in September of 1995. The Pool is capitalized by member entities consisting of public school districts. The Pool provides liability, automobile physical damage and property insurance. The Pool also provides educator's legal liability, student catastrophic medical coverage, various bonds and other insurance coverages to its members.

The member policies are occurrence based; however, some coverages are on a claims made basis.

The Pool has a self insured retention of \$100,000 per liability claims per occurrence. As part of the \$100,000 each member retains an underlying retention of \$1,000, while the Pool pays \$99,000. The Pool also provides property insurance with a self insured retention of \$10,000, of which the member pays \$5,000 and the Pool pays \$5,000. The Pool has a stop loss policy which limits the amount of deductibles for which the Pool is responsible. Reimbursements to the Pool for monies paid during the claims settlement process are made after each claim is settled.

The Pool also provides claims management, loss prevention, training, risk management and other services to member schools and educational service districts. The Pool had 48 members as of August 31, 2008.

MEMBERSHIP:

SIAW is owned by its members, and capitalized with contributions from member entities. The Pool is formed through an interlocal agreement as required by 48.62.031(2) Revised Code of Washington (RCW). The Pool maintains only one class of members; all members agree to pay additional assessments in the future should the pool fail to meet funding requirements.

The member entities are eligible to serve on the Board of Directors, which is responsible for conducting the business affairs of the Pool. The Board consists of eight members elected by a majority of the members.

The Pool has a formula approved by the governing body to provide for the dissolution and payment of equity to members. The Pool also has a policy to provide for termination of a member should the Pool determine the member no longer meets the Pool's criteria for membership.

Members may leave the pool by giving a one year written notice prior to August 31 to terminate membership as of September 1 of the following year. The member forfeits equity in the program by leaving.

RESERVES:

The Pool is required to maintain minimum reserves in the amount of the actuarially determined liability for unpaid claims of \$8.44 million as of August 31, 2008. The Pool is also required to maintain secondary reserves to offset adverse claims development and rating inaccuracies. As of August 31, 2008 the pool had assets of \$10,262,420 in cash and investments to fund the liability for unpaid claims. The Pool has funded its liabilities for unpaid claims at the level of expected loss per the estimates provided by the Pool's actuary. The comparative financial information located on page nine of this report provides information on changes in assets and liabilities over years.

The Pool also reports a receivable of \$1,094,363 which includes insurance recoveries. The Pool does not receive repayment from the stop loss policy until the claim is settled. The overall rating methodology employed by the Pool provides for the calculation and collection of sufficient annual member contributions to ensure the Pool can meet expenses and maintain adequate reserves to fund unpaid claims liabilities as determined by the program's actuary as of fiscal year end.

ELECTED OFFICIALS AND MANAGEMENT:

The following persons served as the Pool's directors as of August 31, 2008.

<u>Name</u>	<u>Entity Represented</u>
Richard Puryear	Richland School District
Jan Hutton	Central Valley District
Monte Redal	Moses Lake School District
Richard Moore	Renton School District
Wayne Leonard	Mead School District
Ron Cowan	Bellingham School District
Rick Doehle	Yakima School District
Terri Patton	South Kitsap School District

The following persons were responsible for the management of the Pool:

<u>Name</u>	<u>Title</u>
Mr. James Cherf Third Party Administrator	President Canfield and Associates

Committees:

As of August 31, 2008, the Pool's Board of Directors had established the following committees:

Fiscal Committee:

Richard Puryear, Chairman
Jan Hutton, Vice Chair
Monte Redal, Fiscal Officer

AFFILIATED PARTIES AND TRANSACTIONS:

The Pool purchases loss prevention and risk management services from Canfield and Associates, a third party administrator owned by Brown and Brown Inc. The Pool also purchases financial, accounting and claims administration services from the third party administrator. The administrator also procures actuarial services on behalf of the Pool. In addition, the third party administrator procures brokerage services from Public Risk Underwriters, also owned by the same parent company as the third party administrator.

INVESTMENTS:

As of August 31, 2008, the Pool maintained deposits of \$7,531,152 in the Grant County Treasurer's Investment Pool as permitted by RCW 48.62.11(4).

FINANCIAL POSITION:

Regulations in place as of August 31, 2008 required the Pool maintain minimum reserves of \$8.44 million to fund the liability for unpaid claims at the expected loss level determined by the Pool's actuary.

The Pool's liability for unpaid claims was fully funded as of that date.

AREAS OF OPERATION:

The Pool is a public entity joint self-insurance program operating in the State of Washington in accordance with 48.62 RCW and 82.60 Washington Administrative Code (WAC). According to information provided by the Pool, SIAW provides no services, including insurance, claims administration, loss prevention and risk management to entities outside of Washington.

EXCESS INSURANCE:

The Pool maintains excess insurance contracts for liability with St. Paul Traveler's Insurance. The aggregate limits of coverage for general liability and automobile liability are \$100,000,000 each. The Pool also maintains excess insurance contracts for educators' legal liability with aggregate limits of \$20,000,000. The Pool's gross limits of coverage on its property program are \$500,000,000. Other excess contracts include coverage for employee dishonesty with aggregate limits of \$250,000 and loss of money and securities with aggregate limits of \$50,000. Additionally the Pool purchases a stop loss policy for its liability program which reduces the risk of loss to members.

Per occurrence limits, combined with the Pool's self-insured retention limits, are \$20,000,000 each for general liability, automobile liability and educator's legal liability insurance. Per occurrence limits, combined with the Pool's self-insured retention limits, are \$100,000,000 for property damage, \$500,000 for employee dishonesty and \$50,000 for loss of money or securities.

The Pool recorded premiums for excess insurance during 2008 of \$12,398,846. As of August 31, 2008, the Pool recorded a receivable of \$1,094,363 which includes insurance recoveries due to the Pool. If the reinsurers are not able to meet their obligations under these agreements, the Pool would be liable for any defaulted amounts.

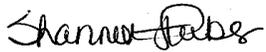
ACCOUNTS AND RECORDS:

The primary locations of the Pool's books and records are at the office of the third party administrator, Canfield and Associates, in Ephrata, Washington.

CONCLUSION:

No written recommendations were made as a result of this examination.

We appreciate the cooperation of the Pool's governing body and management during our examination. We look forward to our next examination of the Pool in 2011.



Program Administrator
Local Government Self-Insurance Program

COMPARATIVE FINANCIAL INFORMATION:

The comparative financial information below has been reviewed for accuracy by the Pool's management and board. Financial information for the years ended August 31, 2007 and 2008 was taken from the Pool's Annual Statements as filed with the Office of Financial Management. Amounts for the years ended August 31, 2002 through August 31, 2006 are taken from financial statements audited by the State Auditor's Office.

	SIAW Trends							
	2008	2007	2006	2005	2004	2003	2002	
Assets:								
Cash/Equivalents	10,262,420	7,426,126	6,194,405	5,648,557	3,949,733	2,984,209	2,330,551	
Investments								
Receivables	1,094,363	1,367,982	1,335,757	1,274,800	1,321,831	1,538,072	789,443	
Equipment	20,000							
Total Assets	11,376,783	8,794,108	7,530,162	6,923,357	5,271,564	4,522,281	3,119,994	
Liabilities:								
Accts Payable				10,535		264,798		
Unearned Premiums				858,066				
Claims Reserves	8,853,726	7,294,254	4,469,470	3,158,120	2,394,777	1,913,299	1,093,116	
Total Liabilities	8,853,726	7,294,254	4,469,470	4,026,721	2,394,777	2,178,097	1,093,116	
Net Assets	2,523,057	1,499,854	3,060,692	2,896,636	2,876,787	2,344,184	2,026,878	
Members	48	47	46	44	43	33	32	