

The financial information included in this report is based on the audited financial statements. The financial statement audit report has since been withdrawn by the Washington State Auditor's Office, which could affect the accuracy of the information contained in this report.

**Office of Financial Management**  
**Local Government Self Insurance Program**  
**Report**  
*for*  
**United Schools Insurance Program**

**Issued June 3, 2009**

April 03, 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

**United Schools Insurance Program**

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

**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 USIP 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:**

United Schools Insurance Program is a public entity joint self-insurance program operating in the State of Washington. The Pool began operations in September of 1985. The Pool is capitalized by member entities consisting of public school districts and educational service districts. The Pool provides liability, auto physical damage and property insurance, boiler and machinery, bonds and educator's liability insurance coverage to its members and an additional group of private schools known as associate 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 \$1,000 and the Pool pays \$9,000. The Pool has a stop loss policy which limits the amount of the self-insured retentions 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 loss prevention and risk management services to member schools and educational service districts. The associate member private schools participate in the Pool's insurance, risk management, loss prevention and other programs offered to regular members. As of August 31, 2008, the Pool had 155 regular members and 77 associate members.

### **MEMBERSHIP:**

USIP 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 members agree to future assessments 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 nine members. Six directors are elected by members from six geographic areas, and three directors are elected from the membership at large.

The Pool also maintains a category of members known as "associate members". The associate members do not sign the interlocal agreement, but sign an Associate Member Agreement instead.

The associate members are not subject to reassessments. They do not vote in electing a representative to the Board, do not serve on the Board and do not have an equity interest in the program.

Each associate member purchases insurance through an Associate Member Agreement with the Pool. Members are subject to additional assessments should the Pool require funds, but associate members are not subject to additional assessments, according to the terms of the associate member agreements. As of August 31, 2008, the Pool membership consisted of 155 members and 77 associate members.

The Office of Risk Management has notified the Pool that all participants in the insurance program, including associate members, will be required to sign the interlocal agreement and join the self-insurance program as members by December 31, 2010 if they are to continue in the Pool's insurance program.

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. Associate members may also leave by giving a one year notice in the same manner. Associate members have no equity in the Pool.

#### **RESERVES:**

The Pool is required to maintain minimum reserves in the amount of the actuarially determined liability for unpaid claims of \$3.01 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 \$2,791,590 in cash and investments to fund the liability for unpaid claims. The Pool reports the liability of \$3.01 million as of August 31, 2008, but is not fully funding this amount. The Pool has, in the past, fully funded its liability for unpaid claims but is not currently doing so. The comparative financial information located on page ten of this report provides information on changes in assets and liabilities over years.

The Pool also reports a receivable of \$1,421,656 which includes substantial insurance recoveries due to the Pool. The receivable for insurance recoveries has increased because the pool does not receive repayment from the stop loss policy until the claim is settled. The timing and recoveries of these payments will require that the Pool collect an additional surcharge to premiums annually, reassess members for past liabilities of the Pool, and/or make other arrangements with the stop loss insurance provider regarding the timing of the reimbursements or responsibility for handling claims at the stop loss attachment point.

The Office of Risk Management asks the Pool to submit a plan for approval to the state risk manager indicating how the Pool will increase reserves over the next three to five years to fund its expected claims liabilities and to establish secondary reserves. The plan is to be submitted within ninety days of the issuance of this report and the state risk manager will provide written approval within thirty days of the plan's submission.

### **STATE AND FEDERAL TAX EXEMPTIONS**

Pursuant to IRS revenue ruling 90-74, income of municipal risk pools is excluded from gross income under Internal Revenue Code 115(1). RCW 48.62 provides an exemption from insurance premium taxes in addition to business and occupation taxes imposed pursuant to RCW 82.04.

### **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 \$36,118 in the State Treasurer's Investment Pool as required by RCW 48.62.11(4).

### **FINANCIAL POSITION:**

Regulations in place as of August 31, 2008 required the Pool maintain minimum reserves of \$3.01 million to fund the liability for unpaid claims as determined by the Pool's actuary.

The Pool's liability for unpaid claims was not 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, USIP 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 \$60,000,000 each. The Pool maintains excess insurance contracts for educator's legal liability with aggregate limits of \$15,000,000. Gross limits of coverage on the Pool's property program are \$500,000,000 and aggregate limits for employee dishonesty are \$250,000. 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 \$15,000,000 each for general liability, auto liability and educator's legal liability insurance. Per occurrence limits, combined with the Pool's self-insured retention limits, are \$125,000,000 for property damage and \$250,000 for employee dishonesty.

The Pool recorded premiums for excess insurance during 2008 of \$6,718,344. As of August 31, 2008, the Pool recorded a receivable of \$1,421,656, which includes substantial 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.

**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>
Dan Hornfelt	Pullman School District
Rob Clark	Cascade School District
John Adkins	Soap Lake School District
Glenn Johnson	Cashmere School District
Patsy Guglielmino	Northport School District
Dan Winter	Pioneer School District
Brian Talbott	White Pass School District
Linda McKay	Wilson Creek 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:

Executive Committee:

Dan Hornfelt, Chairman  
Rob Clark, Vice Chair  
John Adkins, Fiscal Officer

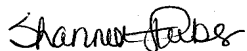


## **CONCLUSION:**

### **Results:**

1. We ask that the Pool submit a detailed plan to the state risk manager within ninety days to address the specific manner in which the Pool will fund the claims liabilities and establish reserves over the next three to five years.
2. We ask that the annual financial statement and report to members include disclosure regarding the ability of the Pool to obtain additional funds through reassessment of members. Currently, the information appears to include associate members in the group of members who are eligible for reassessment. Information provided by the Pool indicates that 155 members are subject to reassessment and 77 private schools are not subject to reassessment, and therefore are not required to provide additional funds if reserves are not adequate to fund claims liabilities according to the terms of their associate member agreements.

We appreciate the cooperation of the Pool's governing body and management during our examination. We look forward to assisting the Pool in making these changes and providing additional information and assistance as necessary.



Program Administrator  
Local Government Self-Insurance Program

## **RESPONSE:**

The Pool responds that it will comply with all requests made as a result of this examination.

### 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.

	2008	2007	2006	2005	2004	2003	2002
<b>Assets:</b>							
Cash	2,791,590	1,325,183	873,800	938,468	614,701	198,698	123,071
Investments		516,623	516,623	809,249	611,616	752,376	1,007,411
Receivables	1,421,656	1,469,702	818,533	570,820	1,148,630	1,091,775	514,924
Equip/Records	82,000	75,000	87,500	100,000	112,500	125,000	125,000
Prepaid Ins							
<b>Total Assets</b>	<b>4,295,246</b>	<b>3,386,508</b>	<b>2,296,456</b>	<b>2,418,537</b>	<b>2,487,447</b>	<b>2,167,849</b>	<b>1,770,406</b>
<b>Liabilities:</b>							
Accts Payable.			0	26,007	18,451	5,707	
Deferred Revenue		295,237	23,328	131,106	74,403	211,155	16,986
Claims Reserves	3,598,020	2,551,662	1,479,238	1,252,477	1,239,346	798,368	619,071
<b>Total Liabilities</b>	<b>3,598,020</b>	<b>2,846,899</b>	<b>1,502,566</b>	<b>1,409,590</b>	<b>1,332,200</b>	<b>1,015,230</b>	<b>636,057</b>
<b>Net Assets</b>	<b>697,226</b>	<b>539,609</b>	<b>793,890</b>	<b>1,008,947</b>	<b>1,155,247</b>	<b>1,152,619</b>	<b>1,134,349</b>
Public School Members	155						
Associate Member Private Schools	77						
Members	232	230	210	192	164	122	120