

STATE RISK MANAGER'S REPORT
REVIEW OF REGULATORY COMPLIANCE
OF
WASHINGTON SCHOOLS RISK MANAGEMENT POOL

As of August 31, 2011
Issued August 26, 2012

Results:

Based on audited financial information, Washington Schools Risk Management Pool meets standards adopted by the State Risk Manager in the areas tested.

Background:

The State Risk Manager in the Office of Risk Management, a division of the Department of Enterprise Services, State of Washington, is responsible for regulatory oversight of local government joint self-insured risk pools formed under the authority of chapter 48.62 RCW. The law requires the State Risk Manager to adopt rules for risk pools to follow, adopted as Washington Administrative Code (WAC) 200-100. Those rules include standards for solvency, operations and management and require that risk pools maintain certain financial reserves in order to ensure that claims are funded.

The State Risk Manager determines whether risk pools are operating in a safe financial condition, according to the solvency regulations. The pool's compliance with those regulatory requirements is based on audited financial information provided by the Washington State Auditor's office. Pools that operate in an unsafe financial condition or in violation of statutory or regulatory requirements may cause the State Risk Manager to take administrative action.

Areas Covered:

We examined the Pool's compliance with regulatory standards adopted in rule by the State Risk Manager in the following areas:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability
2. Financial Solvency/Required Assets
3. Presentation of Liabilities
4. Compliance with Reporting Requirements
5. Compliance with Membership Requirements
6. Financial Trends

Results of Review of Regulatory Compliance:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability

Requirement: Risk pools must obtain an annual actuarial review which meets the following criteria:

WAC 200-100-03001 requires that “(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end which provides estimates of the unpaid claims measured at the expected and the seventy percent confidence level. . .”

WAC 200-100-020 (1) "Actuary" means any person who is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Result: A review of the actuarial report of John Alltop, FCAS, MAAA, of Bickmore Risk Services, indicates that an actuary meeting the qualifications set forth above estimated the Pool’s liability for both property and liability claims at both the expected and the 70% confidence level. Washington Schools Risk Management Pool has met this requirement.

2. Financial Solvency/Required Assets

Requirement 2.a: Risk pools must ensure claims liabilities are funded at the expected level by meeting certain standards for solvency and liquidity as follows:

WAC 200-100-03001 states, in part “ . . .(2) The governing body of the joint self-insurance program shall establish and maintain primary assets in an amount at least equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (20) "Primary assets" means cash and investments (less any nonclaims liabilities).

Results: Washington Schools Risk Management Pool met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected levels as determined by the Pool’s actuary (see Attachment A).

Requirement 2.b: Risk pools must meet the above requirement to maintain primary assets and must also maintain other assets to fund claims liabilities at the 70% confidence level as follows:

WAC 200-100-03001 states, in part, “. . . (3) The governing body of the joint self-insurance program shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the seventy percent confidence level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (23) states that "Secondary assets" means insurance receivables, real estate or other assets (less any nonclaims liabilities) the value of which can be independently verified by the state risk manager.

Results: Washington Schools Risk Management Pool met this requirement by funding claims liabilities in excess of the 70% confidence level required as determined by the Pool’s actuary. The secondary assets consist of additional cash reserves, investments and other assets (property and equipment are excluded from this calculation). Also excluded were nonclaims liabilities, including prepaid contributions.

	Test 1 - Primary Asset Test		Test 2 - Secondary Asset Test
	(WAC 200-100-03001(2))		(WAC 200-100-03001(3))
\$69,145,000	Primary Assets	\$70,018,000	Secondary Assets
\$33,234,000	Estimated Claim Liabilities at the expected level per actuarial estimate	\$38,037,000	Estimated Claim Liabilities at the 70% confidence level per actuarial estimate
RESULT:	PASS	RESULT:	PASS
	<i>Estimated outstanding liabilities at the expected level must be less than primary assets (cash and investments less nonclaims liabilities)</i>		<i>Estimated outstanding liabilities at the seventy percent confidence level must be less than combined primary assets and secondary assets (receivables, recoverables, real estate and other assets that can be independently verified by the State Risk Manager)</i>

(Note 1) The outstanding liabilities are estimated by an independent actuary meeting the requirements of WAC 200-100-020(1). Actuarial reports submitted as part of the annual report to the State Risk Manager are available by contacting David Hayasaka, Executive Director of Washington Schools Risk Management Pool at (206) 394-9737 or (800) 488-7569. Contact information is also available by visiting the Pool's website at <http://www.wsrmp.com/>

(Note 2) The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The pool contracts for a financial audit with James Marta, CPA and Company, annually. Those reports are available by contacting David Hayasaka, Executive Director of Washington Schools Risk Management Pool at (206) 394-9737 or (800) 488-7569. The accountability audit is conducted by the State Auditor's Office. Those reports are available on the State Auditor's Office website at <http://www.sao.wa.gov/EN/Pages/default.aspx> , or by telephone at (360) 902-0370.

3. Presentation of Liabilities

Requirement 3.a: The estimated liability for unpaid claims as presented in the Pool's financial statements is supported by the actuarial report.

RCW 43.09.200 Local government accounting — Uniform system of accounting. The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Result: Washington Schools Risk Management Pool meets this requirement by reporting the amount of the total liability for unpaid claims in its 2011 audited financial reports as \$33,234,000, which is supported by the report of the independent actuary.

4. Compliance with Reporting Requirements

Requirement: The pool is required by WAC 200-100-60 to provide unaudited annual financial statements to the State Risk Manager within 150 days of fiscal year end, and audited financial statements are to be provided to the State Risk Manager within one year of the fiscal yearend date. If required by the State Risk Manager, a pool must provide quarterly reports based on its financial condition.

WAC 200-100-60 requires that “. . . (1) Every joint property and liability self-insurance program authorized to transact business in the state of Washington shall submit the annual report to the state risk manager.

(2) The annual report to the state risk manager shall require the following information to be submitted in electronic form:

(a) Unaudited annual financial statements, including attestation, as provided to the state auditor's office;

(b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the unaudited financial statements are based;

(c) Copies of all insurance coverage documents;

(d) List of contracted consultants;

(e) Details of changes in articles of incorporation, bylaws or foundation agreement;

(f) Details of services provided by contract to nonmembers;

(g) List of members added or terminated.

Such reports shall be submitted to the state risk manager no later than one hundred fifty days following the completion of the joint program's fiscal year.

(3) Audited financial statements shall be provided to the state risk manager within one year of the program's fiscal year end and comply with requirements for submission of audited financial statements established by the state risk manager.

(4) All joint self-insurance programs shall submit quarterly financial reports if, in the estimation of the state risk manager, the financial condition of a program warrants additional quarterly reporting requirements. . .”

Results: The Pool met this requirement by providing both audited and unaudited financial statements within the time required. The Pool is not required to report quarterly. Washington Schools Risk Management Pool received an unqualified opinion on its audited financial statements for FY 2011.

5. Compliance with Membership Requirements

Requirement: Only members of the pool who have signed the interlocal agreement may participate in the Pool's insurance program. The agreement must provide for the contingent liability of the members if assets are insufficient.

WAC 200-100-02005 provides that "Membership in a joint self-insurance program requires the execution of a foundation agreement. Only members may participate in risk-sharing. Only members may participate in the self-insured retention layer, and only members may participate in the joint purchase of insurance or reinsurance".

RCW 48.62.141 requires that "Every joint self-insurance program covering liability or property risks, excluding multistate programs governed by RCW 48.62.081, shall provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities".

Results: The Pool is in compliance with this requirement. Our review of the membership list and interlocal agreements indicates that participation in the Pool's excess and self-insured retention layer is limited only to those members signing the Pool's interlocal agreement which provides for shared risk and joint responsibility for liabilities. The agreement also provides that members are responsible for the contingent liabilities of the program if assets are insufficient.

6. Financial Trends

Requirement: Risk pools are required to notify the State Risk Manager if solvency requirements are not met (WAC 200-10003001(2)) and the State Risk Manager is required to monitor trends over time and take action when programs experience adverse trends which may require the State Risk Manager to take additional actions.

WAC 200-100-03001 states, in part “. . . (4) The state risk manager shall evaluate the operational safety and soundness of the program by monitoring changes in liquidity, claims reserves and liabilities, member equity, self-insured retention, and other financial trends over time. Programs experiencing adverse trends may cause the state risk manager to increase frequency of on-site program review and monitoring, including increased communication with the governing body and requirements for corrective plans. . .”

Results: Financial trends show the increases and decreases in assets, liabilities, revenues and expenses. The information below was taken directly from the audited financial statements of FY 2011. Upon review, no adverse financial trends were noted (See Attachments A & B).

Attachment A - Trends in Assets, Liabilities and Membership

Year Ending Date	8/31/2011	8/31/2010	8/31/2009	8/31/2008	8/31/2007	8/31/2006	8/31/2005	8/31/2004
ASSETS:								
Cash and cash equivalents	75,126,864	66,637,180	56,467,990	57,444,012	63,276,917	73,433,978	68,090,986	56,464,633
Investments		151,878	1,050,275	1,074,375	1,083,009	1,117,923	1,425,314	1,530,637
Deductible receivable	243,835							
Interest receivable	42,766	47,516	102,721	162,179	303,950	323,844	191,524	118,913
Contributions Receivable			74,933	85,475	164,141	71,399	8,762	355
Reinsurance/Recoveries receivable	-	3,370,101	1,955,513	2,013,715			118,485	11,274,827
Allowance for Uncollectible Recovery								(10,817,797)
Prepaid expenses	16,851	16,851	7,830,496	3,979,891	6,078,312	114,351	114,351	97,500
King County Impaired Investment Retainage			171,826	0				
Equipment			662,884	574,084	365,639	326,717	297,850	321,587
Accumulated Depreciation			(242,234)	(212,602)	(182,957)	(192,276)	(172,021)	(197,008)
Capital assets - net	315,403	413,479						
Total Assets	75,745,719	70,637,005	68,074,404	65,121,127	71,089,011	75,195,936	70,075,251	58,793,647
LIABILITIES								
Current portion of claim liabilities	14,000,000	9,300,000	35,763,555	34,321,298	14,280,773	15,886,239	20,519,192	14,514,009
Claim liabilities	19,233,384	28,899,784			22,407,602	18,072,350	12,616,352	26,332,448
Accounts payable	214,470	62,575	235,761	48,132	12,769	45,575	63,843	95,045
Dividends Payable			0	0	0	931,404	0	
Deferred revenue/unearned cont.	5,242,935	3,084,144	2,786,709	1,564,293	2,742,153	3,438,867	3,324,035	3,106,581
Reserve for ULAE			1,072,907	1,029,639	1,137,340	1,018,758	998,424	1,271,708
Reserve for Unrealized Losses/King Cty Inv Pool			427,230					
Total Liabilities	38,690,789	41,346,503	40,286,161	36,963,361	40,580,636	39,393,193	37,521,846	45,319,791
Total Net Assets	37,054,930	29,290,502	27,788,243	28,157,766	30,508,375	35,802,743	32,553,405	13,473,856
Number of Members	78	78	78	78	75	77	80	82
Avg Equity per member	475,063	375,519	356,259	360,997	406,778	464,970	406,917	164,315

Attachment B - Trends in Revenues and Expenses

Year Ending Date	8/31/2011	8/31/2010	8/31/2009	8/31/2008	8/31/2007	8/31/2006	8/31/2005	8/31/2004
OPERATING REVENUES:								
Member contributions	31,156,217	28,314,299	26,578,390	24,089,080	\$22,557,904	\$22,628,529	\$25,049,124	\$27,340,451
Miscellaneous Revenue								
Total Operating Revenues	31,156,217	28,314,299	26,578,390	24,089,080	22,557,904	22,628,529	25,049,124	27,340,451
OPERATING EXPENSES:								
Total Claims expense	9,837,566	13,791,591	15,949,274	1,902,629	7,009,608	2,337,813	2,436,759	3,079,155
Established Claims Reserves				9,534,571	14,280,773	11,658,096	9,276,241	16,691,293
Adjustment to Prior Years' Claims Reserve				2,654,617	-1,534,291	-3,181,391	-5,662,810	-3,518,233
Unallocated Loss Adjustment Expenses				-107,701	118,582	20,334	-273,284	361,407
Excess insurance and reinsurance	10,466,351	10,261,563	9,704,806	8,621,660	8,898,517	6,496,668	7,077,329	7,118,588
Administrative expense	3,540,120	3,462,616	3,447,412	3,277,063	3,177,912	2,949,115	2,758,177	2,491,888
Depreciation expenses	127,536	119,850	72,128	59,628	49,084	44,296	43,284	52,533
Dividends expense			517,553	615,217	-13,089	2,022,558		
Total Operating Expense	23,971,573	27,635,620	29,691,173	26,557,684	31,987,096	22,347,492	15,655,696	26,276,631
Operating Income (loss)	7,184,644	678,679	-3,112,783	-2,468,605	-9,429,192	281,037	9,393,428	1,063,820
NONOPERATING REVENUES:								
Gain on disposition of assets	4,286	13,655	7,196	5,262	16,890	2,559	4,406	
Investment Income	575,498	1,327,478	2,218,511	112,734	4,117,934	2,965,742	1,681,715	1,406,923
Bad Debt Expense, Reinsurer								
Recovery of Bad Debt Expense, Reinsurer							8,000,000	
Total Nonoperating Income	579,784	1,341,133	2225707	117,995	4,134,824	2,968,301	1,686,121	1,406,923
Change in Net Assets	7,764,428	2,019,812	-887,076	-2,350,609	-5,294,368	3,249,338	19,079,549	2,470,743

Conclusion: We appreciate the cooperation and assistance of the staff and management of Washington Schools Risk Management Pool during this process. No exceptions were noted and no recommendations were made as a result of this review.

About Washington Schools Risk Management Pool:

The Washington Schools Risk Management Pool was formed on August 30, 1986, pursuant to Chapter 48.62 of the Revised Code of Washington. The Pool's purpose is 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. The membership of the Pool at August 31, 2011, consisted of 68 school districts, seven educational service districts and six inter-local cooperatives. At year-end fiscal 2011, the Pool had total equity of \$37 million, total assets of \$75 million and a total insured value of \$11.1 billion.

The Pool is governed by a 10-member Board of Commissioners. Board Members are elected from the member districts to serve staggered, two-year terms. The Board appoints an Executive Director to oversee the Pool's daily operations. The Pool has four employees, with the rest of the administrative staff being employed by the Puget Sound Educational District.

About State Risk Manager Regulatory Compliance Reviews:

RCW 48.62 provides authority for local governments to join or form a self-insurance program together with other entities, to jointly purchase insurance or reinsurance with other entities, and to contract for or hire personnel to provide risk management, claims and other administrative services. The State Risk Manager in the Office of Risk Management, Department of Enterprise Services, is authorized by RCW 48.62 to adopt rules for self-insurance programs formed under this chapter to follow. The rules contain standards for operations and management, claims administration, solvency, including frequency of actuarial studies and claims audits, and standards for contracts between self-insurance programs and private businesses.

In order to ensure compliance with these standards, which are adopted as Washington Administrative Code (WAC) 200-100, the Local Government Self-Insurance Program, under the direction of the State Risk Manager, conducts periodic reviews of joint self-insurance programs and, when necessary, provides for further investigation of those programs that are not operating in a safe and sound financial manner as required. The State Risk Manager may take certain administrative actions, including the issuance of a cease and desist order, when a program operates in violation of chapter 48.62 RCW or does not operate in a financially safe manner.

Each local government member of a joint self-insurance program is responsible for providing monies to the pool to pay claims for the years in which they were a member of the pool. Even if a member leaves a pool, a reassessment, or “cash call”, can occur in later years, requiring local government members to provide additional monies for past funding deficiencies for years in which they were a member. For this reason, the Local Government Self-Insurance program takes proactive measures to monitor the financial health of local government risk pools and to communicate the results of monitoring and periodic compliance reviews before adverse financial trends affect the pool and its local government members. Frequent reviews of compliance with the State Risk Manager’s rules are undertaken and the results are reported, in writing, to the board of directors and management of the pool.

Questions about this report should be addressed to the Local Government Self Insurance Program or the State Risk Manager, located at the Department of Enterprise Services, by telephone at 360-407-8153, or at shannon.stuber@des.wa.gov . The Department of Enterprise Services is located at 1500 Jefferson Street, PO Box 41466, Olympia, WA 98504-1466.



August 24, 2012

State Risk Manager
Local Government Self Insurance Program
PO Box 41499
Olympia, WA 98504-1466

RE: State Risk Manager's Report, August 2011
Review of Regulatory Compliance
Washington Schools Risk Management Pool

We appreciate this report and presentation made to Washington Schools Risk Management Pool (WSRMP) Executive Board last June and agree with the Report Results and Conclusions. We support your efforts to make sure self-insured pools in Washington State are operating in a fiscally safe and sound manner.

Although the regulatory standard set for solvency by WAC 200-100 requires pools to fund their claims liabilities to the 70% actuarial confidence level, WSRMP has exceeded a 90% actuarial confidence level for the past eight years. This higher confidence level significantly reduces the possibility that we will incur a funding shortfall which subsequently lessens the chance of a member reassessment, provides our membership with a degree of security and stabilization, and further insulates us from the volatile nature of the insurance marketplace.

Sincerely,

A handwritten signature in black ink, appearing to read "D Hayasaka".

David Hayasaka
Executive Director