



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Rural Counties Insurance Program

For the period December 1, 2019 through November 30, 2020

Published July 26, 2021

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**Office of the Washington State Auditor
Pat McCarthy**

July 26, 2021

Board of Directors
Washington Rural Counties Insurance Program
Ephrata, Washington

Report on Financial Statements

Please find attached our report on the Washington Rural Counties Insurance Program's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

Washington Rural Counties Insurance Program December 1, 2019 through November 30, 2020

Board of Directors
Washington Rural Counties Insurance Program
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 Washington Rural Counties Insurance Program, as of and for the year ended November 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated July 10, 2021.

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Program'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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 Program'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.

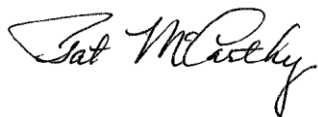
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of the Program'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 Program'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 Program'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.



Pat McCarthy, State Auditor

Olympia, WA

July 10, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Washington Rural Counties Insurance Program December 1, 2019 through November 30, 2020

Board of Directors
Washington Rural Counties Insurance Program
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Rural Counties Insurance Program, as of and for the year ended November 30, 2020, and the related notes to the financial statements, which collectively comprise the Program'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 Program'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 Program'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 Washington Rural Counties Insurance Program, as of November 30, 2020, 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.

Matters of Emphasis

As discussed in Note 9 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Program is unknown. Management's plans in response to this matter are also described in Note 9. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 Program's basic financial statements as a whole. The List of Participating Members and 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 July 10, 2021 on our consideration of the Program'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 Program's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

July 10, 2021

FINANCIAL SECTION

Washington Rural Counties Insurance Program December 1, 2019 through November 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – 2020

Notes to Ten Year Claims Development Information – 2020

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2020

DES Schedule of Expenses – 2020

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
Management's Discussion and Analysis
December 1, 2019 – November 30, 2020

The management of the Washington Rural Counties Insurance Program (WRCIP) offers readers of the program's financial statements this narrative overview and analysis of the financial activities of the WRCIP for the fiscal year ending November 30, 2020. 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 WRCIP's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them 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 nonoperating 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 effect 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.

WRCIP - Condensed Financial Information

	2020	2019
Current Assets	<u>\$3,296,078</u>	<u>\$3,222,776</u>
Total Assets	\$3,296,078	\$3,222,776
Deferred Outflows	<u>\$0</u>	<u>\$0</u>
Total Deferred Outflows	\$0	\$0
Current Liabilities	\$578,292	\$552,308
Noncurrent Liabilities	<u>\$584,040</u>	<u>\$598,654</u>
Total Liabilities	\$1,162,332	\$1,150,962
Deferred Inflows	<u>\$0</u>	<u>\$0</u>
Total Deferred Inflows	\$0	\$0
Unrestricted Net Position	<u>\$2,133,746</u>	<u>\$2,071,814</u>
Total Liabilities and Net Position	\$3,296,078	\$3,222,776
Operating Revenues		
Member Contributions	\$6,393,690	\$5,278,369
Non Operating Revenues		
Interest Income	\$24,330	\$58,095
Unrealized Gain/Loss	<u>\$0</u>	<u>\$0</u>
Total Revenues	\$6,418,020	\$5,336,463
Operating Expenses	<u>\$6,356,089</u>	<u>\$5,531,606</u>
Total Expenses	\$6,356,089	\$5,531,606
Change in Net Position	\$61,931	(\$195,142)
Beginning Net Position	\$2,071,815	\$2,266,957
Prior Period Adjustment		
Ending Net Position	\$2,133,746	\$2,071,815

Financial Statement Analysis

The Washington Rural Counties Insurance Program (WRCIP) is a property and liability risk and insurance pooling program for counties. The WRCIP was formed in 1998 with three founding member counties. Current membership in the program is eight counties. A board of directors that includes an appointed representative from each member county governs the program. The Board of Directors contracts with Clear Risk Solutions (formerly Canfield), a third-party administrator, to carry out the day-to-day administrative, claims adjusting, marketing, account education, and risk management services.

The WRCIP Board budgeted for a \$165,212 loss this year, as they decided to use some of their equity to offset the premium rate increase. Due to reduced expenses as well as reduced claims, the WRCIP had a net income of \$61,931. This increased the total net position to \$2,133,746. The pool's current assets consist of cash and equivalents, investments and receivables from its members and its reinsurance/excess carriers. The pool invests any excess cash with the Grant County Investment Pool. These investments allow short-term liquidity with favorable interest rates. Current liabilities are payables and reserves set aside for unpaid claims liabilities as determined by the pool's actuary. In addition, the WRCIP purchases a stop loss policy as another layer of protection to its membership. The program funds its claims liabilities to the actuary ultimate loss pick and has assets to fund to the 80% confidence level. The WRCIP does not have any 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 Washington Rural Counties Insurance Program'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 WRCIP's third-party administrator, Clear Risk Solutions, 451 Diamond Drive, Ephrata, WA 98823.

Washington Rural Counties Insurance Program
Balance Sheet
As of November 30, 2020

<u>ASSETS</u>	<u>2020</u>
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$3,185,026
Receivables:	
Member Contributions & Deductibles	\$5,011
Other Receivables	\$105,291
Pre Paid Expense	\$750
Total Current Assets	<u>\$3,296,078</u>
<u>Deferred Outflows</u>	<u>\$0</u>
TOTAL DEFERRED OUTFLOWS	\$0
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$3,296,078</u></u>
 <u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Claims Reserves:	
IBNR	\$219,645
Open Claims (Case Reserves)	\$244,997
Accounts Payable	<u>\$113,649</u>
TOTAL CURRENT LIABILITIES	<u>\$578,291</u>
 <u>Noncurrent Liabilities:</u>	
Claim Reserves:	
IBNR	\$276,086
Open Claims (Case Reserves)	\$307,954
TOTAL NONCURRENT LIABILITIES	<u>\$584,040</u>
<u>Deferred Inflows</u>	<u>\$0</u>
TOTAL DEFERRED INFLOWS	\$0
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>\$1,162,332</u>
 <u>NET POSITION</u>	
Unrestricted	\$2,133,746
TOTAL NET POSITION	<u>\$2,133,746</u>
TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS	<u><u>\$3,296,078</u></u>

See Accompanying Notes to Financial Statements

Washington Rural Counties Insurance Program
Statement of Revenues, Expenses, and Changes In Fund Net Position
For the Fiscal Year Ended November 30, 2020

	2020
Operating Revenues:	
Member Contributions	\$6,393,690
Total Operating Revenues	\$6,393,690
Operating Expenses:	
<i>Incurred Loss/Loss Adjustment Expenses:</i>	
Paid on Current Losses	\$257,801
Change in Loss Reserves	\$322,003
<i>Unallocated Loss Adjustment Expenses:</i>	
Paid Unallocated Loss Adjustment Expenses	\$356,329
Excess/Reinsurance Premiums	\$4,128,339
General and Administrative Expenses	\$1,291,617
Total Operating Expenses	\$6,356,089
OPERATING INCOME (LOSS)	\$37,601
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$24,330
Unrealized Gain/(Loss) on Investments	\$0
Total Nonoperating Revenues (Expenses):	\$24,330
Income Before Contributions, Transfers, Special and Extraordinary Items	\$61,931
CHANGE IN NET POSITION	\$61,931
Total Net Position, December 1	\$2,071,815
Total Net Position, November 30	\$2,133,746

See Accompanying Notes to Financial Statements

Washington Rural Counties Insurance Program
Statement of Cash Flows
For the Fiscal Years Ended November 30, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$6,467,312
Cash payments to suppliers for good and services	(\$4,019,954)
Cash payments for claims	(\$677,569)
Cash payments to third party administrator	(\$1,647,946)
Net Cash Provided (Used) by Operating Activities	\$121,843
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	\$24,330
Unrealized Gain/Loss on Investments	\$0
Net Cash Provided (Used) by Investing Activities	\$24,330
Increase (Dec) in Cash and Cash Equivalents	\$146,173
Cash and Equivalents, December 1	\$3,038,852
Prior Period Adjustment	
Cash and Equivalents, November 30	\$3,185,025

**Reconciliation of Operating Income to Net Cash
Provided (Used) By Operating Activities**

	2020
OPERATING INCOME	\$37,601
(Increase) Decrease in Accounts Receivable	\$73,622
(Increase) Decrease in Prepd Expenses	(\$750)
Increase (Decrease) in Accounts Payable	\$109,135
Increase (Decrease) in Unearned Member Assessments	\$0
Increase (Decrease) in Unpaid Claims Liability	(\$97,765)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$121,843

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
For the Period
December 1, 2019 through November 30, 2020

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 Washington Rural Counties Insurance Program 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 Washington Rural Counties Insurance Program (WRCIP) was formed under RCW Chapter 48.62 in conjunction with provisions as outlined in RCW Chapter 39.34. The WRCIP was formed on September 1, 1998, 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 8 member Counties as of November 30, 2020.

The pool provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown, earthquake, flood, crime protection, and liability, including general, automobile, professional and wrongful acts, which are included to fit members' various needs. Additional coverages available to members on an optional basis include uninsured/underinsured motorist, privacy/network liability and data breach.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 31 terminating participation the following December 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 appointed by each member. It is felt the individual Counties 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, Clear Risk Solutions, to perform the daily administration of the pool, including account education, risk management and loss control, claims administration.

b. Basis of Accounting

The accounting records of the WRCIP 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 WRCIP 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 WRCIP 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 and gain/loss on investments. 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 WRCIP considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

d. Receivables

Receivables are from member counties 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 2.

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 WRCIP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

h. Member Assessments and Unearned Assessments (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 expensed 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 WRCIP 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. Due to this agreement, it is not necessary for the WRCIP to carry a reserve for such expenses.

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 – DEPOSITS AND INVESTMENTS

a. Deposits

Cash on hand at November 30, 2020 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$0. The bank balance was \$301,088 and the investment pool balance was \$2,883,938.

The WRCIP 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).

b. Investments

The WRCIP is a participant in the Grant County Investment Pool, an external investment pool. The responsibility for managing the pool resides with the County Treasurer. The pool is established from the RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The Grant County investment policy is established by the County Finance Committee, consisting of the County Treasurer, County Auditor, Chair of the Board of Commissioners and the Chief Accountant. The county external investing pool does not have a credit rating and had an average maturity of 280 days.

As of November 30, 2020, the WRCIP had the following investments:

	Statement Balance	Fair Market Value (0.999%)
Grant County Investment Pool	\$2,883,938	\$2,881,054
Total Investments	\$2,883,938	\$2,881,054

WRCIP values its investments at amortized cost rather than the fair value as per GASB 72 & 79. The difference between amortized and fair value is insignificant and the WRCIP has always received 100% of its funds requests upon withdrawal. Currently there are not any limitations or restrictions on withdrawals.

NOTE 3 – RISK FINANCING LIMITS (SELF-INSURED RETENTION)

The following table reflects the risk financing limits on coverage issued and retained by WRCIP for the 2019-20 policy year:

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 to \$10,000 (varies by member)	\$25,000	\$100,000,000 per occurrence
Flood	\$25,000 Each Member suffering Loss Per Occurrence except that Covered Property Located at the Time of Loss in any Flood Zone identified by FEMA as Zone "V", "A", or Special Flood Zone Hazard Area "SFHA" is subject to the following Flood Deductibles: \$500,000 Per Occurrence applying to Each Building Damaged, and \$500,000 Per Occurrence applying to Personal Property within a Building, and \$500,000 Per Occurrence applying to All Other Covered Property.	\$25,000	\$35,000,000 per occurrence and annual aggregate

Earthquake	The Greater of 2% of the Total Value of all Property at the Locations suffering loss or \$50,000 Each Name Insured suffering loss Per Occurrence. Total Value of all Property means the Total Values on file with the Company or it's Representative at the time of loss. A Location means a Single Street Address or if no Street Address, Single Legal Description.	\$25,000	\$15,000,000 per occurrence and annual aggregate
Equipment Breakdown	\$2,500 per occur; Sewer Plants \$5,000	\$0	\$100,000,000
Employee Dishonesty	\$5,000	\$25,000	\$1,000,000
Auto Comp and Collision	\$1,000 Standard (some vehicles vary per schedule - \$1,000 - \$10,000)	\$25,000	\$100,000,000
Liability Loss:			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000 to \$10,000 (varies by member)	\$50,000	\$15,000,000 per occurrence;
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000 to \$10,000 (varies by member)	\$50,000	\$15,000,000 per occurrence; \$45,000,000 group annual aggregate
Wrongful Acts / Misc. Professional Liability	\$1,000 to \$10,000 (varies by member)	\$50,000	\$15,000,000 per claim; \$45,000,000 group annual aggregate

NOTE 4 – REINSURANCE AND EXCESS INSURANCE CONTRACTS

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

<u>Excess/Reinsurance Contracts</u>	<u>2019-2020</u>
General Liability	\$45,000,000
Automobile Liability	No Aggregate
Wrongful Acts Liability	\$45,000,000
Property	No Aggregate
Equipment Breakdown	No Aggregate
Employee Dishonesty	No Aggregate

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

<u>Excess/Reinsurance Contracts</u>	<u>2019-2020</u>
General Liability	\$15,000,000
Automobile Liability	\$15,000,000
Wrongful Acts Liability	\$15,000,000
Property	\$100,000,000 Replacement
Equipment Breakdown	\$100,000,000 Replacement
Employee Dishonesty	\$1,000,000

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

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were \$4,128,339. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$579,100.

NOTE 5 – 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 WRCIP has never made a supplemental assessment.

NOTE 6 – RELATED PARTY TRANSACTIONS

The WRCIP’s third party administrator and insurance broker is Clear Risk Solutions. Clear Risk Solutions uses Apex and Peachtree Special Risk to place insurance coverage for the pool. Clear Risk Solutions, Apex and Peachtree Special Risk are owned by the same parent company, Brown and Brown, Inc

NOTE 7 – 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 years:

	<u>2020</u>	<u>2019</u>
Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year	\$1,146,448	\$1,023,542
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Provision for Insured Events of Current Year	\$761,163	\$698,988
Increases (Decreases) in Provision for Insured Events of Prior Years	<u>(\$168,614)</u>	<u>\$105,363</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$592,549</u>	<u>\$804,351</u>
PAYMENTS:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year	\$257,801	\$248,828
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	\$432,514	\$432,617
Total Payments	<u>\$690,315</u>	<u>\$681,445</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$1,048,682</u>	<u>\$1,146,448</u>

NOTE 8 - FINANCIAL SOLVENCY/REQUIRED ASSETS (WAC) 200-100

Revised WAC 200-100 requires WRCIP 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.

		11/30/2020	11/30/2019
Primary Asset Test			
Primary Assets		\$3,071,377	\$3,034,338
Estimated Claims Liabilities at Expected Level		\$1,048,682	\$1,146,448
	Results	Pass	Pass
Secondary Asset Test			
Primary & Secondary Assets		\$3,181,679	\$3,218,262
Estimated Claims at 80% Confidence Level		\$1,076,715	\$1,174,448
	Results	Pass	Pass

NOTE 9 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. WRCIP has had no claims linked to COVID-19 presented as of the completion of this report. However, any claims that may be presented in the future would be addressed through the Incurred But Not Reported portion of the Pool’s financial report. The WRCIP has a stop-loss policy in place to protect the pool from future losses that may occur in the pool’s insurance layer if the Aggregate Stop Loss is breached during any fiscal year. The length of time these measures will be in place, and the full extent of the financial impact on the Program is unknown at this time.

Washington Rural Counties Insurance Program

TEN YEAR CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended November 30, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net earned required										
1. contribution and investment revenues										
Earned	3,522,207	3,776,358	3,837,944	5,049,100	4,178,474	4,477,782	4,728,127	4,984,524	5,336,463	6,418,020
Ceded	1,853,782	1,651,428	1,800,205	2,659,002	2,371,745	2,629,866	2,892,492	2,916,214	3,211,763	4,128,339
Net earned	1,668,425	2,124,930	2,037,739	2,390,098	1,806,729	1,847,915	1,835,635	2,068,310	2,124,701	2,289,681
2. Unallocated expenses	857,056	1,266,592	1,316,726	1,606,247	1,265,122	1,357,097	1,491,685	1,453,326	1,524,379	1,647,946
Estimated incurred claims										
3. and expense, end of policy year										
Incurred	864,078	1,013,800	685,000	1,494,730	605,000	760,024	623,783	2,569,952	3,917,575	761,163
Ceded	154,078	208,800	0	664,730	50,000	115,815	38,783	1,876,776	3,218,587	0
Net incurred	710,000	805,000	685,000	830,000	555,000	644,209	585,000	693,176	698,988	761,163
4. Net Paid (cumulative) as of:										
End of Policy Year	182,255	144,507	132,799	239,532	111,511	243,412	205,470	292,174	248,828	257,801
One year later	403,295	232,329	169,337	423,120	195,800	320,401	246,556	483,498	425,336	
Two years later	434,429	369,225	268,321	541,779	204,029	364,250	288,035	555,188		
Three years later	521,609	380,825	348,978	612,807	218,987	444,294	338,771			
Four years later	624,331	431,021	528,877	701,607	308,063	559,582				
Five years later	624,331	472,366	593,935	725,444	283,834					
Six years later	624,331	478,566	600,436	753,163						
Seven years later	624,331	478,566	605,238							
Eight years later	624,331	478,566								
Nine years later	634,331									
5. Reestimated ceded										

claims and expenses	1,731,086	1,207,983	2,543,799	1,635,901	40,479	1,129,590	113,983	1,876,776	5,411,059	0
Reestimated net incurred claims and expense:										
End of Policy Year	710,000	805,000	685,000	830,000	555,000	644,209	585,000	693,176	698,988	761,163
One year later	857,000	680,000	357,619	814,096	395,000	642,000	415,000	678,926	699,266	
Two years later	734,715	585,000	457,619	750,096	283,782	582,000	485,000	678,926		
Three years later	627,962	472,503	597,669	794,202	348,778	611,174	411,134			
Four years later	687,962	467,432	617,669	759,202	358,778	610,106				
Five years later	642,962	503,849	637,669	786,460	291,872					
Six years later	670,066	483,792	615,688	763,943						
Seven years later	624,331	478,566	611,186							
Eight years later	632,227	478,566								
Nine years later	634,331									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(75,669)	(326,434)	(73,814)	(66,057)	(263,128)	(34,103)	(173,866)	(14,250)	278	0

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2019 through November 30, 2020

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 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. The 2020 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. (These annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as 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 thought. 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. The columns of the table show data for successive policy years.

LIST OF PARTICIPATING MEMBERS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
11/30/2020

Asotin County
Grant County
Ferry County
Klickitat County
Lincoln County
Stevens County
Wahkiakum County
Whitman County

Schedule T-2

DES SCHEDULE OF EXPENSES

Washington Rural Counties Insurance Program
For the Fiscal Year Ended November 30, 2020

	<u>2020</u>
Contracted Services:	
Third Party Administrator Fees	95,426
Actuary	21,290
Audit Expenses	33,811
Other Consultant Fees (Lobbyist)	2,880
Risk Management	102,632
Group Legal & Accounting	19,416
General Administrative Expenses:	
Miscellaneous & Supplies	6,770
Retreat/Board Meetings	5,118
Prelitigation Program	76,003
Account Education	6,151
Other:	
Medicare Reporting	2,901
Marketing	4,130
Director's E&O	20,829
Underwriting Fees	511,271
Local Agents Commission	382,991
Total General and Administrative Expenses	<u>1,291,619</u>

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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