



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Rural Counties Insurance Program

For the period December 1, 2020 through November 30, 2021

Published July 28, 2022

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

July 28, 2022

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 activities and condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

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, 2020 through November 30, 2021

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, 2021, 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 22, 2022.

REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 22, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Washington Rural Counties Insurance Program December 1, 2020 through November 30, 2021

Board of Directors
Washington Rural Counties Insurance Program
Ephrata, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Washington Rural Counties Insurance Program, as of and for the year ended November 30, 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Information

The other information comprises the Program’s List of Participating Members and DES Schedule of Expenses but does not include the basic financial statements and our auditor’s report thereon. Management is responsible for the other information included with the financial statements. Our opinion on the basic financial statements does not cover this other information, and we do not express an opinion or provide any assurance thereon. In connection with the audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2022 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 the effectiveness of the Program's 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, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

July 22, 2022

FINANCIAL SECTION

Washington Rural Counties Insurance Program December 1, 2020 through November 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2021

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Ten-Year Claims Development Information – 2021

Notes to Ten-Year Claims Development Information – 2021

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2021

DES Schedule of Expenses – 2021

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
Management's Discussion and Analysis
December 1, 2020 – November 30, 2021

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, 2021. 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

| | 2021 | 2020 |
|------------------------------------|--------------------|--------------------|
| Current Assets | \$6,103,313 | \$3,296,078 |
| Total Assets | <u>\$6,103,313</u> | <u>\$3,296,078</u> |
| Deferred Outflows | \$0 | \$0 |
| Total Deferred Outflows | <u>\$0</u> | <u>\$0</u> |
| Current Liabilities | \$2,205,877 | \$578,292 |
| Noncurrent Liabilities | \$1,328,884 | \$584,040 |
| Total Liabilities | <u>\$3,534,762</u> | <u>\$1,162,332</u> |
| Deferred Inflows | \$0 | \$0 |
| Total Deferred Inflows | <u>\$0</u> | <u>\$0</u> |
| Unrestricted Net Position | \$2,568,551 | \$2,133,746 |
| Total Liabilities and Net Position | <u>\$6,103,313</u> | <u>\$3,296,078</u> |
| Operating Revenues | | |
| Member Contributions | \$7,559,976 | \$6,393,690 |
| Non Operating Revenues | | |
| Interest Income | \$17,608 | \$24,330 |
| Unrealized Gain/Loss | \$0 | \$0 |
| Total Revenues | <u>\$7,577,584</u> | <u>\$6,418,020</u> |
| Operating Expenses | \$7,142,779 | \$6,356,089 |
| Total Expenses | <u>\$7,142,779</u> | <u>\$6,356,089</u> |
| Change in Net Position | \$434,805 | \$61,931 |
| Beginning Net Position | \$2,133,746 | \$2,071,815 |
| Prior Period Adjustment | | |
| Ending Net Position | \$2,568,551 | \$2,133,746 |

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 ten 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 (\$92,576) 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 lower than anticipated current year claims, the WRCIP had a net income of \$434,805. This increased the total net position to \$2,568,551. 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, 2021

| <u>ASSETS</u> | <u>2021</u> |
|--|---------------------------|
| <u>Current Assets:</u> | |
| Cash and Cash Equivalents | \$5,768,855 |
| Receivables: | |
| Member Contributions & Deductibles | \$10,681 |
| Other Receivables | \$318,387 |
| Pre Paid Expense | \$5,390 |
| Total Current Assets | <u>\$6,103,313</u> |
| <u>Deferred Outflows</u> | <u>\$0</u> |
| TOTAL DEFERRED OUTFLOWS | \$0 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u><u>\$6,103,313</u></u> |
| <u>LIABILITIES</u> | |
| <u>Current Liabilities:</u> | |
| Claims Reserves: | |
| IBNR | \$461,760 |
| Open Claims (Case Reserves) | \$153,576 |
| Accounts Payable | \$17,684 |
| Unearned Member Premium | \$1,572,858 |
| TOTAL CURRENT LIABILITIES | <u>\$2,205,877</u> |
| <u>Noncurrent Liabilities:</u> | |
| Claim Reserves: | |
| IBNR | \$997,219 |
| Open Claims (Case Reserves) | \$331,665 |
| TOTAL NONCURRENT LIABILITIES | <u>\$1,328,884</u> |
| <u>Deferred Inflows</u> | <u>\$0</u> |
| TOTAL DEFERRED INFLOWS | \$0 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS | <u>\$3,534,762</u> |
| <u>NET POSITION</u> | |
| Unrestricted | \$2,568,551 |
| TOTAL NET POSITION | <u>\$2,568,551</u> |
| TOTAL NET POSITION, LIABILITIES & DEFERRED INFLOWS | <u><u>\$6,103,313</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, 2021

| | 2021 |
|--|--------------------|
| Operating Revenues: | |
| Member Contributions | \$7,559,976 |
| Total Operating Revenues | \$7,559,976 |
| Operating Expenses: | |
| <i>Incurred Loss/Loss Adjustment Expenses:</i> | |
| Paid on Current Losses | \$147,916 |
| Change in Loss Reserves | \$1,132,813 |
| <i>Unallocated Loss Adjustment Expenses:</i> | |
| Paid Unallocated Loss Adjustment Expenses | \$360,418 |
| Excess/Reinsurance Premiums | \$3,869,279 |
| General and Administrative Expenses | \$1,632,353 |
| Total Operating Expenses | \$7,142,779 |
| OPERATING INCOME (LOSS) | \$417,197 |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest Income | \$17,608 |
| Unrealized Gain/(Loss) on Investments | \$0 |
| Total Nonoperating Revenues (Expenses): | \$17,608 |
| Income Before Contributions, Transfers, Special and Extraordinary Items | \$434,805 |
| CHANGE IN NET POSITION | \$434,805 |
| Total Net Position, December 1 | \$2,133,746 |
| Total Net Position, November 30 | \$2,568,551 |

See Accompanying Notes to Financial Statements

Washington Rural Counties Insurance Program
Statement of Cash Flows
For the Fiscal Year Ended November 30, 2021

| | 2021 |
|--|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from members | \$8,914,069 |
| Cash payments to suppliers for good and services | (\$3,969,884) |
| Cash payments for claims | (\$385,191) |
| Cash payments to third party administrator | (\$1,992,771) |
| Net Cash Provided (Used) by Operating Activities | \$2,566,223 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest Received | \$17,608 |
| Unrealized Gain/Loss on Investments | \$0 |
| Net Cash Provided (Used) by Investing Activities | \$17,608 |
| Increase (Dec) in Cash and Cash Equivalents | \$2,583,830 |
| Cash and Equivalents, December 1 | \$3,185,025 |
| Prior Period Adjustment | |
| Cash and Equivalents, November 30 | \$5,768,855 |

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

| | 2021 |
|--|-------------|
| OPERATING INCOME | \$417,197 |
| (Increase) Decrease in Accounts Receivable | (\$218,765) |
| (Increase) Decrease in Prepd Expenses | (\$4,640) |
| Increase (Decrease) in Accounts Payable | (\$95,965) |
| Increase (Decrease) in Unearned Member Assessments | \$1,572,858 |
| Increase (Decrease) in Unpaid Claims Liability | \$895,538 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$2,566,223 |

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
For the Period
December 1, 2020 through November 30, 2021

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 10 member Counties as of November 30, 2021.

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 written notice prior to 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 ten-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, 2021 was \$0. The carrying amount of the Pool's deposits, including certificates of deposit was \$0. The bank balance was \$2,368,075 and the investment pool balance was \$3,400,781.

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 1,000 days.

As of November 30, 2021, the WRCIP had the following investments:

| | Statement Balance | Fair Market Value (0.987%) |
|------------------------------|-------------------|----------------------------|
| Grant County Investment Pool | \$3,400,781 | \$3,356,571 |
| | | |
| Total Investments | \$3,400,781 | \$3,356,571 |

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 2020-21 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) | \$250,000 | \$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. | \$250,000 | \$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. | \$250,000 | \$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 | \$250,000 | \$1,000,000 |
| Auto Comp and Collision | \$1,000 Standard (some vehicles vary per schedule - \$1,000 - \$10,000) | \$250,000 | \$100,000,000 |
| Liability Loss: | | | |
| Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist | \$1,000 to \$10,000 (varies by member) | \$250,000 | \$15,000,000 per occurrence; |
| General Liability including Bodily Injury, Property Damage and Personal Injury | \$1,000 to \$10,000 (varies by member) | \$250,000 | \$15,000,000 per occurrence; \$45,000,000 group annual aggregate |
| Sexual Abuse Liability | \$1,000 to \$10,000 (varies by member) | \$250,000 | \$10,000,000 each sexual abuse & annual aggregate; \$30,000,000 group annual aggregate |
| Wrongful Acts / Misc. Professional Liability | \$1,000 to \$10,000 (varies by member) | \$250,000 | \$15,000,000 per claim; \$45,000,000 group annual aggregate |
| Cyber Liability | \$10,000 | \$40,000 | \$5,000,000 per occurrence and member aggregate \$10,000,000 group 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:

Excess/Reinsurance Contracts

2020-2021

| | |
|-------------------------|--------------|
| General Liability | \$45,000,000 |
| Automobile Liability | No Aggregate |
| Sexual Abuse Liability | \$30,000,000 |
| Wrongful Acts Liability | \$45,000,000 |

| | |
|---------------------|---------------|
| Cyber Liability | \$10,000,000 |
| Property | \$100,000,000 |
| Equipment Breakdown | \$100,000,000 |
| 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>2020-2021</u> |
|-------------------------------------|------------------|
| General Liability | \$15,000,000 |
| Automobile Liability | \$15,000,000 |
| Sexual Abuse Liability | \$10,000,000 |
| Wrongful Acts Liability | \$15,000,000 |
| Cyber Liability | \$5,000,000 |
| Property | \$100,000,000 |
| Equipment Breakdown | \$100,000,000 |
| 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 \$3,869,279. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were \$202,411.

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>2021</u> | <u>2020</u> |
|--|---------------------------|---------------------------|
| Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Year | \$1,048,682 | \$1,146,448 |
| INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES: | | |
| Provision for Insured Events of Current Year | \$1,451,310 | \$761,163 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | (\$97,374) | (\$168,614) |
| Total Incurred Claims and Claim Adjustment Expenses | <u>\$1,353,936</u> | <u>\$592,549</u> |
| PAYMENTS: | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of Current Year | \$147,916 | \$257,801 |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years | \$310,481 | \$432,514 |
| Total Payments | <u>\$458,397</u> | <u>\$690,315</u> |
| Total Unpaid Claims and Claim Adjustment Expenses at End of Year | <u>\$1,944,220</u> | <u>\$1,048,682</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.

| | | 11/30/2021 | 11/30/2020 |
|--|---------|-------------|-------------|
| Primary Asset Test | | | |
| Primary Assets | | \$4,178,314 | \$3,071,377 |
| Estimated Claims Liabilities at Expected Level | | \$1,944,220 | \$1,048,682 |
| | Results | Pass | Pass |
| Secondary Asset Test | | | |
| Primary & Secondary Assets | | \$4,512,772 | \$3,181,679 |
| Estimated Claims at 80% Confidence Level | | \$2,291,640 | \$1,076,715 |
| | 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, 2021

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1. Net earned required contribution and investment revenues | | | | | | | | | | |
| Earned | 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 | 7,577,584 |
| Ceded | 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 | 3,869,279 |
| Net earned | 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 | 3,708,305 |
| 2. Unallocated expenses | 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 | 1,992,771 |
| 3. Estimated incurred claims and expense, end of policy year | | | | | | | | | | |
| Incurred | 1,013,800 | 685,000 | 1,494,730 | 605,000 | 760,024 | 623,783 | 3,235,549 | 3,917,575 | 761,163 | 1,451,310 |
| Ceded | 208,800 | 0 | 664,730 | 50,000 | 115,815 | 38,783 | 2,542,373 | 3,218,587 | 0 | 0 |
| Net incurred | 805,000 | 685,000 | 830,000 | 555,000 | 644,209 | 585,000 | 693,176 | 698,988 | 761,163 | 1,451,310 |
| 4. Net Paid (cumulative) as of: | | | | | | | | | | |
| End of Policy Year | 144,507 | 132,799 | 239,532 | 111,511 | 243,412 | 205,470 | 292,174 | 248,828 | 257,801 | 147,916 |
| One year later | 232,329 | 169,337 | 423,120 | 195,800 | 320,401 | 246,556 | 483,498 | 425,336 | 320,333 | |
| Two years later | 369,225 | 268,321 | 541,779 | 204,029 | 364,250 | 288,035 | 555,188 | 489,274 | | |
| Three years later | 380,825 | 348,978 | 612,807 | 218,987 | 444,294 | 338,771 | 678,276 | | | |
| Four years later | 431,021 | 528,877 | 701,607 | 308,063 | 559,582 | 358,020 | | | | |
| Five years later | 472,366 | 593,935 | 725,444 | 283,834 | 591,271 | | | | | |
| Six years later | 478,566 | 600,436 | 753,163 | 283,813 | | | | | | |
| Seven years later | 478,566 | 605,238 | 762,669 | | | | | | | |
| Eight years later | 478,566 | 605,739 | | | | | | | | |
| Nine years later | 478,566 | | | | | | | | | |
| 5. Reestimated ceded claims and expenses | 1,207,983 | 2,531,799 | 1,635,404 | 40,479 | 1,069,590 | 104,814 | 2,542,373 | 5,328,341 | 485,000 | 0 |
| 6. Reestimated net incurred claims and expense: | | | | | | | | | | |
| End of Policy Year | 805,000 | 685,000 | 830,000 | 555,000 | 644,209 | 585,000 | 693,176 | 698,988 | 761,163 | 1,451,310 |
| One year later | 680,000 | 357,619 | 814,096 | 395,000 | 642,000 | 415,000 | 678,926 | 699,266 | 733,812 | |
| Two years later | 585,000 | 457,619 | 750,096 | 283,782 | 582,000 | 485,000 | 678,926 | 685,983 | | |
| Three years later | 472,503 | 597,669 | 794,202 | 348,778 | 611,174 | 411,134 | 678,276 | | | |
| Four years later | 467,432 | 617,669 | 759,202 | 358,778 | 610,106 | 373,279 | | | | |

| | | | | | |
|-------------------------------------|-----------|----------|----------|-----------|----------|
| Five years later | 503,849 | 637,669 | 786,460 | 291,872 | 605,923 |
| Six years later | 483,792 | 615,688 | 763,943 | 284,376 | |
| Seven years later | 478,566 | 611,186 | 762,833 | | |
| Eight years later | 478,566 | 605,739 | | | |
| Nine years later | 478,566 | | | | |
| Increase (decrease) in estimated | | | | | |
| 7. incurred claims and expense from | (326,434) | (79,261) | (67,167) | (270,624) | (38,286) |
| end of policy year | | | | (14,900) | (13,005) |
| | | | | | (27,351) |
| | | | | | 0 |

WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
December 1, 2020 through November 30, 2021

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 2021 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.

Schedule T-1

LIST OF PARTICIPATING MEMBERS
WASHINGTON RURAL COUNTIES INSURANCE PROGRAM
11/30/2021

Asotin County
Columbia County
Garfield 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, 2021

| | <u>2021</u> |
|---|------------------|
| Contracted Services: | |
| Third Party Administrator Fees | 85,523 |
| Actuary | 20,750 |
| Audit Expenses | 16,599 |
| Other Consultant Fees (Lobbyist) | 6,005 |
| Risk Management | 103,806 |
| Group Legal & Accounting | 200,290 |
| General Administrative Expenses: | |
| Miscellaneous & Supplies | 7,164 |
| Retreat/Board Meetings | 11,231 |
| Prelitigation Program | 88,218 |
| Account Education | 4,323 |
| Other: | |
| Medicare Reporting | 3,100 |
| Marketing | 6,758 |
| Director's E&O | 21,532 |
| Underwriting Fees | 605,022 |
| Local Agents Commission | 452,033 |
| Total General and Administrative Expenses | <u>1,632,353</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.

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