STATE RISK MANAGER'S REPORT

REVIEW OF REGULATORY COMPLIANCE
OF
SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON

As of August 31, 2011
Issued June 20, 2013

Results:

Based on audited financial information, Schools Insurance Association of Washington meets most standards adopted by the State Risk Manager in the areas tested. Recommendations were made in a separate letter to management as a result of this review.

Background:

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

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

Areas Covered:

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

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

Results of Review of Regulatory Compliance:

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

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

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

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

Result: A review of the actuarial report of Richard Fallquist, FCAS, MAAA, indicates that an actuary meeting the qualifications set forth above estimated the Pool's liability for outstanding claims at the expected level and the 70% confidence level, gross of stop. The actuarial estimates were based on stop loss coverage purchased by the Pool which would pay $2 million toward the Pool's combined retentions on liability claims only above a threshold of $3.465 million. Upon review of that policy, submitted as part of the "Annual Report to the State Risk Manager", DES staff noted that the aggregate stop loss policy included coverage for combined retentions on both property and liability losses up to $2 million above the $3.465 million threshold amount . The Pool has since obtained an amendment limiting the aggregate stop loss coverage to $2 million on liability losses only.

Recommendation: A letter to management, included at the end of this report, describes the condition and recommendations to increase internal controls over insurance purchases. The Pool's response is also included.

2. Financial Solvency/Required Assets

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

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

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

Results: Schools Insurance Association of Washington met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected level as determined by the Pool's actuary.

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

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

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

WAC 200-100-020 (29) defines "unpaid claims" as obligations for future payment resulting from claims due to past events. This liability includes loss and adjustments expenses, incurred but not reported claims (IBNR), case reserves, and unallocated loss adjustment expenses (ULAE).

Results: Schools Insurance Association of Washington met this requirement by funding claims liabilities in excess of the 70% confidence level required as determined by the Pool's actuary.

	Test 1 - Primary Asset Test		**Test 2 - Secondary Asset Test**
	(WAC 200-100-03001(2))		(WAC 200-100-03001(3))
$13,124,258	Primary Assets	$13,309,822	Secondary Assets
$10,345,232	Estimated Claim Liabilities at the expected level per actuarial estimate	$10,621,734	Estimated Claim Liabilities at the 70% confidence level per actuarial estimate
RESULT:	**PASS**	**RESULT:**	**PASS**
	Estimated outstanding liabilities at the expected level must be less than primary assets (cash and investments less nonclaims liabilities)		*Estimated outstanding liabilities at the seventy percent confidence level must be less than combined primary assets and secondary assets (receivables, recoverables, real estate and other assets that can be independently verified by the State Risk Manager)*

(Note1) The outstanding claim estimates used in the above regulatory tests were taken directly from the Pool's revised actuarial reports. During review, we noted that outstanding claim estimates included in the actuarial report were based on aggregate stop loss insurance coverage which included only liability claims. The aggregate stop loss insurance policy submitted as part of the "Annual Report to the State Risk Manager" indicates that the policy covers combined retentions on both property and liability losses in an amount up to $2 million, above a threshold of $3.465 million. The Pool has since obtained an amendment limiting the aggregate stop loss coverage to $2 million on liability losses only.

(Note 2)The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The audit reports are available on the State Auditor's Office website at http://www.sao.wa.gov/EN/Pages/default.aspx , or by telephone at (360) 902-0370.

Actuarial reports submitted as part of the "Annual Report to the State Risk Manager" are available by contacting Canfield and Associates, third party administrator for Schools Insurance Association of Washington at (509)754-2027. Contact information is also available by visiting the Pool's website at http://siaw.us/ .

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3. Presentation of Liabilities

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

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

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

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

Result: Schools Insurance Association of Washington reported the amount of the total liability for unpaid claims in its 2011 audited financial reports as $10,621,734, which is supported by the actuarial report submitted by the Pool.

4. Compliance with Reporting Requirements

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

WAC 200-100-60 requires that ". . . (1) Every joint property and liability self-insurance program authorized to transact business in the state of Washington shall submit the annual report to the state risk manager.
(2) The annual report to the state risk manager shall require the following information to be submitted in electronic form:
(a) Unaudited annual financial statements, including attestation, as provided to the state auditor's office;
(b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the unaudited financial statements are based;
(c) Copies of all insurance coverage documents;
(d) List of contracted consultants;
(e) Details of changes in articles of incorporation, bylaws or foundation agreement;
(f) Details of services provided by contract to nonmembers;
(g) List of members added or terminated.
Such reports shall be submitted to the state risk manager no later than one hundred fifty days following the completion of the joint program's fiscal year.
(3) Audited financial statements shall be provided to the state risk manager within one year of the program's fiscal year end and comply with requirements for submission of audited financial statements established by the state risk manager.
(4) All joint self-insurance programs shall submit quarterly financial reports if, in the estimation of the state risk manager, the financial condition of a program warrants additional quarterly reporting requirements. . ."

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

5. Compliance with Membership Requirements

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

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

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

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

6. Financial Trends

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

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

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

Attachment A -Trends in Assets, Liabilities and Membership

Schools Insurance Association of Washington	2011	2010	2009	2008	2007	2006	2005	2004
Assets, Liabilities and Changes in Net Assets								
(per audited financial reports as of 8/31 fiscal year end)								
Current Assets:								
ASSETS								
Cash and Equivalents	$4,978,487	$3,694,553	$12,071,620	$10,262,420	$7,426,126	$6,194,405	$5,648,557	$3,949,733
Investments	$8,213,390	$8,015,147						
Receivables :			$1,231,072	$1,094,363	$1,367,982	$1,335,757	$1,274,800	$1,321,831
Member Contributions	$152,166	$715,580						
Accrued Deductibles	$34,293	$52,965						
Stop Loss Recoverable	$105	$7,512						
Due from CIAW	$0	$315,000						
Other	$18,454	$18,454						
TOTAL CURRENT ASSETS	$13,396,895	$12,819,211	$13,302,692	$11,356,783	$8,794,108	$7,530,162	$6,923,357	$5,271,564
Restricted Assets:								
TOTAL RESTRICTED ASSETS							$0	$0
Noncurrent Assets:								
Equipment (Net of Accumulated Depreciation)	$5,000	$10,000	$15,000	$20,000				
TOTAL NONCURRENT ASSETS		$10,000	$15,000	$20,000	$0	$0	$0	$0
TOTAL ASSETS	$13,401,895	$12,829,211	$13,317,692	$11,376,783	$8,794,108	$7,530,162	$6,923,357	$5,271,564
LIABILITIES								
Current Liabilities:								
Accounts Payable							$10,535	$0
Unearned Member Premiums							$858,066	$0
IBNR	$5,115,005	$3,315,352						
Open claims (case reserves)	$5,398,600	$5,878,567						
Unpaid Claims Liability			$10,886,057	$8,853,726	$7,294,254	$4,469,470	$3,158,120	$2,394,777
Unallocated Loss Adjustment Expenses	$0	$650,000	$529,252					
Open Claims (Excess/Reinsurance Layer)	$0	$1,034,529						
TOTAL CURRENT LIABILITIES	$10,513,605	$10,878,448	$11,415,309	$8,853,726	$7,294,254	$4,469,470	$4,026,721	$2,394,777
TOTAL NONCURRENT LIABILITIES	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL LIABILITIES	$10,513,605	$10,878,448	$11,415,309	$8,853,726	$7,294,254	$4,469,470	$4,026,721	$2,394,777
TOTAL NET ASSETS	$2,888,290	$1,950,763	$1,902,383	$2,523,057	$1,499,854	$3,060,692	$2,896,636	$2,876,787
Number of Members	44	45	45	48	47	46	44	43
Average Equity per Member	$65,642	$43,350	$42,275	$52,563	$31,911	$66,536	$65,832	$66,902

Conclusion: We appreciate the cooperation and assistance of the Schools Insurance Association of Washington and staff of Canfield and Associates, the Pool's third party administrator, during this process. Recommendations were made in a separate letter to management as a result of this review.

About Schools Insurance Association of Washington:

The Schools Insurance Association of Washington was formed in 1995 through an interlocal agreement among seven founding school districts. The interlocal agreement allows joint purchase of insurance, joint self-insuring, joint hiring or contracting for risk management services and claims administration.

As of the end of fiscal year 2011, there were 44 member districts in the program. The Pool is regulated by the state Office of Risk Management with the Department of Enterprise Services. Pool activities are governed by an eight-member Board of Directors. Members are appointed through Pool membership elections. The Pool contracts with a private firm for claims administration and risk management services and does not have any employees. For the year under audit, the Pool operated on an annual budget of approximately $20 million.

About State Risk Manager Regulatory Compliance Reviews:

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

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

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

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

Letter to Management – June 17, 2013

Dear Board of Directors of Schools Insurance Association of Washington,

During our regulatory review of the Schools Insurance Association of Washington (SIAW) we noted a condition concerning review and approval of the Pool's insurance agreements. We present this information so that the Board has an opportunity to make changes which will improve the operations of the Pool.

Recommendation:

The Schools Insurance Association of Washington's Board of Directors should increase internal controls over insurance purchases to ensure the Pool's signed insurance policy provides the coverage that was approved and paid for by the Pool.

Background Information:

The Schools Insurance Association of Washington is a local government self-insurance risk pool formed by Interlocal Agreement as required by RCW 48.62, the statute which provides authority to local governments to jointly self-insure property and liability risks. Approximately forty-five school districts were owner/members of the SIAW during the fiscal year ending August 31, 2011. These members fund the administrative, claim deductible and insurance expenses each year by making an annual contribution (similar to a premium payment) to the Pool. The school district members also own the assets of the Pool and supply the revenues each year on which the Pool operates. The Pool contracts with a third party administrator, Canfield and Associates, to procure insurance, process claims, provide accounting, administrative and risk management services.

For fiscal year ending 2011, the Pool and its member school districts purchased an excess insurance policy which pays for liability claims above the Pool's $100,000 self-insured retention. The policy also pays property damage claims above $250,000 self-insured retention. The Pool's outstanding claim amounts that fall within the Pool's self-insured retention amounts are presented as an outstanding liability for claims on the Pool's financial reports until paid. The Pool does not report any amounts above the self insured retention (which would be paid by the insurance policy) on its financial statements. The Pool paid $9,038,125 to purchase insurance for the fiscal year ending August 31, 2011.

The excess insurance policy purchased by the SIAW includes a "stop loss" feature which provides up to $2 million toward the $100,000 and $250,000 self-insured retentions. Each year, the insurance carrier and the Pool negotiate the amount of self-insured retentions the Pool will pay before the stop loss coverage begins to pay these self-insured retention amounts. For the fiscal year ending August 31, 2011, the insurance policy assigns the amount of self-insured retentions to be paid by the Pool at $3,465,000 before the insurance policy begins to make payments in the "stop loss" layer of $2 million. This $3,465,000 is known as the "attachment point". Once the Pool has paid the $3,465,000, and after the “stop loss” layer of $2,000,000 has been exhausted, the self-insured retention amounts above $5,465,000 again become the financial responsibility of the Pool.

Condition:

The Office of Risk Management (ORM) is responsible for reviewing the financial safety and soundness of risk pools, such as the SIAW, that are authorized by RCW 48.62. During our review, we noted that the Pool’s actuarial reports estimated the Pool’s expected outstanding claim liabilities as of the Pool’s fiscal year end (August 31, 2011) at $10.35 million. Risk Management staff reviewed the calculations and insurance policy information provided by the Pool and estimated the claims liability at $8.95 million, a decrease of approximately $1.4 million. We found the difference is due to an additional $1.4 million in insurance coverage not applied to outstanding property claim estimates calculated as of August 31, 2011, fiscal year end. According to our review of the Pool’s insurance policy, if applied, the available insurance coverage would decrease the Pool’s liability for outstanding claims and produce a corresponding increase in the Pool’s net assets from $2.82 million to approximately $4.22 million.

The approximately $1.4 million in available coverage is due to a “stop loss” provision included in the written policy which provides up to $2 million in payments for property and liability claims (see Background Information). According to the third party administrator, the “stop loss” coverage pays toward liability claims only. According to the signed insurance agreement provided by the Pool, the policy provides payments up to $2 million toward ***both liability AND property claims*** after the Pool has paid out $3,465,000 in self-insured retentions.

When the additional available insurance coverage of approximately $1.4 million is applied to the outstanding property claims covered in the Pool’s excess insurance policy under the stop loss provision, the Pool’s estimated outstanding claim liabilities at year end decrease from $10.35 million to approximately $8.95 million. Application of the available insurance coverage also results in a corresponding increase of $1.4 million in member net assets from the $2.82 million reported on the Pool’s audited financial statements to approximately $4.22 million. These net assets belong to the school district members of the Pool, according to the terms of the Pool’s Interlocal Agreement.

The Pool and its third party administrator agreed with ORM staff that the insurance policy for fiscal year ending 2011 contains language which would provide the additional $1.4 million coverage. The Pool indicated that the written policy was in error and should have included only liability coverage in the stop loss coverage provision. The Pool also provided a nine-page insurance binder issued to the Pool on November 9, 2010. The binder was issued to bind coverage for fiscal year September 1, 2010 through August 31, 2011 prior to issuance of the signed insurance agreement by the reinsurer. According to the insurance binder, the cost of the policy was $9,038,125. The insurance binder included only liability coverage in the stop loss coverage provision.

On February 22, 2011, the reinsurer provided the Pool with a thirty-one page signed insurance agreement, also signed by the third party administrator on behalf of Canfield and Associates. The signed insurance agreement differed from the insurance binder because it included coverage for property losses within the aggregate stop loss layer. Including this additional coverage for property losses, would give the additional $1.4 million mentioned above.

Cause of Condition

The Pool's board of directors:

- Does not sign the insurance contracts and agreements to ensure the Pool receives the coverage it has purchased. The insurance agreement is signed by the Pool's third party administrator.
- Does not require separation of duties between the contracted employees signing insurance contracts and signing checks for the insurance purchases. The same person signing the insurance agreement also signs the check to pay for insurance.
- Does not review the insurance information given to the Pool's actuary. The information is used to estimate the Pool's outstanding claim liabilities at fiscal year end, net of insurance coverage.

Recommendations

The Pool's board of directors should:

- Sign and review the insurance contracts and agreements to ensure the Pool receives the coverage it has purchased.
- Require separation of duties between the contracted employees signing insurance contracts and signing checks for the insurance purchases.
- Review and verify the insurance information provided to the Pool's actuary to ensure the actuarial estimates of the Pool's net outstanding claim liabilities at year end agree with the Pool's insurance coverage.

April 24, 2013

Ms. Shannon Stuber
Program Administrator
Local Government Self-Insurance Program
Department of Enterprise Services
1500 Jefferson Street
PO Box 41466
Olympia, WA 98504-1466

Dear Ms. Stuber:

Thank you for the opportunity to review the draft report and Letter to Management associated with the State Risk Manager's review of regulatory compliance of the Schools Insurance Association of Washington (SIAW) for Fiscal Year (FY) 2011.

After our review, the SIAW Board has concluded that several of the statements made in the draft report are inaccurate and are in need of revision in order for the report to be a true and valid indicator of SIAW compliance for FY 2011. We will address our concerns in the same order they appear in the Report.

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

   The statement, 'The report did not include an estimate of unpaid claims at the 70% confidence level.....' is inaccurate.

   The SIAW Board provided DES with an actuarial report that displayed the estimate of unpaid claims at the 70% confidence level. The information was available in the report in exhibits 1-7 and 1-7b (attached). Following receipt of the original report DES made a request for modification of the report to reflect the exhibits in another format. The SIAW Board directed the actuary to modify the report to respond to the request by DES. Our willingness to alter the format of the original report does not constitute the assertion that SIAW did not comply with the provisions of WAC 200-100-03001.

Any reference to the provided actuarial report not containing an estimate of unpaid claims at the 70% confidence level should be struck from the audit report and letter to management.

2. b. Financial Solvency/Required Assets

The statement, 'The original actuarial report provided by the pool did not contain estimates at the 70% confidence level.' is inaccurate. (See 1. above)

Any reference to the provided actuarial report not containing an estimate of unpaid claims at the 70% confidence level should be struck from the audit report and letter to management.

The statement, 'Our review of the policy indicates that the Pool has a stop loss which applies to both property and liability claims' appears to be the result of a misunderstanding. The coverage for SIAW members was originally defined by the insurance binder, which clearly indicates that property is not included in the stop loss. This is consistent with Pool stop loss coverage in both prior and subsequent years, as defined by the insurance binder. Unfortunately, the insurance treaty with Munich RE had an omission regarding the inclusion of property in the stop loss. However; all parties, the Board, Munich Re:, and Canfield, as Third Party Administrator (TPA), clearly understood that property was not included in the stop loss and there was no intent by either party to the contrary. The Board has attached the insurance binder to clarify that the Pool stop loss coverage layer does not include property or auto physical damage (APD) and directs your attention to page 3 of 9. Please see the noted highlight which provides clarification regarding stop loss coverage

Due to the above clarification, the statements, 'The difference of approximately $1.4 million results in an increase in net assets and a decrease in liabilities, according to the policy language.' in the report, and 'The policy benefits were incorrectly reported on the Pool's financial reports, reducing the net assets of Pool members by $1.4 million' in the letter to management are inaccurate. As the binder verifies, the $1.4 million difference does not exist and subsequently there is no change to the financial condition of the pool. Further, the final financial statements of the Pool are presented fairly in all material aspects.

Any reference to estimated differences in liabilities, references to additional insurance coverage not being applied to outstanding claims, and stop loss providing payments to 'both liability AND property claims' should be struck from the audit report and letter to management.

1. Note 1 and The Estimated Liability for Unpaid Claims as Presented in the Pool's Financial Statements is Supported by the Actuarial Report pertaining to ULAE

   This issue of ULAE ("the actuarial report does not include an estimate of ULAE..."), has come up in previous reports and the Board was surprised to see it mentioned again. As we have clarified in the past, the Pool has an agreement in place stating that the annual fees paid to the Third Party Administrator provides for claims handling expenses, even if the professional relationship is discontinued.

attached). As such, there is no liability for ULAE and no need for any amount to be included in either the actuarial report or the financial statements.

When this issue came up in the past and your consultant, Mr. Marta, indicated that including ULAE was a requirement of the Governmental Accounting Standards Board (GASB), the State Auditor's Office submitted a request to GASB for review and confirmation of the appropriateness of this methodology. GASB confirmed that the Pool is appropriate in how this disclosure is calculated and displayed. A note disclosure to this effect is included in the Pool's financials. In conclusion, the Board will not include a ULAE calculation in the Pool's financials.

Any reference to the need for an estimated ULAE should also be struck from the audit report and letter to management.

Finally, the Causes of Condition and Recommendation statements in the Letter to Management that (a) 'The Pool's Board of directors does not verify the insurance policy coverage information provided to the actuary by the contracted third party administrator', (b) 'The Pool's Board of directors should: Review and verify the insurance and claims information provided to the Pool's actuary to estimate outstanding claim liabilities at year end', and (c) 'Review the Pool's financial statements to verify accurate reporting of the insurance policy benefits and outstanding claim estimates.' are not valid. The statements above provide clear evidence that the Board has a keen understanding of SIAW operations, including but not limited to understanding our insurance policy benefits, claims, liabilities, assets, and the accurate preparation of the Pool's financial statements.

In an effort for DES and the SIAW Board to clearly understand, discuss, and reach resolution on the issues cited in the Report and the Letter to Management, Jan Hutton (past SIAW chair and current WRAC representative) and I are requesting a formal meeting with you at a mutually agreeable time and location.

Sincerely,

Ron Cowan
Chair, SIAW

Enclosures

XC: SIAW Board

Exhibit I-7

SIAW - SCHOOLS INSURANCE ASSOCATION OF WASHINGTON
Estimated Variability of Loss and ALAE Reserves
Total Liability - 8/31/11

Confidence Level [1]	Total Loss and ALAE [2]
1%	8,134,250
5%	9,827,250
10%	10,149,000
15%	10,352,250
20%	10,527,000
25%	10,681,750
30%	10,803,000
35%	10,932,250
40%	11,046,750
45%	11,155,750
50%	11,265,250
Expected	11,293,467
55%	11,378,500
60%	11,490,750
65%	11,599,500
70%	11,735,000
75%	11,885,250
80%	12,045,000
85%	12,245,000
90%	12,484,500
95%	12,849,250
99%	14,355,250

Note: The Confidence Level, Column [1], is the probability that estimates are not expected to exceed Total Loss and ALAE in Column [2].

Exhibit I-7b

SIAW - SCHOOLS INSURANCE ASSOCATION OF WASHINGTON
Estimated Variability of Loss and ALAE Reserves
Total Property - 8/31/11

Confidence Level [1]	Total Loss and ALAE [2]
1%	85,750
5%	216,500
10%	264,500
15%	297,750
20%	325,250
25%	350,500
30%	374,750
35%	399,250
40%	423,000
45%	446,250
50%	469,500
Expected	491,493
55%	493,000
60%	519,250
65%	544,500
70%	575,000
75%	605,500
80%	645,500
85%	688,750
90%	750,500
95%	835,500
99%	1,393,750

Note: The Confidence Level, Column [1], is the probability that estimates are not expected to exceed Total Loss and ALAE in Column [2].

Munich Re America
Munich Re Group

business covered above:

Additionally Acquired Property. $2,250,000
Transit and Off Premises Extension: $750,000
Business Interruption and Extra Expense: $9,750,000
Accounts Receivable: $750,000
Rental Income: $750,000
Valuable Papers: $750,000
Electronic Data Processing: $9,750,000
Fine Arts: $750,000
Debris Removal Expense Extension: Lesser of 25% of amount paid for direct physical loss or $2,250,000
Cost of Clean Up Extension: $750,000 annual aggregate
Walkways, roadways, tennis courts, running tracks and other similar paved surfaces: $750,000
Ordinance or Law-undamaged portion of building: Included
Ordinance or Law – Demolition Cost: Lesser of 25% of building or tenant's improvements or betterments value
Ordinance or Law - Increased Cost of Construction: lesser of 25% of building or tenant's improvements or betterments value

Replacement Cost Valuation: The Reinsured's liability for loss or damage shall not exceed the least of the actual expenditure for repairs or replacement of the damaged or destroyed property and on property not replaced at Actual Cash Value. Buildings & Contents-Replacement Cost, Automobiles-Actual Cash Value, Mobile Equipment-Actual Cash Value, Buses-Replacement Cost

GL	$9,900,000	$16,000,000		$50,000,000	$100,000	Per Occ	
SA	$9,900,000	$10,000,000		$30,000,000	$100,000	Per Occ	09/01/2009
EBL	$9,900,000	$10,000,000			$100,000	Per Occ	
PL	$9,900,000	$16,000,000			$100,000	Per Occ	
EL	$9,900,000	$10,000,000			$100,000	Per Occ	

Sublimits/Sublines are included and not in addition to the business covered above.

The following maximum sub-limits apply per occurrence/per Member. They are subject to and not in addition to the business covered above:

Underlying deductibles are within the Group's Underlying Retention for Casualty.

Premises Damage: $1,000,000
Sublimit for Watercraft Liability is $900,000 per occurrence excess of $100,000.

AL	$9,900,000				$100,000	Per Acc	
UM	$900,000				$100,000	Per Acc	
GKLL	$900,000				$100,000	Per Acc	
UIM	$900,000				$100,000	Per Acc	

Sublimits/Sublines are included and not in addition to the business covered above.

SBLL	$9,900,000	$10,000,000			$100,000	Per Clm	
EPL	$9,900,000	$10,000,000			$100,000	Per Clm	
SH	$9,900,000	$10,000,000			$100,000	Per Clm	

Sublimits/Sublines are included and not in addition to the business covered above.

Crime	$750,000				$250,000	Per Occ	
ED	$750,000				$250,000	Per Occ	
F&A	$250,000				$250,000	Per Occ	

Sublimits/Sublines are included and not in addition to the business covered above.

BUSINESS COVERED	AGGREGATE STOP LOSS LIMIT	AGGREGATE STOP LOSS RETENTION	ANNUAL AGGREGATE LIMIT
ASL	$2,000,000	$3,465,000	$2,000,000

ASL Coverage Excludes Auto Physical Damage and Property

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USA

Response:

We appreciate the comments made by the Pool as a result of our review. We affirm the recommendations made in this report. We will continue to work with the Pool to ensure its actuarial reports contain an estimate of ULAE as required. We will review the Pool's controls over insurance purchases during our next review.