REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

NON PROFIT INSURANCE PROGRAM (NPIP)

May 31, 2020 and 2019

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Non Profit Insurance Program (NPIP)

Report on the Financial Statements

We have audited the accompanying financial statements of Non Profit Insurance Program (NPIP), which comprise the balance sheets as of May 31, 2020 and 2019, and the related statements of operations and changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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. 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 entity'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 entity'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 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 NPIP as of May 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosures about the incurred claims and allocated claim adjustment expenses, net of reinsurance on pages 20–21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial 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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information, as listed in the table of contents and on page 22, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

Spokane, Washington
September 25, 2020

ASSETS

	May 31, 2020	May 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 2,438,947	$ 3,757,231
Investments	1,558,593	1,531,691
Accounts receivable		
Member receivables	23,688	22,249
Excess/reinsurance recoverable	608,400	362,480
Income tax receivable	-	125,809
Prepaid expenses	799	260
Total current assets	4,630,427	5,799,720
TOTAL ASSETS	$ 4,630,427	$ 5,799,720

LIABILITIES AND MEMBERS' EQUITY

	2020	2019
CURRENT LIABILITIES		
Incurred but not reported and case reserves	$ 1,484,737	$ 1,514,680
Accounts payable	18,344	1,262,237
Unearned member assessments	12,807	369,502
Income tax liability	36,763	-
Total current liabilities	1,552,651	3,146,419
NONCURRENT LIABILITIES		
Incurred but not reported and case reserves	379,239	588,412
Deferred income taxes	83,844	74,942
Total noncurrent liabilities	463,083	663,354
MEMBERS' EQUITY	2,614,693	1,989,947
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 4,630,427	$ 5,799,720

Non Profit Insurance Program
Statements of Operations and Changes in Members' Equity

	Years Ended May 31, 2020	Years Ended May 31, 2019
OPERATING REVENUE		
Member assessments	$ 19,102,549	$ 17,855,541
Other	1,500	-
Total operating revenue	19,104,049	17,855,541
OPERATING EXPENSES		
Paid on current losses	1,986,151	1,494,579
Change in loss reserves	1,226,153	1,802,500
Case reserves and loss adjustment expense	1,528,226	1,430,174
Excess/reinsurance premiums	8,281,163	7,765,091
General and administrative expenses	5,353,382	5,110,177
Total operating expenses	18,375,075	17,602,521
OPERATING INCOME	728,974	253,020
NONOPERATING REVENUE		
Unrealized gain (loss)	1,253	(4,673)
Interest and dividend income	60,345	71,628
Total nonoperating revenue	61,598	66,955
INCOME BEFORE TAXES	790,572	319,975
INCOME TAX EXPENSE	165,826	118,758
NET INCOME	624,746	201,217
MEMBERS' EQUITY, beginning of year	1,989,947	1,788,730
MEMBERS' EQUITY, end of year	$ 2,614,693	$ 1,989,947

See accompanying notes.

	Years Ended May 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments received from members	$ 18,745,915	$ 17,712,335
Cash payments for claims expense	(13,222,396)	(9,038,036)
Payments for operations	(6,882,147)	(6,540,291)
Interest and dividends received	60,345	71,628
Cash paid for income taxes	5,648	(340,547)
Net cash from operating activities	(1,292,635)	1,865,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(25,649)	(35,312)
NET CHANGE IN CASH	(1,318,284)	1,829,777
CASH AND CASH EQUIVALENTS, beginning of year	3,757,231	1,927,454
CASH AND CASH EQUIVALENTS, end of year	$ 2,438,947	$ 3,757,231
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
NET INCOME	$ 624,746	$ 201,217
Adjustments to reconcile net income to net cash provided by operating activities		
Unrealized (gain) loss on investments	(1,253)	4,673
Deferred income taxes	8,902	(3,979)
Change in assets and liabilities		
Member receivables	(1,439)	(11,799)
Excess/reinsurance recoverable	(245,920)	24,586
Prepaid expenses	(539)	60
Incurred but not reported case reserves	(239,116)	818,212
Accounts payable	(1,243,893)	1,181,336
Unearned member assessments	(356,695)	(131,407)
Income tax receivable	162,572	(217,810)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (1,292,635)	$ 1,865,089

See accompanying notes.

Note 1 – Nature of the Organization

Non Profit Insurance Program (NPIP or Program) was organized on August 20, 2004, in Washington State under Chapter 48.62 Revised Code of Washington (RCW) and 24.03 RCW as a United States property and casualty insurance company to provide a joint self-insurance program of property and casualty coverage for its member organizations. Nonprofit corporations authorized to do business in Washington State are eligible to participate if they meet the Program’s underwriting guidelines. During November 2015, RCW 48.180 became effective, which moved NPIP from RCW 48.62 to RCW 48.180.

As outlined in the Program’s foundation document (Membership Agreement), members must give a 90-day notice before March 1 each year to terminate participation in the Program effective the following May 31. The Membership Agreement is renewed automatically each year. Even after termination, a member is responsible for contributions to the Program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Membership Agreement. On May 31, 2020, NPIP had 881 members.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements of NPIP have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables and liabilities. Revenues and expenses are reported in gross amounts except gains and losses, which are reported net.

Accounting estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash and cash equivalents – For purposes of cash flows, NPIP considers all certificates of deposit highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. NPIP maintains demand deposit accounts at various financial institutions. Such balances are insured by the Federal Deposit Insurance Corporation. NPIP has not experienced any losses in such accounts.

Accounts receivable – All receivables are from members or insurance carriers and are, therefore, deemed collectible. NPIP does have a policy for writing off uncollectible accounts. All debts or uncollectible accounts receivable that are “written off” must be reported to the Fiscal Committee. All debts or uncollectible accounts receivable under $500 can be written off by the third-party administrator (TPA) without the Board’s permission, but must be reported to the fiscal officer monthly. All debt or uncollectible accounts receivable over $500 will be presented to the Fiscal Committee for approval prior to being written off.

Note 2 – Summary of Significant Accounting Policies (continued)

Incurred but not reported and case reserves – NPIP 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.

Excess/reinsurance – NPIP uses excess insurance to reduce its exposure to large losses on all types of insured events. In addition, NPIP uses an aggregate stop-loss policy with a $2,000,000 limit to further limit exposure to the pool in any one claim year. NPIP does not report reinsurance/excess risks as liabilities unless it is probable that those risks will not be covered by reinsurance/excess insurance.

Member assessments and unearned member assessments – NPIP receives the majority of its funding from member assessments that are renewable annually. Member assessments are collected in advance and recognized as revenue in the period for which insurance protection is provided. The program assessment is calculated based on a percentage of the member's apportioned excess insurance cost. Unearned member assessments are premiums that are collected prior to the effective date of the policy and premiums collected for policies that span multiple fiscal years.

Investments – All investments are recorded at fair value based on quoted market prices. The net unrealized gains or losses in fair value of investments, as well as all other investment income, are recognized in the statements of operations and changes in members' equity.

These investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect total equity and the amounts reported in the balance sheet.

Unpaid claims and claim adjustment expense – Claims are charged to expense as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims incurred but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

Note 2 – Summary of Significant Accounting Policies (continued)

Reserved unallocated loss adjustment expenses – Pursuant to the contract in place between NPIP and its third party administrator (TPA), the TPA 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.

Income taxes – Accounting Standards Codification (ASC) 740 requires that deferred income tax assets or liabilities be recognized for the expected future income tax consequences of events that have been recognized in the financial statements and are determined based on the temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. NPIP evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include NPIP's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in NPIP's effective tax rate on future earnings.

NPIP recognizes the tax benefit from uncertain tax positions only if it is more likely than not the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. NPIP recognizes interest and penalties related to income tax matters in income tax expense. See Note 10 for additional details.

RCW 48.180.055 exempts NPIP from insurance premium taxes, fees assessed under Chapters 48.02. 48.32, RCW, business and occupation taxes imposed under 82.04 RCW, and any assigned risk plan or joint underwriting association otherwise required by law.

Fair value measurements – NPIP's financial assets and financial liabilities recognized or disclosed at fair value on a recurring basis consist of investments in securities classified as trading securities (see Note 3), which are valued primarily based on quoted prices for identical instruments in active markets.

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments whose significant value drivers are unobservable.

Note 2 – Summary of Significant Accounting Policies (continued)

Recently issued accounting pronouncement – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply accounting principles generally accepted in the United States of America (GAAP) in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU No. 2014-09 was deferred by ASU No. 2020-05, *Deferral of the Effective Date*, to annual periods beginning after December 15, 2019. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. NPIP recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. NPIP's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

NPIP has evaluated subsequent events through September 25, 2020, which is the date the financial statements are available to be issued.

Note 3 – Investments

NPIP's investments are measured using Level 1 inputs and consist of the following:

	Amortized Cost	Cumulative Unrealized Gains	Cumulative Unrealized Losses	Fair Value
May 31, 2020				
Equity funds	$ 178,488	$ -	$ 16,207	$ 162,281
Fixed income funds	1,382,502	6,914	-	1,389,416
Money market funds	6,896	-	-	6,896
Totals	$ 1,567,886	$ 6,914	$ 16,207	$ 1,558,593
May 31, 2019				
Equity funds	$ 154,844	$ -	$ 7,786	$ 147,058
Fixed income funds	1,380,477	-	3,520	1,376,957
Money market funds	7,676	-	-	7,676
Totals	$ 1,542,997	$ -	$ 11,306	$ 1,531,691

Note 4 – Risk Financing Limits (Self-Insured Retention)

The following table reflects the risk-financing standard limits on coverage policies issued and retained by NPIP for the 2019–20 policy year, except for independent schools:

Type of Coverage	Member Deductibles*	Self-Insured Retention	Excess Limits
Property loss			
Buildings and content	$2,500 – Residential $500 – All others	$50,000	$75,000,000 per occurrence
Flood	2% of insurable values, subject to a $25,000 minimum and $100,000 maximum, Each Member, Each Occurrence.	$50,000	$25,000,000 annual aggregate
Earthquake	2% of insurable values, subject to a $25,000 minimum, Each Member, Each Occurrence.	$50,000	$25,000,000 annual aggregate
Equipment breakdown	$1,000	$50,000	$75,000,000 per occurrence
Employee dishonesty	$500	$50,000	$1,000,000 per occurrence
Auto comp and collision	$500 Private Passenger Vehicles, Pickups and Vans; $2,500 Buses, Specialty Transport Vehicles, and Vans exceeding 8 passenger capacity; $1,000 All Other Vehicles	$50,000	$300,000 per occurrence
Liability loss			
Auto liability (AL) including bodily injury, property damage, and underinsured motorist (UIM)	$2,500 Buses, Specialty Transport Vehicles, and Vans exceeding 8 passenger capacity; $500 all others	$50,000	$5,000,000 AL per occurrence; $1,000,000 UIM per occurrence
General liability including bodily injury, property damage, and personal injury	$0	$50,000	$5,000,000 per occurrence
Wrongful acts / misc. professional liability	$1,000 = 0 - 24 Employees $2,500 = 25 - 500 Employees $10,000 = 500+ Employees	$50,000	$5,000,000 per claim

*Liability limits vary by member from $1,000,000 up to $10,000,000

Note 4 – Risk Financing Limits (Self-Insured Retention) (continued)

The following table reflects the risk financing limits on coverage policies issued and retained by NPIP for the independent schools for the 2019–20 policy year:

Type of Coverage	Member Deductibles*	Self-Insured Retention	Excess Limits
Property Loss			
Buildings and Content	$1,000	$50,000	$75,000,000 per occurrence
Flood	2% of insurable values, subject to a $25,000 minimum and $100,000 maximum, Each Member, Each Occurrence.	$50,000	$25,000,000 annual aggregate
Earthquake	2% of insurable values, subject to a $25,000 minimum, Each Member, Each Occurrence.	$50,000	$25,000,000 annual aggregate
Equipment Breakdown	$2,500	$50,000	$75,000,000 per occurrence
Employee Dishonesty	$2,500 Employee Theft & Computer Fraud; $1,000 Forgery or Alteration & Money or Securities	$50,000	$1,000,000 per occurrence
Auto Comp and Collision	See Schedule	$50,000	$300,000 per occurrence
Liability Loss			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	$1,000	$50,000	$15,000,000 AL per occurrence; $1,000,000 UIM per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	$1,000	$50,000	$15,000,000 per occurrence
Wrongful Acts / Misc. Professional Liability	$1,000	$50,000	$15,000,000 per claim

*Member deductible options are available upon request.
*Liability limits vary by member from $1,000,000 up to $10,000,000

Note 5 – Excess Insurance Contract/Reinsurance

NPIP maintains excess insurance contracts with several insurance carriers, which provide various limits of coverage over the Program's self-insured retention limits. The limits provided by these excess insurance contracts for all members except independent schools are as follows:

Excess Insurance Contracts 2019-20					
Type of Coverage	**2018-19 Pool Limit**	**Carrier**	**Carrier Rating**	**Years with Carrier**	**Occurrence of Claims Made**
General Liability	$50,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Automobile Liability	$5,000,000 (no aggregate)	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Wrongful Acts/ Misc Prof Liab	$40,000,000	Princeton Excess & Surplus Lines Insurance Company	A+ XV	12	Claims Made
Property	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV	12	Occurrence
Equipment Breakdown	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV	16	Occurrence
Employee Dishonesty	$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence

Note 5 – Excess Insurance Contract/Reinsurance (continued)

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

Excess Insurance Contracts 2019-20					
Type of Coverage	**2018-19 per Occurrence Limit**	**Carrier**	**Carrier Rating**	**Years with Carrier**	**Occurrence of Claims Made**
General Liability	$5,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Automobile Liability	$5,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Wrongful Acts/Misc Prof Liab	$5,000,000	Princeton Excess & Surplus Lines Insurance Company	A+ XV	12	Claims Made
Property	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV	12	Occurrence
Equipment Breakdown	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV	16	Occurrence
Employee Dishonesty	$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence

Note 5 – Excess Insurance Contract/Reinsurance (continued)

NPIP independent schools maintain excess insurance contracts with several insurance carriers, which provide various limits of coverage over the Program's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

Excess Insurance Contracts 2019-20					
Type of Coverage	**2018-19 Pool Limit**	**Carrier**	**Carrier Rating**	**Years with Carrier**	**Occurrence of Claims Made**
General Liability	$50,000,000	American Alternative Insurance Corporation / Starstone Specialty Insurance Company	A+ XV / A- XI	10	Occurrence
Automobile Liability	$15,000,000 (no aggregate)	American Alternative Insurance Corporation / Starstone Specialty Insurance Company	A+ XV / A- XI	10	Occurrence
Wrongful Acts/Misc Prof Liab	$40,000,000	Princeton Excess & Surplus Lines Insurance Company / Starstone Specialty Insurance Company	A+ XV / A- XI	10	Claims Made
Property	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569 Arch Specialty Ins Co RSUI Indemnity Co Lloyd's Syndicate 2987 Lloyd's of London Novae 2007 Syndicate Aspen Specialty Ins Co Hallmark Specialty Ins Co	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV / A+XV / A+ XIV / A XV / A XV / A XV / A- VIII	10	Occurrence
Equipment Breakdown	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569 Arch Specialty Ins Co RSUI Indemnity Co Lloyd's Syndicate 2987 Lloyd's of London Novae 2007 Syndicate Aspen Specialty Ins Co Hallmark Specialty Ins Co	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV / A+XV / A+ XIV / A XV / A XV / A XV / A- VIII	10	Occurrence
Employee Dishonesty	$1,000,000	American Alternative Insurance Corporation	A+ XV	10	Occurrence

Note 5 – Excess Insurance Contract/Reinsurance (continued)

NPIP independent schools maintains excess insurance contracts with several insurance carriers, which provide various limits of coverage over the Program's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

Excess Insurance Contracts 2019-20 – Per Occurrence/Claim Limits					
Type of Coverage	**2018-19 Pool Limit**	**Carrier**	**Carrier Rating**	**Years with Carrier**	**Occurrence of Claims Made**
General Liability	$15,000,000	American Alternative Insurance Corporation / Torus Specialty Insurance Company	A+ XV / A+ XI	10	Occurrence
Automobile Liability	$15,000,000	American Alternative Insurance Corporation / Torus Specialty Insurance Company	A+ XV / A+ XI	10	Occurrence
Wrongful Acts/Misc Prof Liab	$15,000,000	Princeton Excess & Surplus Lines Insurance Company / Torus Specialty Insurance Company	A+ XV / A+ XI	10	Claims Made
Property	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569 Arch Specialty Ins Co RSUI Indemnity Co Lloyd's Syndicate 2987 Lloyd's of London Novae 2007 Syndicate Aspen Specialty Ins Co Hallmark Specialty Ins Co	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV / A+XV / A+ XIV / A XV / A XV / A XV / A- VIII	10	Occurrence
Equipment Breakdown	$75,000,000	American Alternative Insurance Corporation / RSUI Indemnity Company / Axis Insurance Company / Arch Specialty Insurance Co. / Independent Specialty Insurance Company / Interstate Fire & Casualty / Certain Underwriters at Lloyds #9569 Arch Specialty Ins Co RSUI Indemnity Co Lloyd's Syndicate 2987 Lloyd's of London Novae 2007 Syndicate Aspen Specialty Ins Co Hallmark Specialty Ins Co	A+ XV / A+ XIV / A+ XV / A + XV / A IX / A+ XV / A XV / A+XV / A+ XIV / A XV / A XV / A XV / A- VIII	10	Occurrence
Employee Dishonesty	$1,000,000	American Alternative Insurance Corporation	A+ XV	10	Occurrence

Reinsurance/Excess Insurance premiums ceded were $8,281,163 and $7,765,091 for the years ended May 31, 2020 and 2019, respectively. The estimated amount that is recoverable from excess and reinsurers that reduced the liabilities on the balance sheet was $2,088,272 and $1,680,734 at May 31, 2020 and 2019, respectively. There have been no settlements that have exceeded the insurance coverage in the past three years.

Note 6 – Members' Supplemental Assessments and Credits

The membership agreement provides for supplemental assessments to members in the event the fund lacks resources to pay claims. NPIP has never made a supplemental assessment.

Note 7 – Related Party Transactions

NPIP's TPA and insurance broker is operated as Clear Risk Solutions (also Public Risk Underwriters of the Northwest). 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 8 – Incurred but Not Reported and Case Reserves

As discussed in Note 1, the Program 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 the aggregate liability for NPIP:

	May 31, 2020	May 31, 2019
Incurred but not reported and case reserves at the beginning of the year	$ 2,103,092	$ 1,284,880
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES		
Provision for insured events of current year	3,345,884	3,253,019
Change in provision for insured events of prior years	(130,290)	8,049
Total insured claims and claim adjustment expenses	3,215,594	3,261,068
PAYMENTS		
Claims and claim adjustment expenses attributable to insured events of current year	1,986,151	1,494,579
Claims and claim adjustment expenses attributable to insured events of prior years	1,468,559	948,277
Total payments	3,454,710	2,442,856
Total unpaid claims and claim adjustment expenses at end of year	$ 1,863,976	$ 2,103,092

For the years ended May 31, 2020 and 2019, claims and claim adjustment expenses incurred included favorable development of $130,290 and unfavorable development of $8,049, respectively. The unfavorable developments were not considered significant to the reserving process.

Note 9 – Financial Solvency/Required Assets (WAC) 200-150

Washington Administrative Code (WAC) 200-150 requires NPIP to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-150-03001 total primary assets, cash and cash equivalents less nonclaim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. In addition, 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 nonclaim liabilities) the value of which can be independently verified by the State Risk Manager.

	May 31, 2020	May 31, 2019
Primary asset test		
Primary assets	$ 3,845,782	$ 3,782,992
Estimated claims liabilities		
at expected levels	1,863,976	2,103,092
Results	Pass	Pass
Secondary asset test		
Primary and secondary assets	$ 4,477,870	$ 4,167,722
Estimated claims at 80%		
confidence level	1,864,008	2,103,092
Results	Pass	Pass

Note 10 – Income Taxes

The significant components of income taxes are as follows:

	May 31, 2020	May 31, 2019
Current expense	$ 156,924	$ 122,737
Deferred tax expense	8,902	(3,979)
Income tax expense	$ 165,826	$ 118,758

Note 10 – Income Taxes (continued)

Total tax provision is less than amounts computed by applying the statutory federal income tax rate to the income before tax for the following reasons:

	May 31, 2020	May 31, 2019
Tax expense, at statutory rate	$ 166,020	$ 74,191
Tax effect of permanent differences	-	793
Other	(194)	43,774
Income tax expense	$ 165,826	$ 118,758

The significant components of NPIP's deferred tax assets and liabilities were as follows:

	May 31, 2020	May 31, 2019
Current deferred tax assets		
Unearned member premium	$ 538	$ 15,519
Tax discount	30,765	29,908
Current deferred tax liabilities		
Unallocated loss adjustment expense	(106,734)	(56,024)
Acquisition costs	(1,942)	(56,796)
TCJA adjustment to discounted loss reserves	(6,471)	(7,549)
Net current deferred taxes	$ (83,844)	$ (74,942)

The Program is subject to taxation in the U.S. and files a federal income tax return. The Program is unaware of any unrecognized tax benefits. As of May 31, 2020, no accrued interest or penalties have been recorded.

Subsequent to December 31, 2019, on March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, “the CARES ACT”, was signed into legislation which includes tax provisions relevant to businesses that, during 2020, will impact taxes related to 2018 and 2019. Some of the significant changes are reducing the interest expense disallowance for 2019 and 2020, allowing the five-year carryback of net operating losses for 2018-2020, suspension of the 80% limitation of taxable income for net operating loss carryforwards for 2018-2020, and the acceleration of depreciation expense from 2018 and forward on qualified improvement property. The Company is required to recognize the effect on the financial statements in the period the law was enacted, which is 2020. At this time, for 2018 and 2019, the Company does not expect the impact of the CARES ACT on the Company's statutory financial statements to be material.

Note 11 – Subsequent Events

Subsequent to year end, NPIP settled a lawsuit, which was paid by NPIP's insurance company.

The spread of COVID-19 has caused significant financial market volatility, economic and regulatory uncertainty, and interruptions to normal business activities. Reflecting the importance of providing services to policyholders and claimants, the Company is classified as an essential business in all of its jurisdictions. We have instituted our business continuity plan that includes remote working arrangements with little to no disruptions in service. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary 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 the year. 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 line shows the pool's net incurred claims and allocated claim 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 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 accident year.

6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. The 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. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and 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.

Non Profit Insurance Program
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance (Unaudited)

Fiscal and Policy Year Ended May 31, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Required contribution and investment revenues										
Earned	$ 8,716,672	$ 10,523,237	$ 11,247,594	$ 12,558,481	$ 13,238,824	$ 14,697,518	$ 15,688,907	$ 16,339,440	$ 17,922,496	$ 19,165,647
Ceded	5,051,301	5,216,462	5,159,433	6,215,069	6,688,906	7,163,740	7,269,796	6,941,416	7,765,091	8,281,163
Net Earned	3,665,371	5,306,775	6,088,161	6,343,412	6,549,918	7,533,778	8,419,111	9,398,024	10,157,405	10,884,484
2 Unallocated expenses	2,309,930	4,110,124	4,833,166	4,668,498	4,804,951	5,335,932	5,797,149	6,033,320	6,880,899	6,881,608
3 Estimated claims and expense, end of policy year										
Incurred	1,572,974	1,794,950	2,472,814	3,765,868	2,010,610	2,774,121	3,350,123	3,939,462	6,181,846	4,429,778
Ceded	256,474	350,700	464,814	1,743,201	162,610	400,704	772,852	1,335,931	2,928,827	1,083,894
Net Incurred	1,070,000	1,444,250	2,008,000	2,022,667	1,848,000	2,373,417	2,577,271	2,603,531	2,583,531	3,345,884
4 Net Paid (cumulative) as of										
End of Policy Year	459,952	534,515	804,331	1,193,900	886,998	1,351,008	1,642,608	1,380,145	1,494,579	1,986,151
One Year Later	720,923	763,546	1,462,904	1,997,058	1,471,714	2,068,087	2,577,271	2,242,810	2,740,764	-
Two Years Later	828,366	1,006,572	1,634,598	2,022,667	1,584,912	2,335,619	2,578,524	2,583,531	-	-
Three Years Later	840,207	1,034,882	1,806,348	2,014,682	1,815,725	2,368,929	2,578,524	-	-	-
Four Years Later	854,046	1,048,301	1,806,946	2,014,682	1,859,390	2,368,929	-	-	-	-
Five Years Later	853,421	1,068,935	1,850,937	2,022,667	1,859,390	-	-	-	-	-
Six Years Later	851,602	1,068,935	1,850,937	2,022,667	-	-	-	-	-	-
Seven Years Later	852,965	1,068,934	1,850,936	-	-	-	-	-	-	-
Eight Years Later	852,965	952,165	-	-	-	-	-	-	-	-
Nine Years Later	851,388	-	-	-	-	-	-	-	-	-
5 Reestimated ceded claims and expenses	939,538	1,094,207	2,223,891	5,109,242	4,419,131	1,717,078	1,609,860	3,199,691	2,928,827	1,083,894
6 Reestimated net incurred claims and expenses										
End of Policy Year	1,316,500	1,444,250	2,008,000	2,022,667	1,848,000	2,373,417	2,577,271	2,583,531	3,253,019	3,345,884
One Year Later	1,125,470	1,108,000	2,062,380	2,022,667	1,859,390	2,373,417	2,577,271	2,583,531	3,244,696	-
Two Years Later	1,005,710	1,240,214	1,975,029	2,022,667	1,809,930	2,373,417	2,578,524	2,583,531	-	-
Three Years Later	939,485	1,126,138	1,881,222	2,014,682	1,859,421	2,368,929	2,578,524	-	-	-
Four Years Later	880,086	1,090,526	1,818,928	2,014,682	1,859,390	2,368,929	-	-	-	-
Five Years Later	871,197	1,078,126	1,850,937	2,022,667	1,859,390	-	-	-	-	-
Six Years Later	860,140	1,068,935	1,850,937	2,022,667	-	-	-	-	-	-
Seven Years Later	852,965	1,071,484	1,850,937	-	-	-	-	-	-	-
Eight Years Later	852,965	952,167	-	-	-	-	-	-	-	-
Nine Years Later	851,697	-	-	-	-	-	-	-	-	-
7 Decrease in estimated net incurred claims and expense from end of policy year	(218,303)	(492,083)	(157,063)	-	11,390	(4,488)	1,253	(20,000)	661,165	-

Supplementary Information

Schedule of Expenditures (Unaudited)

	Years Ended May 31, 2020	Years Ended May 31, 2019
Contracted services		
Third party administrator/directors fees	$ 1,661,946	$ 1,555,303
Professional/consulting fees	102,553	95,868
General administrative expenses		
Account education/simulators	25,486	35,527
Miscellaneous and supplies	34,316	36,887
Meeting expense	8,440	237
Conferences	12,443	16,405
Marketing	14,471	32,407
Group legal and accounting	31,879	76,397
License/dues/subscriptions	7,504	7,523
Travel	67,820	72,574
Underwriting/placement fees	1,522,995	1,425,143
Prelitigation program	191,028	178,769
Medicare reporting	12,690	12,000
Tax preparation fees	6,453	3,314
Other		
Brokerage fees/reinsurance	1,629,447	1,527,457
Sponsorships/donations	-	13,000
Bad debt expense	1,046	-
Directors E&O	22,865	21,366
Total general and administrative expenses	$ 5,353,382	$ 5,110,177