



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

**NON PROFIT INSURANCE PROGRAM
(NPIP)**

May 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Non Profit Insurance Program

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Non Profit Insurance Program, which comprise the balance sheets as of May 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Non Profit Insurance Program as of May 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Non Profit Insurance Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Non Profit Insurance Program's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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.

In performing an audit in accordance with GAAS, we:

- 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 Non Profit Insurance 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 Non Profit Insurance Program's ability to continue as a going concern for a reasonable period of time.

We are required to 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 notes to incurred claims and allocated claim adjustment expenses and the net of reinsurance incurred claims and allocated claim adjustment expenses, net of reinsurance on pages 19 through 20 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 Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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

Management is responsible for the schedule of expenditures included in the basic financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures 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 audit 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 16, 2022

Non Profit Insurance Program Balance Sheets

ASSETS

	May 31,	
	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,572,869	\$ 7,475,929
Investments	1,590,133	1,655,127
Accounts receivable		
Member receivables	157,214	-
Income tax receivable	198,867	137,214
Excess/reinsurance recoverable	1,220,417	923,017
Prepaid expenses	717	260
	<u>8,740,217</u>	<u>10,191,547</u>
TOTAL ASSETS	<u>\$ 8,740,217</u>	<u>\$ 10,191,547</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Incurred but not reported and case reserves	\$ 2,468,367	\$ 1,751,003
Accounts payable	83,413	27,530
Unearned member assessments	209,598	2,585,419
	<u>2,761,378</u>	<u>4,363,952</u>
NONCURRENT LIABILITIES		
Incurred but not reported and case reserves	2,527,164	1,533,239
Deferred income taxes	170,265	318,762
	<u>2,697,429</u>	<u>1,852,001</u>
MEMBERS' EQUITY	<u>3,281,410</u>	<u>3,975,594</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 8,740,217</u>	<u>\$ 10,191,547</u>

Non Profit Insurance Program

Statements of Operations and Changes in Members' Equity

	Years Ended May 31,	
	2022	2021
OPERATING REVENUE		
Member assessments	\$ 25,969,963	\$ 22,404,152
Total operating revenue	25,969,963	22,404,152
OPERATING EXPENSES		
Paid on current losses	4,035,217	1,819,067
Change in loss reserves	3,227,923	2,908,733
Case reserves and loss adjustment expense	1,556,604	1,785,443
Excess/reinsurance premiums	11,020,062	8,834,665
General and administrative expenses	6,966,524	5,558,056
Total operating expenses	26,806,330	20,905,964
OPERATING (LOSS) INCOME	(836,367)	1,498,188
NONOPERATING REVENUE		
Unrealized (loss) gain	(61,376)	92,628
Interest and dividend income	18,695	31,026
Total nonoperating revenue (loss)	(42,681)	123,654
(LOSS) INCOME BEFORE TAXES	(879,048)	1,621,842
INCOME TAX (BENEFIT) EXPENSE	(184,864)	260,941
NET (LOSS) INCOME	(694,184)	1,360,901
MEMBERS' EQUITY, beginning of year	3,975,594	2,614,693
MEMBERS' EQUITY, end of year	\$ 3,281,410	\$ 3,975,594

Non Profit Insurance Program Statements of Cash Flows

	Years Ended May 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments received from members	\$ 23,436,928	\$ 25,000,452
Cash payments for claims expense	(16,813,430)	(12,447,630)
Payments for operations	(8,523,585)	(7,342,960)
Interest and dividends received	18,695	31,026
Cash paid for income taxes	(25,286)	(200,000)
Net cash from operating activities	<u>(1,906,678)</u>	<u>5,040,888</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(3,906)
Redemption of investments	3,618	-
Net cash from investing activities	<u>3,618</u>	<u>(3,906)</u>
NET CHANGE IN CASH	(1,903,060)	5,036,982
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,475,929</u>	<u>2,438,947</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,572,869</u>	<u>\$ 7,475,929</u>
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
NET (LOSS) INCOME	\$ (694,184)	\$ 1,360,901
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Unrealized gain on investments	61,376	(92,628)
Change in assets and liabilities		
Member receivables	(157,214)	23,688
Income tax receivable	(61,653)	(137,214)
Excess/reinsurance recoverable	(297,400)	(314,617)
Prepaid expenses	(457)	539
Incurred but not reported case reserves	1,711,289	1,420,266
Accounts payable	55,883	9,186
Unearned member assessments	(2,375,821)	2,572,612
Deferred income taxes	(148,497)	234,918
Income tax liability	-	(36,763)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (1,906,678)</u>	<u>\$ 5,040,888</u>

Non Profit Insurance Program

Notes to Financial Statements

Note 1 – Nature of the Organization

Non Profit Insurance Program Non Profit Insurance Program (NPIP or Program) was organized in Washington State 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 underwrite guidelines. NPIP operates under Washington's joint self-insurance program as outlined in 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, 2022, NPIP had 892 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.

Non Profit Insurance Program Notes to Financial Statements

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.

Non Profit Insurance Program

Notes to Financial Statements

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 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.

Non Profit Insurance Program Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 16, 2022, which is the date the financial statements are available to be issued.

Note 3 – Investments

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

	May 31,	
	2022	2021
Equity funds	\$ 171,601	\$ 182,913
Fixed income funds	1,407,437	1,464,091
Money market funds	11,095	8,123
Totals	<u>\$ 1,590,133</u>	<u>\$ 1,655,127</u>

Non Profit Insurance Program Notes to Financial Statements

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 2021–22 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	\$150,000	\$75,000,000 per occurrence
Flood	2% of insurable values, subject to a \$25,000 minimum and \$100,000 maximum, Each Member, Each Occurrence.	\$150,000	\$25,000,000 annual aggregate
Earthquake	2% of insurable values, subject to a \$25,000 minimum, Each Member, Each Occurrence.	\$150,000	\$25,000,000 annual aggregate
Equipment breakdown	\$1,000	\$50,000	\$75,000,000 per occurrence
Employee dishonesty	\$500	\$150,000	\$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	\$150,000	\$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	\$150,000	\$5,000,000 AL per occurrence; \$1,000,000 UIM per occurrence
General liability including bodily injury, property damage, and personal injury	\$0	\$150,000	\$5,000,000 per occurrence
Wrongful acts / misc. professional liability	\$1,000 = 0 - 24 Employees \$2,500 = 25 - 500 Employees \$10,000 = 500+ Employees	\$150,000	\$5,000,000 per claim
Cyber Coverage			
Privacy, Security and Technology Coverage	\$2,500	\$100,000	\$15,000,000 annual aggregate

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

Non Profit Insurance Program Notes to Financial Statements

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 2021–21 policy year:

Type of Coverage	Member Deductibles*	Self-Insured Retention	Excess Limits
Property Loss			
Buildings and Content	\$1,000	\$150,000	\$75,000,000 per occurrence
Flood	2% of insurable values, subject to a \$25,000 minimum and \$100,000 maximum, Each Member, Each Occurrence.	\$150,000	\$25,000,000 annual aggregate
Earthquake	2% of insurable values, subject to a \$25,000 minimum, Each Member, Each Occurrence.	\$150,000	\$25,000,000 annual aggregate
Equipment Breakdown	\$2,500	\$150,000	\$75,000,000 per occurrence
Employee Dishonesty	\$2,500 Employee Theft & Computer Fraud; \$1,000 Forgery or Alteration & Money or Securities	\$150,000	\$1,000,000 per occurrence
Auto Comp and Collision	See Schedule**	\$150,000	\$300,000 per occurrence
Liability Loss			
Auto Liability including Bodily Injury, Property Damage and Underinsured Motorist	\$1,000	\$150,000	\$15,000,000 AL per occurrence; \$1,000,000 UIM per occurrence
General Liability including Bodily Injury, Property Damage and Personal Injury	\$1,000	\$150,000	\$15,000,000 per occurrence
Wrongful Acts / Misc. Professional Liability	\$1,000	\$150,000	\$15,000,000 per claim
Cyber Coverage			
Privacy, Security and Technology Coverage	\$2,500	\$150,000	\$1,000,000 Per Occurrence / Claim

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

**Member deductible options are available upon request.

Non Profit Insurance Program Notes to Financial Statements

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 2021–22					
Type of Coverage	2020-21 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 X / 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 X / A+ XV / A XV	16	Occurrence
Employee Dishonesty	\$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Privacy, Security and Technology	\$10,000,000	Indian Harbor Insurance Company / Crum & Forster Specialty Insurance Company	A+XV/ A XIV	1	Occurrence

Non Profit Insurance Program Notes to Financial Statements

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 2021-22					
Type of Coverage	2020-21 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 X / 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 X / A+ XV / A XV	16	Occurrence
Employee Dishonesty	\$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Privacy, Security and Technology	\$1,000,000	Indian Harbor Insurance Company / Crum & Forster Specialty Insurance Company	A+XV/ A XIV	1	Occurrence

Non Profit Insurance Program Notes to Financial Statements

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 2020-21					
Type of Coverage	2020-21 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 X / 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 X / A+ XV / A XV	16	Occurrence
Employee Dishonesty	\$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Privacy, Security and Technology	\$10,000,000	Indian Harbor Insurance Company / Crum & Forster Specialty Insurance Company	A+XV/ A XIV	1	Occurrence

Non Profit Insurance Program Notes to Financial Statements

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 2021-22 – Per Occurrence/Claim Limits					
Type of Coverage	2020-21 Pool Limit	Carrier	Carrier Rating	Years with Carrier	Occurrence of Claims Made
General Liability	\$15,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Automobile Liability	\$15,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Wrongful Acts/ Misc Prof Liab	\$15,000,000	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 X / 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 X / A+ XV / A XV	16	Occurrence
Employee Dishonesty	\$1,000,000	American Alternative Insurance Corporation	A+ XV	12	Occurrence
Privacy, Security and Technology	\$1,000,000	Indian Harbor Insurance Company / Crum & Forster Specialty Insurance Company	A+XV/ A XIV	1	Occurrence

Reinsurance/Excess Insurance premiums ceded were \$11,020,062 and \$8,834,665 for the years ended May 31, 2022 and 2021, respectively. The estimated amount that is recoverable from excess and reinsurers that reduced the liabilities on the balance sheet was \$2,772,630 and \$969,123 at May 31, 2022 and 2021, respectively. There have been no settlements that have exceeded the insurance coverage in the past three years.

Non Profit Insurance Program

Notes to Financial Statements

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,	
	2022	2021
Incurred but not reported and case reserves at the beginning of the year	\$ 3,284,242	\$ 1,863,976
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES		
Provision for insured events of current year	7,274,607	4,423,526
Change in provision for insured events of prior years	140,750	(511)
Total insured claims and claim adjustment expenses	<u>7,415,357</u>	<u>4,423,015</u>
PAYMENTS		
Claims and claim adjustment expenses attributable to insured events of current year	4,035,217	1,819,067
Claims and claim adjustment expenses attributable to insured events of prior years	1,668,851	1,183,682
Total payments	<u>5,704,068</u>	<u>3,002,749</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 4,995,531</u>	<u>\$ 3,284,242</u>

For the years ended May 31, 2022 and 2021, claims and claim adjustment expenses incurred included unfavorable development of \$140,750 and favorable development of \$511, respectively. The favorable developments were not considered significant to the reserving process.

Non Profit Insurance Program Notes to Financial Statements

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,	
	2022	2021
Primary asset test		
Primary assets	\$ 6,699,726	\$ 6,427,500
Estimated claims liabilities		
at expected levels	4,971,550	3,284,241
Results	Pass	Pass
Secondary asset test		
Primary and secondary assets	\$ 8,276,224	\$ 7,342,228
Estimated claims at 80%		
confidence level	5,245,252	3,441,310
Results	Pass	Pass

Note 10 – Income Taxes

The significant components of income taxes are as follows:

	May 31,	
	2022	2021
Current (benefit) expense	\$ (36,367)	\$ 26,023
Deferred tax benefit	(148,497)	234,918
Income tax (benefit) expense	\$ (184,864)	\$ 260,941

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,	
	2022	2021
Tax (benefit) expense, at statutory rate	\$ (179,816)	\$ 340,587
Other	(5,048)	(79,646)
Income tax expense (benefit)	\$ (184,864)	\$ 260,941

Non Profit Insurance Program

Notes to Financial Statements

Note 10 – Income Taxes (continued)

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

	May 31,	
	2022	2021
Current deferred tax assets		
Unearned member premium	\$ 8,803	\$ 108,588
Tax discount	70,526	50,332
Current deferred tax liabilities		
Unallocated loss adjustment expense	(209,138)	(114,866)
Acquisition costs	(29,579)	(337,707)
Unrealized gains	(6,563)	(19,715)
TCJA adjustment to discounted loss reserves	(4,314)	(5,394)
Net current deferred taxes	<u>\$ (170,265)</u>	<u>\$ (318,762)</u>

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, 2022, no accrued interest or penalties have been recorded.

Required Supplementary Information

Non Profit Insurance Program

Notes to Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance (Unaudited)

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 at 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)
For the Fiscal and Policy Year Ended May 31, 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 Required contribution and investment revenues										
Earned	\$ 11,247,594	\$ 12,558,481	\$ 13,238,824	\$ 14,697,518	\$ 15,688,907	\$ 16,339,440	\$ 17,922,496	\$ 22,527,806	\$ 22,527,806	\$ 25,927,282
Ceded	5,159,433	6,215,069	6,688,906	7,163,740	7,269,796	6,941,416	7,765,091	8,281,163	8,834,665	11,020,062
Net Earned	6,088,161	6,343,412	6,549,918	7,533,778	8,419,111	9,398,024	10,157,405	14,246,643	13,693,141	14,907,220
2 Unallocated expenses	4,833,166	4,668,498	4,804,951	5,335,932	5,797,149	6,033,320	6,880,899	6,881,608	7,343,498	8,508,071
3 Estimated claims and expense, end of policy year										
Incurred	2,472,814	3,765,868	2,010,610	2,774,121	3,350,123	3,939,462	6,181,846	4,429,778	4,941,050	8,373,614
Ceded	464,814	1,743,201	162,610	400,704	772,852	1,335,931	2,928,827	1,083,894	517,524	1,099,007
Net Incurred	2,008,000	2,022,667	1,848,000	2,373,417	2,577,271	2,603,531	3,253,019	3,345,884	4,423,526	7,274,607
4 Net Paid (cumulative) as of										
End of Policy Year	804,331	1,193,900	886,998	1,351,008	1,642,608	1,380,145	1,494,579	1,986,151	1,819,067	4,035,217
One Year Later	1,462,904	1,997,058	1,471,714	2,068,087	2,577,271	2,242,810	2,740,764	2,983,654	3,018,386	-
Two Years Later	1,634,598	2,022,667	1,584,912	2,335,619	2,578,524	2,583,531	2,928,044	3,260,601	-	-
Three Years Later	1,806,348	2,014,682	1,815,725	2,368,929	2,578,524	2,583,380	3,083,255	-	-	-
Four Years Later	1,806,946	2,014,682	1,859,390	2,368,929	2,578,524	2,583,380	-	-	-	-
Five Years Later	1,850,937	2,022,667	1,859,390	2,368,929	2,578,524	-	-	-	-	-
Six Years Later	1,850,937	2,022,667	1,859,390	2,368,929	-	-	-	-	-	-
Seven Years Later	1,850,936	2,022,667	1,846,114	-	-	-	-	-	-	-
Eight Years Later	1,849,886	2,022,667	-	-	-	-	-	-	-	-
Nine Years Later	1,900,536	-	-	-	-	-	-	-	-	-
5 Reestimated ceded claims and expenses	2,229,167	5,109,242	4,257,846	2,367,432	1,777,367	5,092,496	3,829,307	4,997,128	1,835,520	1,099,007
6 Reestimated net incurred claims and expenses										
End of Policy Year	2,008,000	2,022,667	1,848,000	2,373,417	2,577,271	2,583,531	3,253,019	3,345,884	4,423,526	7,274,607
One Year Later	2,062,380	2,022,667	1,859,390	2,373,417	2,577,271	2,583,531	3,244,696	3,345,834	4,503,472	-
Two Years Later	1,975,029	2,022,667	1,809,930	2,373,417	2,578,524	2,583,531	3,244,696	3,345,834	-	-
Three Years Later	1,881,222	2,014,682	1,859,421	2,368,929	2,578,524	2,583,380	3,244,696	-	-	-
Four Years Later	1,818,928	2,014,682	1,859,390	2,368,929	2,578,524	2,583,380	-	-	-	-
Five Years Later	1,850,937	2,022,667	1,859,390	2,368,929	2,578,524	-	-	-	-	-
Six Years Later	1,850,937	2,022,667	1,859,390	2,368,929	-	-	-	-	-	-
Seven Years Later	1,850,937	2,022,667	1,846,114	-	-	-	-	-	-	-
Eight Years Later	1,850,836	2,022,667	-	-	-	-	-	-	-	-
Nine Years Later	1,900,936	-	-	-	-	-	-	-	-	-
7 Decrease in estimated net incurred claims and expense from end of policy year	(107,064)	-	(1,886)	(4,488)	1,253	(20,151)	(8,323)	(50)	79,946	-

Supplementary Information

Non Profit Insurance Program Schedule of Expenditures (Unaudited)

	Years Ended May 31,	
	2022	2021
Contracted services		
Third party administrator/directors fees	\$ 2,257,077	\$ 1,941,668
Professional/consulting fees	82,111	102,414
General administrative expenses		
Account education/simulators	38,295	4,400
Miscellaneous and supplies	22,198	20,382
Meeting expense	-	-
Conferences	6,657	10,759
Marketing	289	-
Group legal and accounting	-	1,568
License/dues/subscriptions	8,093	9,232
Travel	33,134	401
Underwriting/placement fees	2,041,426	1,255,475
Prelitigation program	259,434	223,181
Medicare reporting	16,238	15,943
Tax preparation fees	4,101	5,943
Other		
Brokerage fees/reinsurance	2,144,234	1,912,007
Sponsorships/donations	10,100	11,141
Bad debt expense	10	2,820
Directors E&O	43,127	40,722
Total general and administrative expenses	\$ 6,966,524	\$ 5,558,056

