

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF

WASHINGTON SURVEYING AND RATING BUREAU  
SEATTLE, WASHINGTON

DECEMBER 31, 2011

Order No. 13-211  
Washington Surveying and Rating Bureau  
Exhibit A

**SALUTATION**

Seattle, Washington  
May 23, 2013

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Washington Surveying and Rating Bureau

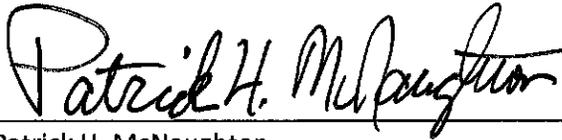
of

Seattle, Washington

hereinafter referred to as "WSRB" or "the Bureau" at the location of its home office, 2101 4th Avenue, Suite 300, Seattle, WA 98004. This report is respectfully submitted showing the condition of WSRB as of December 31, 2011.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of the Washington Surveying and Rating Bureau of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



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Patrick H. McNaughton  
Chief Examiner

7-16-13

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Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2007 through December 31, 2011 and comprises a comprehensive review of the books and records of WSRB. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of WSRB's operating procedures, financial records, and filing of rules, forms and loss costs to the OIC on behalf of subscribers were reviewed during the course of this examination and are commented upon in the following sections of this report. In addition, WSRB's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examiners reviewed WSRB's audited 2011 Statements of Cash Receipts and Disbursements as part of the examination. This review was performed to determine if WSRB completed the 2011 statements of cash receipts and disbursements in accordance with a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), and to determine if WSRB's records were prepared and maintained in accordance with Title 48 RCW.

## **INSTRUCTIONS**

NONE

## **COMMENTS AND RECOMMENDATIONS**

### **1. Expense Allocation**

WSRB and Building Metrix, Inc. (BMI) share officers. WSRB does not allocate officer salaries to BMI. WSRB determined that officer time spent on BMI management is incidental and that no allocation is necessary. If time spent by officers became more than incidental or material, it could inflate operating costs of WSRB and the assessments paid by insurance companies to WSRB and consequentially, subsidize BMI operations.

**It is recommended that WSRB periodically review the allocation of expenses for work performed for BMI and allocate expenses to BMI for the time shared officers spend on BMI business, if material.**

## BUREAU PROFILE

### **Bureau History**

WSRB is a licensed, non-profit corporation providing services to insurance bureau subscribers, their representatives, property owners and tenants, and to other customers. WSRB is operated as a public service institution and functions in accordance with Chapter 48.19 RCW.

The Bureau operated as a Fire Insurance Rating Organization in the state of Washington continuously since 1906. WSRB, as an independent rating bureau, was established in 1911, when the Washington State legislature revised the insurance laws and specified in Chapter 48.19 RCW the need for the formation of a rating bureau. The Bureau was operated as a proprietorship until 2001 when it was incorporated. Its stock is held in an irrevocable trust, approved by the OIC, for the benefit of its subscribers.

### **Territory and Plan of Operation**

WSRB is licensed as an insurance rating organization authorized within the state of Washington. WSRB surveys insurance risks and recommends insurance loss costs; provides inspection and consulting services regarding buildings, their owners and occupants; and files rules, forms, and advisory loss costs on behalf of insurance subscribers. WSRB activities are conducted at its main office in Seattle, Washington and a branch office in Spokane, Washington.

WSRB was also licensed as a rating organization in the state of Oregon on August 6, 2010 and as an advisory organization in the state of Wyoming on September 2, 2011.

### **Growth of Bureau**

WSRB's growth, as reported in its audited statement of cash receipts and disbursements, is illustrated below:

<u>Year</u>	<u>Assessments</u>	<u>Net Investment Income</u>	<u>Disbursements</u>
2007	\$4,434,317	\$165,511	\$4,723,854
2008	4,991,476	116,283	5,236,199
2009	5,291,674	57,065	5,549,107
2010	5,698,846	12,910	5,592,974
2011	5,937,152	6,008	5,790,890

### **Affiliated Entities**

Washington Insurance Examining Bureau (WIEB) is a non-profit corporation and was organized on September 25, 1947. The statutory authority for its existence is codified under RCW 48.19.410 and WAC 284-20-006. WIEB functions as a separate entity but shares some common board members with WSRB.

Building Metrix, Inc. (BMI) is a wholly owned subsidiary of WSRB. BMI was incorporated in the state of Washington on January 12, 2007 for the purpose of providing information, inspection

and consulting services regarding buildings, their owners and occupants, and other enterprises such as real estate and banking.

#### **Contracts with Affiliated Entities**

WIEB and WSRB entered into a joint operating agreement on January 18, 1985 to share certain functions and facilities in order to realize efficiencies and cost savings. The agreement included pro rata cost sharing of leases, facilities, furniture, equipment, supplies, personnel time, and other functions as may be mutually beneficial.

WSRB and BMI entered into an agreement for contract employee services on May 1, 2007 and an agreement for reimbursement of WSRB for BMI's share of WSRB non-employee expenses on February 1, 2010.

### **MANAGEMENT AND CONTROL**

#### **Ownership**

WSRB is a corporation organized under the Non-profit Miscellaneous and Mutual Corporations Act. WSRB was authorized to issue 600 shares of stock. All shares are held in an irrevocable trust for the benefit of WSRB's subscribers in compliance with RCW 48.19.170(2)(b). WSRB operates for the benefit of its subscribers but acts independently of the subscribers as provided in Chapter 48.19 RCW.

#### **Board of Directors (BOD)**

Directors as of December 31, 2011:

David Bruell  
Rex Clark  
Mark Cole  
Gary Raid  
Brian Upton-Rowley

#### **Officers**

Officers as of December 31, 2011:

Brian Upton-Rowley, President and Chief Executive Officer  
David Bruell, Vice President  
Rex Clark, Secretary  
Wayne Christophersen, Treasurer

#### **Committees**

The BOD has a compensation committee, which determines the salaries of the president and other executives. The BOD also has an Audit Committee formed on April 20, 2009.

## **Conflict of Interest**

Annual conflict of interest statements are distributed to directors, officers, and employees. All are required to disclose to the BOD potential conflicts of interest, sign, and return the statements. Any conflicts are reviewed at the executive level with appropriate restrictions imposed as necessary.

## **Fidelity Bond and Other Insurance**

WSRB is covered as a named insured under a commercial insurance policy. WSRB does not have a fidelity bond; however, employee theft coverage in excess of the required level was obtained and maintained as part of its commercial insurance policy. The limits provided are \$500,000 with \$1,000 retention for employee theft, forgery, computer fraud, funds transfer fraud, money orders and counterfeit currency fraud coverage, credit card fraud, and other crime related coverage.

## **Officers' and Employees' Welfare and Pension Plans**

WSRB maintains a defined benefit pension plan for employees hired prior to December 31, 2003 through a multiple-employer defined benefit plan. Participants are 100 percent vested after five years of service. Pension contributions include an amount to fund the unfunded accrued liability over a seven year period.

WSRB also maintains a cash balance plan as part of its defined benefit plan for employees (1) who were first hired or re-hired on or after January 1, 2004, and (2) who were employed on or after January 1, 2007, and on or before December 31, 2010. Participants are 100 percent vested after three years of service. Participants in the cash balance plan are funded with a pay credit equal to five percent of the participant's compensation for the plan year and interest crediting is indexed to the one year Treasury maturity rate. Effective December 31, 2010, the defined benefit plan was put into a hard freeze where participants no longer accrue future benefits.

WSRB provides 401(K) benefits to eligible employees through an employee savings plan. An employee becomes 100 percent vested after three years. WSRB's non-elective contribution is determined by management. WSRB also provides post-retirement benefits to qualifying retirees.

## **CORPORATE RECORDS**

WSRB's Articles of Incorporation were adopted on March 30, 2001. They were amended in their entirety on July 19, 2004. The Articles of Incorporation were amended on September 9, 2005 to correct the statutory reference from RCW 48.19.070 to RCW 48.19.170.

WSRB's Bylaws were adopted on January 29, 2001. They were restated in their entirety on July 19, 2004. The Bylaws were amended on September 5, 2005 to provide for annual audits by an independent certified public accounting firm chosen by the BOD.

### **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

WSRB maintains its accounting records on a cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. WSRB's affairs, accounting procedures, internal controls, transactions, and filing of rules, forms, and loss costs were reviewed during the planning and testing phase of the examination. WSRB was in compliance with RCW 48.19.270.

Management is sufficiently knowledgeable of the information system process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. WSRB has a business continuity plan and a disaster recovery plan.

### **SUBSEQUENT EVENTS**

There were no material events adversely impacting WSRB between the examination date and the last day of our fieldwork.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All previous report recommendations have been addressed and corrected.

## FINANCIAL STATEMENT

WASHINGTON SURVEYING AND RATING BUREAU  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
<b>RECEIPTS</b>			
<b>Assessments:</b>			
Current assessments	\$ 6,088,256	\$ 0	\$ 6,088,256
Final reapportionment	(151,104)		(151,104)
<b>Net assessments</b>	<b>5,937,152</b>		<b>5,937,152</b>
Washington fair plan and vendor license	2,704		2,704
Interest income	6,008		6,008
Consulting services	2,600		2,600
<b>Total Receipts</b>	<b>5,948,464</b>	<b>0</b>	<b>5,948,464</b>
<b>DISBURSEMENTS</b>			
Salaries	2,521,314	0	2,521,314
Employee benefits	651,245		651,245
Insurance service assessment	757,611		757,611
Furniture, equipment and software	177,010		177,010
Professional fees	397,065		397,065
Taxes, principally payroll	343,988		343,988
Travel and business relations	263,894		263,894
Rent and related expenses	332,246		332,246
Licenses and permits	132,425		132,425
Telephone	98,997		98,997
Printing and subscriptions	40,703		40,703
Insurance	38,654		38,654
Special projects and other	13,088		13,088
Supplies	16,582		16,582
Postage	6,068		6,068
<b>Total Disbursements</b>	<b>5,790,890</b>	<b>0</b>	<b>5,790,890</b>
<b>NET RECEIPTS</b>	<b>157,574</b>		<b>157,574</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	2,420,386		2,420,386
End of year	<b>\$ 2,577,960</b>	<b>\$ 0</b>	<b>\$ 2,577,960</b>

**NOTES TO THE FINANCIAL STATEMENT**

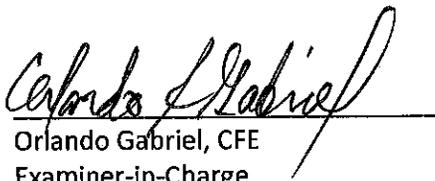
WSRB has no special consents, permitted practices, or orders from the state of Washington.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers and employees of Washington Surveying and Rating Bureau during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Cynthia Clark, CPA, Financial Examiner; and Zairina Othman, Financial Examiner; all from the Washington State Office of Insurance Commissioner who participated in the examination and the preparation of this report.

Respectfully submitted,

  
Orlando Gabriel, CFE  
Examiner-in-Charge  
State of Washington

