

MAY 17 2021

# CERTIFICATION

FILED

May 17, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

**LEAGUE ASSOCIATION OF RISK MANAGEMENT**

**AS OF**

**SEPTEMBER 30, 2019**

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**LEAGUE ASSOCIATION OF RISK MANAGEMENT**

**1335 "L" STREET**

**LINCOLN, NEBRASKA 68508**

dated as of September 30, 2019, verified under oath by the examiner-in-charge on April 21, 2021, and received by the company on April 21, 2021, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 6<sup>th</sup> day of May 2021.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**LEAGUE ASSOCIATION OF RISK MANAGEMENT**

**as of**

**September 30, 2019**



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Lincoln, Nebraska  
March 17, 2021

Honorable Bruce R. Ramage  
Director of Insurance  
Nebraska Department of Insurance  
1135 M Street, Suite 300  
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**LEAGUE ASSOCIATION OF RISK MANAGEMENT**  
1335 "L" Street  
Lincoln, Nebraska 68508

(hereinafter also referred to as the "Association" and "LARM") and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The State of Nebraska last examined the Association as of September 30, 2015. The current financial condition examination covers the intervening period to and including the close of business on September 30, 2019, and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

**SCOPE OF EXAMINATION**

The Department conducted this examination pursuant to and in accordance with the provisions of Neb.Rev.Stat. §44-4310(2).

The Department made a general review of the Association's operations and the manner in

which its business has been conducted in order to determine compliance with statutory and charter provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors, and the departmental organization of the Association. The Interlocal Agreement and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Members, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, election of Directors and Officers and approval of investment transactions were also noted.

The fidelity bond and other insurance coverage protecting the Association's property and interests were reviewed. A Certificate of Authority to conduct the business of insurance in Nebraska was inspected and a survey was made of the Association's general plan of operation.

Data reflecting the Association's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report."

The Association's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the examination process. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Association were considered in accordance with the provisions of Neb. Rev. Stat. § 44-4310(2). This included a review of workpapers prepared by Thomas, Kunc & Black, LLP, the Association's external auditors, during their audit of the Association's accounts for the years ended September 30, 2018, and 2019. Portions of the

auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

## **DESCRIPTION OF ASSOCIATION**

### **HISTORY**

The Association was organized under the laws of the State of Nebraska pursuant to the Intergovernmental Risk Management Act, Section 44-4301 (1987 Supp.). Its purpose is to provide members with risk management services and insurance coverages in the form of group self-insurance or standard insurance, including any combination of group self-insurance and standard insurance, and to protect members against losses for liability, property, errors and omissions liability, and workers' compensation losses. The Association obtained a Certificate of Authority on May 1, 1995 and commenced funding all or a portion of the General Liability, Property, and Errors and Omissions Liability insurance for its members on August 1, 1995. The Association began funding Workers' Compensation insurance on October 1, 1997.

Pursuant to a change in the Intergovernmental Risk Management Act, Section 44-4310(1) during the 1997 legislative session, the Association applied for and received approval from the Nebraska Insurance Director to file its financial statements corresponding to its fiscal year of October 1 to September 30. This change began with the September 30, 1998 Annual Statement.

## **MANAGEMENT AND CONTROL**

### **Membership**

Article V, Section 1 of the Association's By-Laws provides, "unless otherwise approved by the League of Nebraska Municipalities Executive Board, LARM Membership shall be restricted to municipalities maintaining membership in the League of Nebraska Municipalities, and, subject to approval by the League of Nebraska Municipalities Executive Board, sanitary and improvement districts, public power agencies, and such other public agencies of the State of Nebraska that the Board shall, from time to time, approve, subject to adopted underwriting standards." Section 2.9 goes on to state, "LARM members deciding to voluntarily terminate participation in LARM must provide written notice to the Director of the Nebraska Department of Insurance and all other LARM members at least ninety (90) days prior to the desired termination date. The decision to terminate participation in LARM is subject to the approval of the Director of the Nebraska Department of Insurance."

### **Board of Directors**

Article I, Section 1 of the Association's By-Laws states, "the pool shall be operated by a Board of Directors consisting of elected or appointed Officials of members. The initial Board shall consist of nine persons, but the number may be increased by the Board up to any number above nine but not to exceed fifteen members to maintain appropriate size and geographical representation as the number of members increase. A vacancy on the Board shall be filled by a majority vote of the Board upon a recommendation made by the nominating committee or the Administrator. The person appointed to fill a vacancy shall serve for the remainder of the term of the vacant Board member. There shall be two ex-officio members of the Board of Directors: the President and Executive Director (also called Administrator) of the League of Nebraska Municipalities. The President and the Executive Director of the League shall be ex-officio, non-



voting members of the Board of Directors. The ex-officio members shall be in addition to the nine elected members of the Board (or the number up to fifteen designated by the Board).”

Article II, Section 1 of the Association’s By-Laws provides that, "the Board shall hold meetings within the State of Nebraska. All meetings shall be held in accordance with the Open Meetings Act.” Section 2 further states, “meetings of the Board shall be held no less than four (4) times each year. Meetings of the Board may be called by the Chairperson or the Board and shall be called by the Chairperson upon request of three members of the Board. Notice of meetings of the Board, other than emergency or special meetings, shall be given to each Director at least five calendar days, if possible, prior to the meeting stating the time, place and agenda.”

The following persons were serving as Directors as of September 30, 2019:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
LeAnn Brown Oshkosh, Nebraska	Clerk/Treasurer, City of Oshkosh
Pamela Buethe North Platte, Nebraska	Board Member, Sarpy County SID#29
Lanette Doane Ansley, Nebraska	Clerk/Treasurer, Village of Ansley
Scott Getzschman Fremont, Nebraska	Mayor, City of Fremont
Doug Hanson Hickman, Nebraska	Mayor, City of Hickman
Melissa Harrell Wahoo, Nebraska	City Administrator, Clerk, and Treasurer, City of Wahoo
Jim Hawks North Platte, Nebraska	City Administrator, City of North Platte
Nathan Johnson Scottsbluff, Nebraska	City Manager, City of Scottsbluff
Jo Leyland Imperial, Nebraska	City Administrator, Clerk, and Treasurer, City of Imperial

**Name and Residence**

**Principal Occupation**

Josh Moenning  
Norfolk, Nebraska

Mayor, City of Norfolk

Tom Ourada  
Crete, Nebraska

City Administrator, City of Crete

Sandra Schendt  
Nelson, Nebraska

Clerk/Treasurer, City of Nelson

Doug Schultz  
Curtis, Nebraska

City Administrator, Clerk and Treasurer,  
City of Curtis

Deb VanMatre  
Gibbon, Nebraska

Mayor, City of Gibbon

Teresa Youngquist  
Beaver City, Nebraska

Clerk/Treasurer, City of Beaver City

**Ex-officio Board Members:**

Dwight Livingston  
North Platte, Nebraska

Mayor, City of North Platte, and  
League of Nebraska Municipalities  
President

L. Lynn Rex  
Lincoln, Nebraska

Executive Director, League of Nebraska  
Municipalities and Administrator of  
LARM

**Officers**

Article IV, Section 1 of the Association's By-Laws state, "the LARM Board of Directors shall choose from among the elected Directors, a Chairperson and a Vice Chairperson for a one (1) year term at a LARM Board of Directors meeting during the 4<sup>th</sup> calendar quarter of each year. The Executive Director of the League, or his or her designee, shall be the Clerk." The Chairperson and Vice Chairperson were elected April 12, 2018 and March 27, 2020. However, there was no evidence of appointment in 2019, nor was there an election in the 4th quarter. It is recommended that the Association elect a Chairperson and a Vice Chairperson for a one (1) year term at a LARM Board of Directors meeting during the 4<sup>th</sup> calendar quarter of each year.

The following is a listing of Officers elected and serving the Association as of September 30, 2019:

<b><u>Name</u></b>	<b><u>Office</u></b>
Doug Hanson	Chairman
Jim Hawks	Vice Chairman
L. Lynn Rex	Secretary

### **Committees**

Article I, Section 2.1 of the Association's By-Laws states, “a nominating committee shall recommend candidates for the Board to the members... the nominating committee shall consist of three persons; the chairperson of the Board of Directors of the Pool, an individual from a member municipality selected by the Board and the Executive Director of the League.”

The following persons were serving on the Nominating Committee as of September 30, 2019:

Doug Hanson	Jim Hawks
L. Lynn Rex	

## **TRANSACTIONS WITH AFFILIATES**

### **Administrative Services Agreement**

When each member municipality executes the Interlocal Agreement, they agree to form and participate in the Association, which has formed the Nebraska Risk Management Pool. The Association is sponsored by the League of Nebraska Municipalities (League). The League is a corporation formed by Nebraska Municipalities to promote the application of the most efficient methods of municipal government. Effective June 21, 2000, the League agreed to furnish, provide or contract for the necessary administrative and management services required by the Pool.

The Association entered into an administrative services agreement with the League in 2000 and subsequently amended the agreement in 2005. The Association separated its payroll, healthcare and pension from the League, but, the agreement has not been updated to reflect the change in relationship between the entities. It is again recommended the Association amend the agreement with the League as needed to reflect the change in relationship.

For the services provided by the League, the Association pays a fee of two and one-half percent (2.5%) of gross earned contribution on all members. The League budgets this revenue separately and specifically for expenses directly related to the services provided. Additionally, the Association pays the League two percent (2%) of the gross earned contribution on all members on a monthly basis. Moreover, the League may, at its discretion, waive some or all of this expense at any time.

## **SERVICE AGREEMENTS**

### **York Risk Pooling Services, Inc.**

Effective April 1, 2015, the Association entered into a consulting agreement with York Risk Pooling Services, Inc. (York). The League approved the selection of York as a service provider pursuant to the Agreement for the formation of the Association. York's services include, but are not limited to, accounting, financial services, actuarial services, underwriting, claims handling, and reinsurance.

The Association pays York base compensation in the form of a monthly fee. Beginning on April 1, 2015, the Association paid York \$55,650 per month for the first year of service. For each successive year the fee shall be increased by the Consumers Price Index (CPI). If the CPI is not available, the parties shall agree upon a reasonably comparable index to apply. In addition to the base compensation, the Association shall pay five percent (5%) of the first year's total

annual premium of each new member added to the pool on a semi-annual basis. In addition to the base compensation and the new business compensation, York is also eligible to receive compensation based on the underwriting income of the Association starting with the fiscal year ending September 30, 2014, and each fiscal year thereafter. The Association shall pay five percent (5%) of the amount that is equal to Net Income less Investment Income that exceeds \$1,000,000. This amount shall not exceed \$75,000 for any one fiscal period.

In addition to the aforementioned compensations, York is eligible for a retention bonus for each pool member that renews its membership in the pool through the joint efforts of York and the Association. For such renewal premiums, the Association shall pay York: \$5,000 per renewing members with annual premium of \$75,000 to \$150,000; \$10,000 per renewing members with annual premium of \$150,000 to \$250,000; and \$15,000 per renewing member with annual premium in excess of \$250,000.

**By the Numbers Actuarial Consulting, Inc.**

On March 26, 2018, the Association entered into an actuarial services agreement with By the Numbers Actuarial Consulting, Inc. (BYNAC). The agreement calls for BYNAC to prepare two reports annually. The first report calculates the indicated premium for the upcoming policy period, and the second report estimates the required reserves for financial statement reporting. Additionally and at the Association's option, BYNAC will perform a semi-annual review of their loss experience at March 31. The fees associated with this agreement are guaranteed for three (3) years and total \$29,000 per year for the two (2) annual reports and \$3,000 per year for the semi-annual review.

**TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, the Association is only licensed to transact business in the State of Nebraska. As evidenced by its current Certificate of

Authority, the Association is licensed to operate a risk management pool and to provide group self-insurance to its members. As of September 30, 2019, its membership totaled 166 members.

The Association operates to provide risk management services and to fund some or all losses as may be agreed upon by such municipalities and the pool. Coverage offered to its members includes liability, property, errors and omissions liability, and workers' compensation.

## **REINSURANCE**

### **Ceded**

The Association entered into a casualty excess of loss reinsurance contract with Great American Insurance Group effective October 1, 2018. The contract provides coverage for automobile liability, general liability, law enforcement liability, employment practices liability, and public officials liability written on an occurrence basis. The Association retains the first \$300,000 per occurrence, per member. However, the reinsurer's liability shall never exceed \$4,700,000 per occurrence, per member.

The Association entered into an excess of loss reinsurance agreement with Midwest Employers Casualty Company (MECC) for one year, effective October 1, 2018, which provides for cession of the Association's workers' compensation policies. The Association retains \$750,000 per accident or disease with an aggregate retention based on a percentage of estimated payroll, with a minimum retention of \$2,107,002. The per accident or disease limit is the statutory amount for workers' compensation and \$2,000,000 for employers liability. The agreement has an aggregate limit for benefits of \$5,000,000 beyond any per accident or disease limit.

The Association entered into a property excess of loss reinsurance contract with Axis Surplus Insurance Company, The Travelers Indemnity Company, and Direct FAC Inc. (on behalf of scheduled participants) on October 1, 2018. The Company retains the first \$100,000 per

occurrence (\$200,000 per occurrence on wind or hail claims). Coverage is provided up to \$150,000,000.

The Association entered into an equipment breakdown excess of loss reinsurance contract with Factory Mutual Insurance Company effective July 1, 2018. The Association retains the first \$100,000 of each and every loss occurrence. However, the reinsurer’s liability shall never exceed \$100,000,000.

**General**

The reviewed contracts contained a standard insolvency clause, an arbitration clause, an offset clause, and an errors and omissions clause. The contracts also contained the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**BODY OF REPORT**

**GROWTH**

The following comparative data reflects the growth of the Association during the period covered by this examination:

	<b><u>9-30-2016</u></b>	<b><u>9-30-2017</u></b>	<b><u>9-30-2018</u></b>	<b><u>9-30-2019</u></b>
Cash & short-term investments	\$ 3,236,535	\$ 2,897,815	\$ 1,183,149	\$ 3,755,328
Long-term investments	9,500,000	13,003,832	12,799,616	10,598,391
Premiums receivable	7,050,728	6,906,824	7,117,227	8,173,816
Total assets	21,447,550	23,022,316	22,360,249	23,498,528
Loss reserves	3,330,980	2,960,320	2,778,170	3,895,014
Loss adjustment expenses	1,442,507	1,190,211	1,304,731	1,864,393
Unearned premium	7,257,297	7,287,099	7,108,947	7,618,931
Total liabilities	12,174,193	11,620,622	11,399,311	13,628,969
Surplus	9,273,357	11,401,694	10,960,938	9,869,559
Net premiums	5,427,393	6,340,700	6,095,278	6,158,653
Net losses	1,922,072	1,693,417	3,035,653	3,192,100
Other underwriting expenses	2,443,815	2,551,999	3,049,925	3,030,036
Net income (loss)	683,866	2,218,337	(440,756)	(1,091,379)

## **FINANCIAL STATEMENTS**

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Association on September 30, 2019 and its transactions during the year 2018/19 as determined through this examination. A reconciliation of the members' fund balance for the period under review is also included.

### **FINANCIAL STATEMENT** **September 30, 2019**

#### **Assets**

Cash on deposit	\$ 1,904,907
Short-term investments	<u>1,850,421</u>
Total cash	<u>\$ 3,755,328</u>
Long-term investments	10,598,391
Accounts receivable	62,439
Premiums receivable	8,173,816
Interest receivable	60,325
Reinsurance recoverable on paid losses	<u>848,229</u>
Total assets	<u>\$23,498,528</u>

#### **Liabilities, Surplus and Other Funds**

Loss reserves	\$ 3,895,014
Loss adjustment expenses	1,864,393
Unearned premium	7,618,931
Taxes payable	88,050
Other liabilities	137,581
Funds held under reinsurance treaties	<u>25,000</u>
Total liabilities	<u>\$13,628,969</u>
Surplus	<u>\$ 9,869,559</u>
Total liabilities and surplus	<u>\$23,498,528</u>



**STATEMENT OF INCOME**  
**September 30, 2019**

**Revenue:**

Premiums earned, direct	\$ 8,328,448
Premiums earned, transferred by excess	<u>(2,169,795)</u>
Net premiums	\$ 6,158,653
Investment income	291,004
Miscellaneous income	<u>4,051</u>
Total revenues	\$ 6,453,708

**Expenses:**

Losses incurred, direct	5,826,494
Losses incurred, transferred by excess	<u>(2,634,394)</u>
Net losses	\$ 3,192,100
Loss expenses incurred	1,322,951
Other underwriting expense incurred	3,030,036
Total expenses	<u>7,545,087</u>
Net income	<u><u>\$(1,091,379)</u></u>

**MEMBER FUND / SURPLUS ACCOUNT**

	<b><u>9-30-2016</u></b>	<b><u>9-30-2017</u></b>	<b><u>9-30-2018</u></b>	<b><u>9-30-2019</u></b>
Beginning balance	\$8,589,491	\$ 9,273,357	\$11,401,694	\$10,960,938
Net income	683,866	2,128,337	(440,756)	(1,091,379)
Unrealized capital gain	219,343	270,494	361,155	287,415
Change in non-admitted assets	<u>(219,343)</u>	<u>( 270,494)</u>	<u>(361,155)</u>	<u>(287,415)</u>
Net change for the year	<u>\$ 683,866</u>	<u>\$ 2,128,337</u>	<u>\$ (440,756)</u>	<u>\$(1,091,379)</u>
Ending balance	<u><u>\$9,273,357</u></u>	<u><u>\$11,401,694</u></u>	<u><u>\$10,960,938</u></u>	<u><u>\$ 9,869,559</u></u>

**EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Member fund balance (surplus) in the amount of \$9,869,559, as reported in the Association's September 30, 2019 Independent Auditors' Report, is accepted for examination

purposes. Examination findings, in the aggregate, are considered to have no material effect on the Association's financial condition.

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

**Clauses in Reinsurance Contracts** - It is recommended that the Association amend its reinsurance contract with the Alliant Property Insurance Program and Midwest Employers Casualty Company to include the clauses required by SSAP No.62R, Paragraph 8(a) and 8(c) and other missing clauses noted.

**Action:** The Association has complied with this recommendation.

**Administrative Services Agreement** - The Association indicated the agreement with the League of Nebraska Municipalities has not been updated to reflect the change in relationship between the entities approximately four (4) years ago. It is recommended the Association amend the Administrative Services Agreement with the League as needed to reflect the change in relationship.

**Action:** The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Summary of Comments and Recommendations" in this report.

**Fidelity Bond** - It is suggested the Association obtain a Fidelity Bond in accordance with the guidance from the NAIC Financial Condition Examiners Handbook.

**Action:** The Association has complied with this recommendation.

### **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

#### **Investment Approval**

It was noted during the exam that the Association does not maintain documentation of the review and approval of investments as required by Nebraska Statute §44-5105. It is recommended that the Association document review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

### **Third Party Vendors**

The Examination found that the Association does not perform annual reviews of third-party vendors that have access to the Association's confidential data and systems, or of third-party vendors that receive confidential information from the Association. Third-parties that may have access to the Association's confidential data and systems, and third-parties to which the Association transmits confidential data should be thoroughly reviewed when the contract is first entered into, as well as on an annual basis thereafter. It is suggested that a review of third-party service providers be conducted and documented at least annually. This can be accomplished by a review of a Statement of Operating Controls (SOC) report or review of external audit reports.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following comments and recommendations have been made as a result of this examination:

**Chair Elections** - It is recommended that the Association elect a Chairperson and a Vice Chairperson for a one (1) year term at a Board of Directors meeting during the 4<sup>th</sup> calendar quarter of each year.

**Administrative Services Agreement** - The Association indicated that the agreement with the League of Nebraska Municipalities has not been updated to reflect the change in relationship. It is again recommended the Association amend the Administrative Services Agreement with the League as needed to reflect the change in relationship.

**Investment Approval** - It is recommended that the Association document its review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

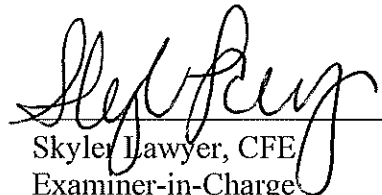
**Third Party Vendors** - It is suggested that a review of third-party service providers be conducted and documented at least annually. This can be accomplished by a review of a Statement of Operating Controls (SOC) report or review of external audit reports.

**ACKNOWLEDGMENT**

The courteous cooperation extended by the Officers and employees of the Association during this examination is hereby acknowledged.

In addition to the undersigned, Daniel Rousseau, AFE, Financial Examiner; and Linda Scholl, CISA, CFE, PIR, Information Systems Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

  
\_\_\_\_\_  
Skyler Lawyer, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of League Association of Risk Management.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the League Association of Risk Management was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

*Skyler Lawyer*  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 21 day of April, 2021.

(SEAL)

*Patricia K. Hill*  
Notary Public

My commission expires 8-8-23 [date].

