

OCT 18 2021



# CERTIFICATION

October 18, 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

**NEBRASKA ASSOCIATION OF RESOURCE DISTRICTS  
INTERGOVERNMENTAL RISK MANAGEMENT POOL ASSOCIATION**

**AS OF**

**JUNE 30, 2020**

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

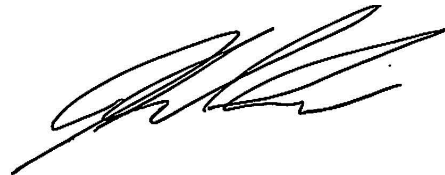
Notice of the proposed report for the financial examination of

**NEBRASKA ASSOCIATION OF RESOURCE DISTRICTS  
INTERGOVERNMENTAL RISK MANAGEMENT POOL ASSOCIATION  
8100 SOUTH 15<sup>TH</sup> STREET  
LINCOLN, NEBRASKA 68512**

dated as of June 30, 2020, verified under oath by the examiner-in-charge on  
September 21, 2021, and received by the company on September 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 October 2021.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**NEBRASKA ASSOCIATION**

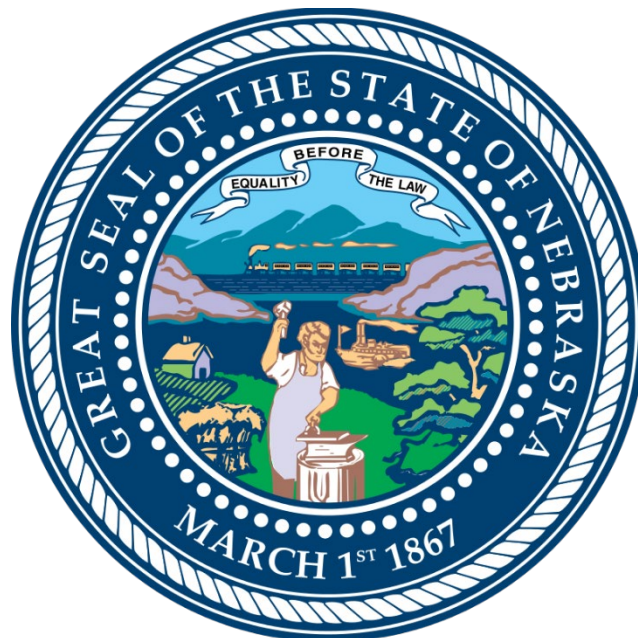
**OF**

**RESOURCES DISTRICTS**

**INTERGOVERNMENTAL RISK MANAGEMENT POOL ASSOCIATION**

**as of**

**June 30, 2020**



Lincoln, Nebraska  
September 2, 2021

Honorable Eric Dunning  
Director of Insurance  
Nebraska Department of Insurance  
1526 K Street, Suite 200  
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:

**NEBRASKA ASSOCIATION OF RESOURCES DISTRICTS  
INTERGOVERNMENTAL RISK MANAGEMENT POOL ASSOCIATION**  
8100 South 15<sup>th</sup> Street  
Lincoln, Nebraska 68512

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

**INTRODUCTION**

The State of Nebraska last examined the Association as of June 30, 2016. The current financial condition examination covers the intervening period to and includes the close of business on June 30, 2020, 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 Nebraska Department of Insurance conducted this examination pursuant to and in accordance with the provisions of Neb.Rev.Stat. §44-4310(2).

The Nebraska Department of Insurance 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 Articles of Incorporation 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 Almpuist, Maltzahn, Galloway, & Luth, P.C, the Association's external auditors, during their audit of the Association's accounts for the years ended June 30, 2019, and 2020. 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 to 44-4339 of the Nebraska Insurance Statutes. Its purpose is to provide members with group self-insurance for accident and health, dental, and vision insurance coverages. The Association was retroactively granted a Certificate of Authority on July 17, 2007 for operations that began on July 1, 2007.

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 Department of Insurance Director to file its financial statements corresponding to its fiscal year of July 1 to June 30. This change was approved December 1, 2008.

### **MANAGEMENT AND CONTROL**

#### **Membership**

Article II, Section 1 of the Association's By-Laws states, "the NARD and any Natural Resources District in the State of Nebraska ("NRD") that is in good standing in the NARD shall be eligible for membership." Section 2 provides that, "any public agencies, other than an NRD,

shall be eligible for membership after the fifth anniversary of the initial formation of the Pool...subject to the approval of 2/3 majority of the Board of Directors and subject to prior approval by the Nebraska Department of Insurance.”

Article II, Section 5 of the Association’s By-Laws states, “each Member hereby agrees to participate in the Pool for an initial thirty-six (36) months...” After the initial three years of participation, a member may terminate its relationship with the Association with review and approval by the Nebraska Department of Insurance. The terminating member must present a written notice of withdrawal to the Board and the Nebraska Department of Insurance at least one year prior to the effective date of the withdrawal.

**Board of Directors**

Article III, Section 1 and 2 of the Association’s By-Laws states, “the business and affairs of the Pool shall be managed by its Board of Directors...The number of Directors of the Pool shall be the same as the number of Members. Each Member is entitled to select two individual elected officials (by whatever process such Member shall choose) of which one individual shall be a Director of the Board of Directors of the Pool and the second individual shall be the Alternate to the first...Each Director shall hold office until the March Board of Directors meeting.”

Members of the Board of Directors, duly elected and serving the Association at June 30, 2020 were as follows:

**Name and Residence**

Jim Bendfeldt  
Kearney, Nebraska

Scott Berndt  
Lakeside, Nebraska

Paul Bethune  
York, Nebraska

**NRD Represented**

Central Platte NRD

Upper Niobrara White NRD

Upper Big Blue NRD

<u>Name and Residence</u>	<u>NRD Represented</u>
James Eschliman Ericson, Nebraska	Lower Loup NRD
Orval Gigstad Syracuse, Nebraska	Nemaha NRD
Martin Graff Ainsworth, Nebraska	Middle Niobrara NRD
Lyle Heinrichs Shickley, Nebraska	Little Blue NRD
Robert Hilger David City, Nebraska	Lower Platte North NRD
Ted Hughes Neligh, Nebraska	Upper Elkhorn NRD
Jim Johnson Dix, Nebraska	South Platte NRD
Steven Kelley Beatrice, Nebraska	Lower Big Blue NRD
Marcel Kramer Crofton, Nebraska	Lewis & Clark NRD
Marvin Liewer Butte, Nebraska	Lower Niobrara NRD
Terry Martin Benkelman, Nebraska	Upper Republican NRD
Scott McHenry Norfolk, Nebraska	Lower Elkhorn NPD
James Meisner Paxton, Nebraska	Twin Platte NRD
Roger Nelson Superior, Nebraska	Lower Republican NRD
Ryan Reuter Minatare, Nebraska	North Platte NRD



<u>Name and Residence</u>	<u>NRD Represented</u>
Larry Reynolds Lexington, Nebraska	Tri-Basin NRD
Judy Ridenour Mullen, Nebraska	Upper Loup NRD
Shane Rippen Culbertson, Nebraska	Middle Republican NRD
Milt Schmidt Lincoln, Nebraska	Lower Platte South NRD
Richard Tesar Waterloo, Nebraska	Papio-Missouri River NRD

Article III, Section 10 of the By-Laws states, “Directors shall not be entitled to be paid an amount for attendance at meetings or a stated salary as Director.”

### Officers

Article IV of the Association’s By-Laws states, “the Officers of the Pool shall be a President, a Vice President, a Secretary-Treasurer, and an Executive Director, each of whom shall be elected by the Board of Directors, except for the Executive Director who shall be appointed...The Officers of the Pool... shall be elected annually by the Board of Directors at their regular meeting held in March.”

Officers serving at June 30, 2020 were as follows:

<u>Name</u>	<u>Office</u>
James Eschliman	President
Milt Schmidt	Vice President
Martin Graff	Secretary/Treasurer
Dean Edson	Executive Director

### SERVICE AGREEMENT

#### Mid-American Benefits, Inc.

Effective July 1, 2013 the Association entered into an Administrative Service agreement

with Mid-American Benefits, Inc. Under the agreement, Mid-American Benefits, as claims administrator will furnish the necessary responsibilities to include: maintaining adequate and necessary records to properly administer the plan, bonding all Mid-American employees who handle plan assets, processing and adjudicating all claims, establishing and maintaining a non-interest-bearing bank account on the behalf of the Association, and to provide any reports agreed upon by the parties.

### **TERRITORY AND PLAN OF OPERATION**

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

The Association operates on a not-for-profit basis to provide risk management services, which consist of medical, dental, and vision insurance. The Association also administers long-term disability coverage for The Hartford Life Group Insurance Company and fully insured life and accidental death and dismemberment insurance for Lincoln National Life on behalf of its members.

### **STOP LOSS INSURANCE**

The Association has a Stop Loss agreement to insure annual aggregate and specific loss coverage for medical and prescription claims. The aggregate benefit has an annual limit of \$1,000,000. The annual aggregate attachment point for the period ended June 30, 2020 was \$5,807,735. The specific loss benefit has a self-insured deductible of \$125,000.

### **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

### 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 June 30, 2020 and its transactions during the year 2019/20 as determined through this examination.

#### STATEMENT OF ASSETS, LIABILITIES & SURPLUS June 30, 2020

<b><u>Assets</u></b>	
Cash and cash equivalents	\$3,661,114
Investments	2,484,713
Reinsurance receivable	119,847
Accrued interest receivable	<u>12,881</u>
Total assets	<u>\$6,278,555</u>
<b><u>Liabilities and Surplus</u></b>	
Accounts payable	\$ 9,090
Unearned premium revenue	165,654
Aggregate claim reserve	<u>516,000</u>
Total liabilities	<u>\$ 690,744</u>
Surplus	<u>\$5,587,811</u>
Total liabilities and surplus	<u>\$6,278,555</u>

**STATEMENT OF REVENUE AND EXPENSES**  
**June 30, 2020**

**Revenue:**

Medical insurance premiums	\$6,106,897
Less: Medical reinsurance premium	(609,441)
Dental insurance premiums	371,326
Vision reimbursement premiums	86,827
COBRA premiums	<u>24,823</u>
Total net health revenue	<u>\$5,980,432</u>
Life and AD&D insurance premiums	\$ 120,105
Long-term disability insurance premiums	105,269
Less: Life and AD&D insurance premiums	(69,394)
Less: Long-term disability insurance premiums	(92,254)
Less: Administrative costs	<u>(52,200)</u>
Total non-health revenue	<u>\$ 11,526</u>
Other income	\$ 1
Prescription drug rebate	34,221
Investment income	<u>102,466</u>
Total revenue	<u>\$6,128,646</u>

**Expenses**

Medical claims	\$5,722,800
Less: Reinsurance recoveries	(1,342,059)
Provision for medical claims	12,000
Dental claims	298,101
Provision for dental claims	(5,000)
Prescription drugs	1,159,543
Vision reimbursement	66,970
Claims adjustment expense	25,364
General administrative expenses	<u>278,128</u>
Total expenses	<u>\$6,215,847</u>
Net income	<u>\$ (87,201)</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
Capital and surplus, beginning	\$4,228,711	\$4,609,697	\$5,280,905	\$5,679,348
Net income	\$ 303,793	\$ 609,523	\$ 376,597	\$ (87,201)
Unrealized gain on investments	<u>77,193</u>	<u>61,685</u>	<u>21,846</u>	<u>(4,336)</u>
Net change for the year	\$ 380,986	\$ 671,208	\$ 398,443	\$ (91,537)
Capital and surplus, ending	<u>\$4,609,697</u>	<u>\$5,280,905</u>	<u>\$5,679,348</u>	<u>\$5,587,811</u>

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

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

**Conflict of Interest** – It is recommended that all Board of Directors sign the annual conflict of interest statements.

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

## COMMENTARY ON CURRENT EXAMINATION FINDINGS

### **Cash Balance**

The Association reported \$20,387, held in a cash account with UBS Strategic Advisor, as Investments on Page 5 of the Annual Statement. It is recommended that the Association report all bank balances that constitute cash or the equivalent as Cash and cash equivalents in the Annual Statement.

### **Third Party Vendors**

The Examination found that the Association does not perform annual reviews of third-party vendors. Third-parties that may have access to the Association's confidential data and systems, and third-parties that the Association transmits confidential data to should be thoroughly reviewed when the contract is first entered into, as well as on an annual basis

thereafter. It is recommended that a review of third-party vendors that have access to the Association's confidential data and systems or third-party vendors that receive confidential information from the Association be conducted and documented at least annually. This can be accomplished by a review of a Statement of Operating Controls (SOC) report, a review of external audit reports, or a review of the security controls used by that vendor to ensure they meet industry standards and are able to keep the Association information confidential.

### **Custodial Agreement**

The Association has no custodial agreement in place that protects the Association and its policyholders as per Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81. The Association's investments are held with UBS Strategic Advisor. Investments held with UBS Strategic Advisor are cash, equities, and mutual funds. It is recommended that the Association obtain a custodial agreement with UBS Strategic Advisor that complies with the Nebraska Department of Insurance Rules and Regulations Title 210, Chapter 81.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Cash Balance** - It is recommended that the Association report all bank balances that constitute cash or the equivalent in the Annual Statement as Cash and cash equivalents.

**Third Party Vendors** - It is recommended that the Association performs 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.

**Custodial Agreement** - It is recommended that the Association obtain a custodial agreement with UBS Strategic Advisor that complies with the Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

**ACKNOWLEDGMENT**

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

In addition to the undersigned, Linda Scholl, CISA, CFE, PIR, Information Systems Specialist 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,

Skylar 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 Nebraska Association of Resources Districts Intergovernmental Risk Management Pool Association.
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 Nebraska Association of Resources Districts Intergovernmental Risk Management Pool Association 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.

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

Subscribed and sworn before me by Skylar Lawyer on this 21 day of Sept, 2021.

(SEAL)

*Patricia K Hill*  
Notary Public



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