

OCT 03 2019

FILED

CERTIFICATION

October 3, 2019

I, Bruce R. Ramage, 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

NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL

AS OF

DECEMBER 31, 2018

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.



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL

1311 STOCKWELL STREET

LINCOLN, NEBRASKA 68502

dated as of August 31, 2018 verified under oath by the examiner-in-charge on August 5, 2019 and received by the company on August 28, 2019, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 18th day of September 2019.

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

NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL

as of

August 31, 2018



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Lincoln, Nebraska
August 5, 2019

Honorable Bruce R. Range
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:

**NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL
1311 Stockwell Street
Lincoln, Nebraska 68502**

(hereinafter also referred to as the “Pool”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Pool was last examined as of August 31, 2014 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on August 31, 2018, and includes 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

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-4310(2) of the Nebraska Insurance Statutes.

A general review was made of the Pool's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Pool's history was traced and has been set out in this report under the caption "Description of Pool". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Trustees and the departmental organization of the Pool. The Participation 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 Trustees and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Trustees and Officers, and approval of investment transactions.

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

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

The Pool's excess insurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Excess Insurance". Accounting records and procedures were tested to the extent deemed necessary. The Pool'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 Pool were considered in accordance with the provisions of Section §44-4310(2) of the Nebraska Insurance Statutes. This included a review of workpapers prepared by Thomas, Kunc and Black, LLP, the Pool's external auditors, during their audit of the Pool's accounts for the examination period. 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 POOL

HISTORY

The Pool was organized on June 16, 1990 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. The Pool was formed to provide workers' compensation coverage to members of the Nebraska Association of School Boards (NASB). On August 22, 1990, the Nebraska Department of Insurance (Department) granted the Pool a Certificate of Authority and it commenced business as of that date.

On September 1, 1996, the name of the Pool was changed to NASB All Lines Interlocal Cooperative Aggregate Pool and began offering multi-peril coverage to its members.

Pursuant to a change in the Intergovernmental Risk Management Act, Section §44-4301(1) of the Nebraska Insurance Statutes, during the 1997 legislative session, the Pool applied for and received approval from the Nebraska Director of Insurance to file its financial statements corresponding to its fiscal year of September 1 to August 31. This change began with the August 31, 1997 Annual Statement.

MANAGEMENT AND CONTROL

Membership

Article 3.5 of the Pool's Participation Agreement states that, "members and/or school districts shall mean (a) those public school districts defined in §79-101, (b) those educational service units established under §79-2201, and (c) those technical community college established under §79-2636, the governing boards of which are members of NASB which have passed resolutions pursuant to law entering into this agreement."

Article 7.3 states that, "a member may withdraw from participation in the pool at any time after the initial thirty-six (36) months, by giving written notice of termination to the Pool, the other members in the Pool, and the Director of Insurance at least ninety (90) days prior to such anniversary date. Such termination shall not be effective until approved by the Director as provided by Neb. Rev. Stat. Sec. 44-4309(1)." Article 7.4 further states that, "after a member ceases to participate in the Pool, the former member shall remain liable for any costs and obligations incurred by the Pool while the member was a participant, and any contractual obligation the member entered into with the Pool on or before the date of termination, as provided by §44-4309(3)."

Board of Trustees

Article 9.1 of the Pool's Participation Agreement states that, "the Pool shall be operated by a Board of Trustees consisting of two ex officio members and nine (9) persons, who are elected officials or appointed officials of school districts, which are signatories hereto. The two ex officio members of the Board of Trustees shall be the President and the Executive Director of NASB. The other nine members shall be elected by a vote of the Board of Directors of NASB. A vacancy on the Board shall be filled by a vote of the Board of Directors of NASB. The person

appointed to fill a vacancy shall serve for the remainder of the term of the vacating trustee. All Board members whether ex officio elected or appointed shall be entitled to one vote each in all matters that come before the Board.”

The following persons were serving as Directors at August 31, 2018:

<u>Name</u>	<u>Educational Affiliation</u>	<u>Term Expires</u>
Patty Bentzinger Hickman, Nebraska	School Board Member Norris Public Schools	12/31/2018*
Virgil Harden Grand Island, Nebraska	Business Manager Grand Island Public Schools	12/31/2018*
Bill Knapper Scottsbluff, Nebraska	School Board Member Educational Service Unit #13	12/31/2018*
Doug Lewis Papillion, Nebraska	Assistant Superintendent Papillion-LaVista Public Schools	12/31/2019
Jeff Rippe Bellevue, Nebraska	Superintendent Bellevue Public Schools	12/31/2019
Open**		12/31/2019
Lynn Johnson Arlington, Nebraska	Superintendent Arlington Public Schools	12/31/2020
Charity May Harrisburg, Nebraska	School Board Member Banner County Public Schools	12/31/2020***
Tom Menke Chadron, Nebraska	School Board Member Chadron Public Schools	12/31/2020

Ex-officio Board Members:

Lanny Boswell – President, NASB

John Spatz – Executive Director, NASB

* These three Trustees were reappointed for terms lasting through 12/31/2021 subsequent to the exam period.

** John Worthing resigned mid-term and was replaced by the appointment of Steve Koch at the November 2018 NASB Board of Trustees’ Meeting. This position was open when the 2018 Annual Statement was filed.

*** Charity May resigned subsequent to the examination date and the position is currently open.

Officers

Article V of the Pool’s By-Laws states that, “the Board at its first meeting each year shall choose from among the elected Trustees a Chairperson and Vice Chairperson. The Board may appoint such other Officers and agents as it shall deem necessary who shall hold office for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.”

The following is a listing of Officers elected and serving the Pool at August 31, 2018:

<u>Name</u>	<u>Office</u>
Doug Lewis	Chairperson
Bill Knapper	Vice-Chairperson
John Spatz	Treasurer
Megan Boldt	Secretary – Administrative
Rachel Horstman	Secretary – Financial

The Secretaries and Treasurer are salaried employees of NASB. Reimbursement by the Pool is based on actual expenses incurred.

Committees

Article III, Section 1 of the By-Laws states that, “the Board may, by resolution passed by a majority of the whole Board, designate one or more committees. Each such committee shall consist of two or more Directors and to the extent provided by the Board and subject to the agreement and applicable law, shall have and may exercise the powers of the Board in the management of the business and affairs of the Pool.”

The following persons were serving on the Finance and Audit Committee at August 31, 2018:

Lynn Johnson

Bill Knapper

Doug Lewis

The following persons were serving on the Underwriting and Marketing Committee at August 31, 2018:

Lanny Boswell

Virgil Harden

Charity May

The following persons were serving on the Claims Committee at August 31, 2018:

Patty Bentzinger

Jeff Rippe

John Spatz

The following persons were serving on the Loss Control Committee at August 31, 2018:

Tom Menke

John Worthing

SERVICE AGREEMENTS

Administration Agreement

Effective September 1, 2004, the Pool entered into an agreement with Public Risk Management, Inc. (PRM), under which PRM agrees to promote the Pool including the solicitation of other potential school district participants and to serve as an information resource to the Pool. PRM shall maintain the appropriate records and procedures necessary to comply with the rules, regulations and other requirements of the Department and to submit to NASB all Pool experience rating data. PRM shall provide a resident agent in the State of Nebraska, issue all coverage documents and certificates and procure on behalf to the Pool, and at the Pool's expense, insurance and reinsurance coverage for the protection of the Pool. PRM shall maintain the books and records of all moneys which PRM handles for the Pool in a manner consistent with generally accepted accounting principles and consistent with statutory insurance accounting

principles. PRM shall also provide actuarial support services to the Pool and assist the Pool in determining necessary contributions.

For the services performed under this agreement, the Pool shall pay PRM a fee as approved by the Board of Trustees in its annual budget. Such fee is to be paid in four quarterly payments beginning September 1 of each year. The fee was \$70,000 for the 2018 fiscal year.

Claims Management Agreement

The Pool has a service agreement for administration of a claims program with Sedgwick Claims Management Services, Inc. (SCMS), effective September 1, 2014. The agreement has a term of three years that was updated by the addendum dated July 1, 2017. SCMS has provided similar services to the Pool since its inception. Under this agreement, SCMS shall review all claims and loss reports received by the Pool and process all qualified claims; conduct claim investigations and arrange for independent investigators, appraisers, or medical or other experts, to the extent deemed necessary; pay benefits, expenses, and adjust or settle claims at its discretion up to \$10,000, or as specifically approved by the Pool; maintain a file for each claim; notify excess or umbrella insurers of each qualified claim with values that exceed the Pool's retention; assist the Pool's counsel in preparing for defense of litigated cases; maintain a current estimate of the expected total cost of each claim based on known facts; furnish the Pool with computer reports of selected loss information; and report federal, state, and local 1099 information for vendor payments made by SCMS.

SCMS provides managed care services on workers' compensation claims, special investigative unit services, and Medicare reporting and compliance services. SCMS may subcontract to affiliated corporations various services to be provided under this agreement. The

Pool shall pay SCMS a flat service fee negotiated annually and specified by addendum to the agreement. This fee was \$507,083 for the 2018 fiscal year.

Management Agreement

Each member of the Pool is also a member of NASB. The Pool has entered into a management agreement with NASB under which NASB provides certain management services for the Pool, effective September 1, 2011. The agreement states that NASB shall maintain the appropriate records and procedures to comply with the rules, regulations and other requirements of the Department, including the preparation and filing of all records, statistics, forms or other materials or information required by the Department, and the filing of all premium tax returns and the payment of all premium taxes for the Pool. NASB shall be responsible for the approval and payment of all reasonable expenses. Additionally, this agreement provides, in part, that NASB shall provide to the Pool monthly accounting of all income and expenses as directed and/or incurred by the Pool; preparation and delivery all member contribution statements; conduct all banking activities of the Pool, including receipt, deposit and disbursement of moneys of the Pool; make investments of the funds of the Pool in accordance with the policies established by the Board of Trustees of the Pool; maintain books and records in a manner consistent with generally accepted accounting principles, and consistent with all statutory insurance accounting principles; retain the services of independent auditors for all of the Pool's books and for the preparation of all necessary reports, including quarterly reports, and all financial statements required by law.

The agreement states that, "the parties shall adopt a working budget on a regular basis in accordance with the customary practices and polices of the parties, and shall determine in such budget the anticipated costs and expense of the operation of the Pool; all such estimates shall

provide the initial basis for the payments of costs and expenses to be made by the Pool to NASB.” Such amounts are subject to review and adjustment at any time, so that in no event shall NASB fail to recover the actual costs and expenses expended for the benefit of the Pool. The fee charged for fiscal year 2018 was \$296,000 paid in quarterly amounts of \$74,000.

Loss Control Agreements

The Pool has contracts with five consultants to develop and implement a loss control program for members of the Pool. The contracts are updated each year on September 1. The focus of the program is to reduce the risk of injuries, accidents, and liability claims for employees and others who enter school property. Duties of the consultants include meeting with superintendents and other appropriate personnel to develop a network of on-site risk managers, provide guidance to increase safety awareness and the activation of safety programs. Reports to the Pool are also required for the development of a safety database. Loss control fees paid by the Pool for the 2018 fiscal year totaled \$183,500.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Pool is licensed to transact business as a risk management pool in the State of Nebraska only.

The Pool operates to provide risk-management services and cost effective insurance coverage for property, general liability, automobile, crime, dishonesty, school board liability, and workers’ compensation coverage to public school districts, educational service units, and technical community colleges, the governing Boards of which are members of NASB. Membership totaled 170 school districts and educational service units as of August 31, 2018.

EXCESS INSURANCE

The Pool had six excess insurance policies providing coverage as follows:

Specific Excess Property and Liability

Brit Global Specialty USA – Premium \$3,291,500

<u>Coverage</u>	<u>Limits</u>
Property:	
Real and personal property, per occurrence	\$ 750,000
Sublimit:	
Fine arts	100,000
Pollutant clean up	25,000
Self-insured retention, each loss	250,000
General & Campus Security Activities Liability:	
Each occurrence	\$ 4,900,000
Sublimit:	
Medical: each person	5,000
each occurrence	50,000
Fire damage liability	100,000
Annual aggregate per member – general liability	9,800,000
Annual aggregate per member – campus security activities	4,900,000
Pool annual aggregate – general liability	29,400,000
Self-insured retention, each occurrence	100,000
Automobile Liability:	
Each accident	\$ 4,950,000
Sublimit:	
Automobile physical damage	900,000
Medical: each person	5,000
each accident	50,000
Nebraska uninsured and underinsured motorists, each accident	50,000
Self-insured retention, each accident	50,000
Educators' Legal Liability:	
Each claim	\$ 4,900,000
Sublimit:	
Non-monetary damages, per occurrence	100,000
Non-monetary damages, pool annual aggregate	500,000
Breach of contract defense costs, per occurrence	25,000
Breach of contract defense costs, pool annual aggregate	250,000
Annual aggregate per member	4,900,000
Annual aggregate for the pool	29,400,000
Self-insured retention, each claim	100,000
Workers' Compensation & Employers' Liability:	
Employers liability each accident	\$ 600,000

Self-insured retention each accident	250,000
Employee Benefits Liability:	
Each occurrence	\$ 4,900,000
Annual aggregate per member – employee benefit liability	4,900,000
Self-insured retention, each loss	100,000
Crime:	
Each loss	\$ 975,000
Self-insured retention, each loss	25,000
Terrorism:	
Property damage	\$ 250,000
Liability	100,000
Employers' liability	25,000

In the event of clash claims, the limit is the total of all excess limits of insurance coverages combined plus the difference between the sum of all the self-insured retentions applicable to each section of coverage and the smallest self-insured retention applicable to any section of coverage.

Excess Property
Starr Specialty Lines – Premium \$1,817,877

<u>Coverage</u>	<u>Limits</u>
Liability each occurrence excess of \$1,000,000 retention	\$100,000,000
Sublimit:	
Expediting expense	25,000
Fire department changes, and pollutant clean up - aggregate	100,000
Professional fees	250,000
Fine arts, and leasehold interest	1,000,000
Leasehold improvements & betterments, miscellaneous unnamed, and transit	5,000,000
Accounts receivable, civil/military authority, ingress/egress, newly acquired, vacant buildings, and valuable papers	10,000,000
Flood, flood 100 year – aggregate	15,000,000
Course of construction, errors & omissions, extra expense, and service interruption	25,000,000
Debris removal, demolition & increased cost of construction, earth movement – aggregate, flood - aggregate	50,000,000

Excess Property
AXIS Surplus Insurance Company – Premium \$136,500

Interests Covered: Real and personal property, property in the open, and vehicles

Basis of Recovery: Replacement cost

Limits of Recovery: \$100,000,000 excess of \$100,000,000 per occurrence part of \$300,000,000 per occurrence.

Excess Property
RSUI Indemnity Company – Premium \$273,000

Interests Covered: Building, personal property, auto physical damage, property in the open, and inland marine

Basis of Recovery: Replacement cost

Limits of Recovery: \$200,000,000 excess of \$100,000,000 per occurrence part of \$300,000,000 per occurrence.

Excess Workers' Compensation
Safety National Casualty Corporation – Premium \$629,331

Retention, per occurrence	\$	850,000
Workers' compensation:		
Bodily injury by accident, each accident		Statutory
Bodily injury by disease, each employee		Statutory
Employer's liability:		
Bodily injury by accident, each accident	\$	2,500,000
Bodily injury by disease, each employee		2,500,000

Boiler and Machinery
The Hartford Steam Boiler Inspection and Insurance Company – Premium \$315,539

Equipment breakdown, per accident	\$	100,000,000
Pool retention		10,000

Pollution
Ironshore Specialty Insurance Company – Premium \$140,000

Retention, per occurrence	\$	50,000
Coverage limit, per occurrence		1,000,000
Aggregate limit	\$	5,000,000

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable.

BODY OF REPORT

GROWTH

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Short-term investments	\$12,186,975	\$ 1,704,626	\$ 276,228	\$ 4,903,416
Long-term investments	7,806,940	16,810,209	25,584,706	21,769,053
Total assets	34,936,589	36,995,790	38,046,491	34,865,637
Loss reserves	14,416,014	14,813,858	14,323,631	12,356,819
Total liabilities	22,902,856	26,077,114	25,046,042	22,070,626
Surplus	12,033,733	10,918,676	13,000,449	12,795,011
Premiums earned	18,795,571	19,750,059	19,272,398	19,474,775
Net investment income	70,034	174,306	262,687	392,421
Losses incurred	9,950,166	7,662,040	6,162,399	7,500,272
Net income	3,624,183	462,353	3,481,773	1,474,562

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Pool at August 31, 2018 and its transactions during the year 2018 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
August 31, 2018

Assets

Cash on deposit	\$ 6,085,534
Short-term investments	4,903,416
Long-term investments	<u>21,769,053</u>
Subtotal, cash and invested assets	\$32,758,003
Accrued interest	103,149
Accounts receivable – reinsurance recoverable	1,766,142
Subrogation in transit	<u>236,920</u>
Total assets	<u>\$34,864,214</u>

Liabilities, Surplus, and Other Funds

Accounts payable	\$ 26,091
Loss reserves	12,356,819
Loss adjustment expenses payable	1,420,219
Unearned premium	7,050,281
Dividends declared but unpaid	1,073,216
Other accrued liabilities	<u>144,000</u>
Total liabilities	\$22,070,626
Surplus	<u>12,793,588</u>
Total liabilities and surplus	<u>\$34,864,214</u>

STATEMENT OF INCOME – 2018

Revenues

Premiums earned, direct	\$19,474,775
Premiums earned, ceded	<u>(6,687,211)</u>
Net premiums	\$12,787,564
Investment income earned	392,421
Other income	<u>372</u>
Total revenues	<u>\$13,180,357</u>

Expenses

Losses incurred, direct	\$ 7,500,272
Losses incurred, subrogation and salvage	(373,361)
Losses incurred, excess insurance recovery	<u>2,175,901</u>
Net losses	\$ 9,302,812
Loss expenses incurred	1,417,031
Other underwriting expenses incurred	<u>985,952</u>
Total expenses	<u>\$11,705,795</u>
Net income	<u>\$ 1,474,562</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus, beginning	\$ <u>9,709,550</u>	<u>\$12,033,733</u>	<u>\$10,918,676</u>	<u>\$13,000,449</u>
Net income	\$ 3,624,183	\$ 462,353	\$ 3,481,773	\$ 1,474,562
Change in nonadmitted assets		(177,410)		
Retrospective premium	(1,300,000)	(1,400,000)	(1,400,000)	(1,680,000)
Examination adjustment	<u> </u>	<u> </u>	<u> </u>	<u>(1,423)</u>
Surplus, ending	<u>\$12,033,733</u>	<u>\$10,918,676</u>	<u>\$13,000,449</u>	<u>\$12,793,588</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$12,795,011, as reported in the Pool's 2018 Annual Statement, has been reduced to \$12,793,587 as result of examination adjustments noted below:

	<u>Per Pool</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>			
Accounts receivables - premiums	\$1,423	\$0	\$ (1,423)
<u>Net Increase (Decrease) to Surplus</u>			\$ (1,423)
Surplus as regards policyholders, August 31, 2018, per Pool			<u>\$12,795,011</u>
Surplus as regards policyholders, August 31, 2018, per Examination			<u>\$12,793,587</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 Pool to comply therewith:

Accounts Receivable – Reinsurance Recoverable – It is recommended that the Pool segregate losses by coverage prior to application of excess insurance retentions. It is further recommended that the Pool only include losses paid in its calculation of the receivable amount from excess insurers.

Action: The Pool has complied with this recommendation.

Schedule P Reconciliation – It is recommended that the Pool perform a reconciliation between its Schedule P and the balance sheet and income statement to ensure accurate reporting.

Action: The Pool has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Accounts Receivable - Premium

During review of the Accounts Receivable reported in the Pool’s Annual Statement, the exam team noted that the receivable was established for a returned check in May, 2017. The amount was subsequently received by the pool in July, 2017. At that time, the account receivable should have been credited and cleared. It is recommended that the Pool create a journal entry to properly report the account receivable as \$0.

Nominating Committee

The exam team noted in Section 9.3(a) of the Pool’s Participation Agreement that, “nominations of members to the Board shall be made by the Nominating Committee. The Nominating Committee shall consist of three persons: the Chairperson of the Board, an individual from a member school district selected by the Board, and the Executive Director of NASB.” The Nominating Committee as it currently stands does not appear to be formal and is

not comprised of the individuals required by the Participation Agreement. It is recommended that the Pool either construct the Nominating Committee in accordance with the Participation Agreement, or amend its Participation Agreement to reflect the Nominating Committee as it currently stands.

Schedule P Reporting

The exam team reviewed the Statement of Actuarial Opinion (SAO), actuarial report, and Annual Statement for each year covered by the exam period to compare development of unallocated loss adjustment expenses (ULAE). The exam team found that in the 2015 Annual Statement, multi-peril paid ULAE appeared to have been replaced by workers' compensation paid ULAE amounts, causing the cumulative paid ULAE to be overstated in subsequent reporting periods. It is recommended that the Pool report the paid ULAE history on Schedule P in compliance with the following:

- 1) The cumulative paid ULAE in the first column should increase each calendar year by an amount equal to that calendar year's paid ULAE (as it has done in the past except for the overstatement made in 2015).
- 2) Going forward, the amount posted in the current accident period column should no longer equal the change in the cumulative paid ULAE. Rather, the change (increase) in paid ULAE for each accident period column should equal that accident period's allocated share of the calendar year's paid ULAE. By using the result of such an accident period allocation for each historical calendar year, the cumulative totals by accident year will accurately reflect the cumulative total paid ULAE for all calendar years.

Statement of Actuarial Opinion and Actuarial Report

The exam team reviewed the SAO and the actuarial report for each year covered during the exam period. The exam team realizes that the Pool is exempt from requirements in the NAIC Annual Statement Instructions, however, to increase the efficiency of future examinations, it would benefit the exam team if the Appointed Actuary include commentary in the SAO and/or

the actuarial report regarding the following items to achieve clarity required by Actuarial Standard of Practice (ASOP) 41:

- 1) The Pool's Annual Statement discloses no ceded unpaid LAE. The Pool utilizes excess insurance, which is not common, but excess reinsurance would typically cede a combination of loss and allocated loss adjustment expenses (ALAE). An assertion in the Annual Statement and/or the SAO further describing this situation would minimize ambiguity.
- 2) If discounting calculations are retained for management information, the Appointed Actuary should add an assertion in the SAO that the carried reserves are undiscounted, and discounted estimates are only for management's informational purposes.
- 3) Incurred but not reported (IBNR) reserves were noted in the actuarial report introduction for \$3,722,000 indicating the combined coverages net of excess insurance. Whereas, Schedule P reports a total of \$8,968,253 carried IBNR for combined coverages gross of excess insurance recoverable. Commentary in the SAO reconciling the actuarial report to Schedule P would clarify this issue for the exam team.
- 4) There are differences between net paid amounts on Schedule P and the "Limited" amounts on exhibits for the actuarial report. It would benefit the exam team to include a reconciliation on a net basis in the actuarial report. If a reconciliation to Schedule P or financial statements is only possible on a gross basis, comments in the SAO and actuarial report should disclose that with an explanation.
- 5) The exam team did not find a net or ceded case reserve for losses or losses and ALAE. In the actuarial report, exhibits include "Limited" amounts. When combined with carried net IBNR (from external auditor workpapers), and with carried \$580,000 unpaid ULAE, the result is \$129,474 less than the \$13,777,038 reported. It appears case reserve in the actuarial report is \$129,500 less than the actual reported net case reserve. Again, if a reconciliation to Schedule P or financial statements is only possible on a gross basis, comments in the SAO and actuarial report should disclose that with an explanation.
- 6) Each SAO from the exam period asserts that, "the Pool has not had adverse development of greater than 20% on reserve valuations established at the same date one year and two years prior," and the 2018 actuarial report included no direct support for this assertion. If the Pool were subject to NAIC Annual Statement Instructions, gross and net one-year and two-year development amounts with comparisons to surplus would be required and monitored using IRIS tests 11-12. An exhibit would also be required in the actuarial report showing one-year development in actuarial estimates from the prior year-end estimated loss and ALAE liability. For clarity, and in compliance with ASOP 41, an extended discussion should be included

in the SAO and appropriate supporting exhibits of the actuarial report. A more standard assertion in the SAO might be easier to support. An actuarial report exhibit could show one-year development in actuarial estimates, another exhibit could show calculations equivalent to IRIS Ratios 11-12. A third exhibit could show similar calculations on a gross basis. Based on Schedule P history, it appears that such exhibits would show the Pool's indicated and carried development are not always similar, but that the Pool has reserved loss and ALAE conservatively on a net basis, and much more conservatively on a gross basis.

- 7) The technical component provided sufficient documentation and disclosures for a reviewing actuary to evaluate the work and analysis from the basic data to the conclusions, with one exception. Documentation of the "least squares" method is skeletal, requiring a reviewing actuary to replicate the work to confirm the calculations are accurate and the documentation is complete. An explanation of any modifications employed in this report would increase the efficiency of this review.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Accounts Receivable - Premium – It is recommended that the Pool create a journal entry to properly report the account receivable as \$0.

Nominating Committee – It is recommended that the Pool either construct the Nominating Committee in accordance with the Participation Agreement, or amend its Participation Agreement to reflect the Nominating Committee as it currently stands.

Schedule P Reporting – It is recommended that the Pool report the paid ULAE history on Schedule P in compliance with the suggestions made by the Department's Actuarial Specialist.

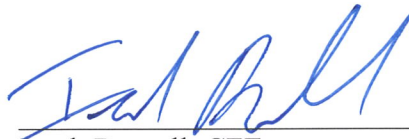
Statement of Actuarial Opinion and Actuarial Report – It is recommended that the Appointed Actuary included commentary in the Statement of Actuarial Opinion and/or the actuarial report in compliance with the suggestions made by the Department's Actuarial Specialist.

ACKNOWLEDGMENT

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

In addition to the undersigned, Santosh Ghimire, CFE, and Linda Scholl, CISA, CFE, APIR, Financial Examiners; Gary Evans, CISA, AES, CFE, Information Systems Specialist; and Gordon Hay, FCAS, MAAA, CPCU, Senior Casualty Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



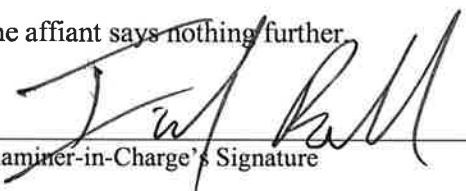
Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

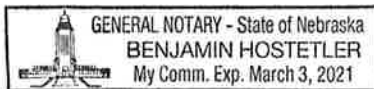
Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the Nebraska Association of School Boards All Lines Interlocal Cooperative Aggregate Pool.
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 School Boards All Lines Interlocal Cooperative Aggregate Pool 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.


Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAAK RUSSELL on this 5 day of AUGUST, 2019.



(SEAL)


Notary Public

My commission expires 3-5-21 [date].