

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

AUG 14 2019

FILED

CERTIFICATION

August 14, 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

NEBRASKA COMMUNITY COLLEGE INSURANCE TRUST

as of

June 30, 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

JUL 29 2019

FILED

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

NEBRASKA COMMUNITY COLLEGE INSURANCE TRUST

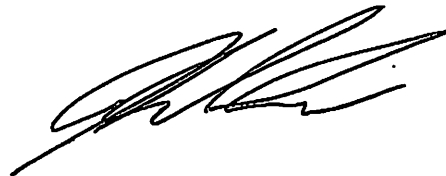
8040 EIGER DRIVE

LINCOLN, NEBRASKA 68516

dated as of June 30, 2018 verified under oath by the examiner-in-charge on
June 19, 2019 and received by the company on July 12, 2019, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 29nd day of July 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

NEBRASKA COMMUNITY COLLEGE INSURANCE TRUST

as of

June 30, 2018



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Lincoln, Nebraska
June 17, 2019

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:

NEBRASKA COMMUNITY COLLEGE INSURANCE TRUST
8040 Eiger Drive
Lincoln, Nebraska 68516

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

INTRODUCTION

The Trust was last examined as of June 30, 2014 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on June 30, 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 Trust's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Trust's history was traced and has been set out in this report under the caption "Description of Trust". 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 Trust. The Formation Agreement and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Board of Trustees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Officers, and approval of investment transactions were also noted.

Insurance coverages protecting the Trust's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in Nebraska were inspected and a survey was made of the Trust's general plan of operation.

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

The Trust's reinsurance 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 Trust'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 Trust 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 Trust's external auditors, during their audit of the Trust'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 COMPANY

HISTORY

The Trust was organized on May 1, 1995 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 Trust was formed to provide property, general liability, errors and omissions, and workers' compensation coverages to Nebraska community colleges. On May 1, 1995, the Nebraska Department of Insurance granted the Trust a Certificate of Authority and it commenced business as of that date.

MANAGEMENT AND CONTROL

Membership

Article IX, Section C of the Trust's Formation Agreements states that, "all Nebraska community colleges are eligible to make application for membership to the Trust..." The members at the examination date were Central Community College, Metropolitan Community College, Mid-Plains Community College, Northeast Community College, Southeast Community College, and Western Nebraska Community College.

Board of Trustees

Article IX, Section A of the Trust’s Formation Agreement states that, “the Trust shall be operated by a Board of Trustees consisting of one representative from each signatory college hereto. The governing authority of each signatory college shall select a representative to serve on the Board of Trustees. Each college may change its representative by providing written notice to the Trust. Each Trustee shall be entitled to one vote in all matters that come before the Board.”

Members of the Board of Trustees, duly chosen by their respective colleges and serving the Trust as of June 30, 2018 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Representing College</u>
Amy Jorgens Lincoln, Nebraska	Vice President of Administrative Services	Southeast Community College
Joel King Grand Island, Nebraska	Vice President of Administrative Services	Central Community College
William Knapper Scottsbluff, Nebraska	Vice President of Administrative Services	Western Nebraska Community College
David Koebel Omaha, Nebraska	College Business Officer	Metropolitan Community College
Lynne Koski Creston, Nebraska	Vice President of Administrative Services	Northeast Community College
Michael Steele North Platte, Nebraska	Vice President of Administrative Services	Mid-Plains Community College

Officers

Article II, Section 1 of the By-Laws states that, “the Board at its first meeting each year shall choose among its member Trustees a President, a Secretary and a Treasurer. The President shall chair each meeting and serve as Executive Officer for the Board. The Secretary shall maintain the minutes of each meeting. The Treasurer shall oversee the preparation of the

financial statements and investments of the Trust and make reports to the Board as required by the Board.”

The following is a listing of Officers elected and serving the Company at June 30, 2018:

<u>Name</u>	<u>Office</u>
David Koebel	President
Lynne Koski	Secretary
William Knapper	Treasurer

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.” The Trust has established committees, but these committees have not found it necessary to meet beyond the regular Board of Trustees meetings. The committees consist of a Claims Committee, Finance and Audit Committee, Loss Prevention Committee, and a Policy and Coverage Review Committee.

The following persons were serving on the Claims Committee at June 30, 2018:

Michael Steele, Chair Amy Jorgens Joel King

The following persons were serving on the Finance and Audit Committee at June 30, 2018:

Amy Jorgens, Chair Joel King David Koebel

The following persons were serving on the Loss Prevention and Safety Committee at June 30, 2018:

Lynne Koski, Chair William Knapper Michael Steele

The following persons were serving on the Policy and Coverage Review Committee at June 30, 2018:

David Koebel, Chair William Knapper Lynne Koski

SERVICE AGREEMENTS

Claims Service Agreement

Effective July 1, 2007, the Trust entered into an agreement with the Nebraska Risk Management Association, Inc. (NRMA) for specified contract services relating to claims administration and loss prevention. This agreement further states that NRMA shall provide information services – standard reporting, loss funding reporting, loss notice reporting, topical and breakdown reporting, shall be available for meetings, shall provide outside adjusting, and allow for the use of managed care services. This agreement establishes NRMA settlement authority at \$10,000.

As a result of this agreement, NRMA reviews all claims; conducts all investigations of claims; maintains all claim files; has the authority to adjust, settle or resist all qualified claims within stated discretionary settlement authority limits; performs all necessary administrative work in connection with each claim including preparation of checks, releases, agreements and other needed documents; assists in establishing banking arrangements for loss and expense payments; establishes and updates claim reserves; notifies excess insurance carriers of all qualified claims which may exceed the Trusts retention; coordinates investigations on litigated claims with attorney representing the Trust and representatives of the excess insurance carriers; reviews large and unusual claims; investigates and pursues subrogation possibilities; maintains an automated loss and information system and provides necessary reporting; provides necessary forms; provides additional ad hoc information, analysis, reports and services on a time and expense basis; assists the Trust in selecting appropriate experts and specialists as the claims may require.

The Trust agrees to provide funds for the payment of qualified claims, allocated loss expenses, and managed care fees. The agreement specifies all allocated expenses including specified managed care services are the responsibility of the Trust.

NRMA agrees that all claim files for claims incurred during the contract periods will be handled for no additional fees for as long as the Trust continues to renew its contract with NRMA. In the event of cancellation or non-renewal of this contract, NRMA will continue to manage all pending claims and claims incurring in this service term but not reported prior to the date of termination only if the Trust pays NRMA, within established terms, to continue handling open claims at NRMA's prevailing rate on the date of termination.

The Trust agrees to pay the annual sum for these agreed upon services which was \$60,000 effective July 1, 2017. Annually, rates for additional service, based on the coverage claim is negotiated between each party.

Administrative Services Agreement

The Trust entered into an administrative service agreement with NRMA with an initial term effective July 1, 2012. NRMA provides administrative services and operational management for the day-to-day operation of the Trust. The Trust pays semi-annual installments to NRMA, which for the period of July 1, 2017 to July 1, 2018 were \$48,000 each. Additionally, there is an annual fee, mutually agreed upon by the parties, attributed to separately identified loss control activities. The fee for the period ended July 1, 2018 was \$18,000.

Brokerage and Administrative Agreement

The Trust entered into an agreement with Arthur J. Gallagher Risk Management Services, Inc. (A.J. Gallagher) to provide administrative, advising and insurance brokerage services. The current agreement is effective for a term of one year commencing July 1, 2017, remained in force

until June 30, 2018. The agreement automatically renews for successive one-year terms until terminated. Either party may terminate this agreement with or without cause, upon the conclusion of the initial term or the conclusion of any successive renewal term by providing one hundred twenty (120) days prior written notice. In return, A.J. Gallagher's annual fee for the period ended June 30, 2018 was \$53,540.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Nebraska as a risk management pool and to provide group self-insurance to its members.

The Trust operates to provide insurance coverage for property, general liability, errors and omissions liability, and workers' compensation to community colleges of the State of Nebraska. Membership consists of six community colleges as of June 30, 2018.

Claims are handled by a third party administrator, NRMA. The Board of Trustees is responsible for setting contribution rates. Administrative costs incurred by the Trust for accounting, audit and legal retainer fees are billed to members based on each member's proportion of the total premium.

EXCESS INSURANCE

The Trust's excess insurance program for the fiscal year ending June 30, 2018 consisted of two layers of coverage in excess of various self-insured retentions as defined in the various contracts.

The Trust has a commercial policy package with Great American Insurance Group (GAIG). This custom policy provides combined property, casualty and crime coverages on a surplus lines basis similar to what has been provided in previous years.

The commercial policy coverage in-force for the 2017/2018 fiscal year was as follows:

Section I (Property)	\$400,000 XS of \$100,000 each loss, each occurrence
Sections II (Crime)	\$75,000 XS of \$25,000 each occurrence
Section III (General Liability)	\$1,900,000 XS of \$100,000 each occurrence
Section V (Stop Gap)	\$350,000 XS of \$150,000 each accident
Section VI (School Board Liability)	\$1,900,000 XS \$100,000 each claim
Section VIII (Police Professional Liability)	\$1,900,000 XS \$100,000 each occurrence
Section X (Automobile Liability)	\$1,900,000 XS \$100,000 each accident
Section XI (Workers' Comp)	\$350,000 XS of \$200,000 each occurrence

The Trust has four contracts in place providing coverage in excess of the GAIG commercial policy package as follows:

The Travelers Insurance Companies

Property \$350,000,000 XS of \$500,000 each occurrence

Travelers Bond & Specialty Insurance

Crime \$1,000,000 XS of \$100,000 each occurrence

Genesis Insurance Company

General Liability \$9,000,000 XS of \$2,000,000 each occurrence

Stop Gap \$9,000,000 XS of \$500,000 each occurrence

School Board Liability \$9,000,000 XS of \$2,000,000 each occurrence

Police Professional Liability \$9,000,000 XS of \$2,000,000 each occurrence

Automobile Liability \$9,000,000 XS of \$2,000,000 each occurrence

Safety National Casualty Corporation

Workers' Comp \$500,000 XS of \$550,000, up to statutory limits

The Trust obtained boiler and machinery coverage through an agreement with XL Catlin Insurance with a limit of \$150,000,000, and does not retain any risk beyond a deductible of \$2,500.

The Trust obtained cyber security insurance through a policy with Illinois National Insurance Company, whereby the Trust retains \$25,000 and has coverage up to \$6,000,000.

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 Trust during the period covered by this examination:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Cash and short-term certificates of deposit	\$4,068,240	\$3,721,511	\$2,902,151	\$4,721,072
Long-term certificates of Deposit	2,656,584	3,425,272	3,916,851	3,549,160
Admitted assets	8,302,487	8,782,060	9,378,395	9,895,703
Loss reserve	1,476,465	1,677,374	1,824,830	1,875,307
Total liabilities	5,357,462	5,516,452	5,688,300	5,758,448
Surplus	2,945,025	3,265,608	3,690,095	4,137,255
Premium earned (net)	1,828,549	1,879,921	1,853,758	1,861,052
Net investment income	42,922	56,134	71,257	96,665
Losses incurred (net)	464,503	818,391	854,855	750,620
Net income	867,983	620,583	724,487	747,160

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Trust at June 30, 2018 and its transactions during the year as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
June 30, 2018

Assets

Cash	\$3,150,086
Certificates of deposit	1,570,986
Long-term certificates of deposit	<u>3,549,160</u>
Subtotal, cash and invested assets	\$8,270,232
Accounts receivable	1,564,569
Interest accrued	<u>60,902</u>
Total assets	<u>\$9,895,703</u>

Liabilities and Surplus

Loss reserves	\$1,875,307
Loss adjustment expenses	240,044
Unearned premiums	3,628,479
Draft liability	<u>14,618</u>
Total liabilities	\$5,758,448
Surplus	<u>4,137,255</u>
Total liabilities and surplus	<u>\$9,895,703</u>

STATEMENT OF INCOME – 2018

Revenue

Premiums earned, direct	\$ 3,553,138
Premiums earned, transferred by excess	<u>(1,692,086)</u>
Net premiums	\$ 1,861,052
Investment income	<u>96,665</u>
Total revenues	<u>\$ 1,957,717</u>

Expenses

Losses incurred, direct	\$ 1,216,416
Losses incurred, transferred by excess	<u>(465,796)</u>
Net losses	\$ 750,620
Loss expense incurred	206,228
Other underwriting expenses incurred	<u>253,709</u>
Total expenses	<u>\$ 1,210,557</u>
Net income	<u>\$ 747,160</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	<u>\$2,377,042</u>	<u>\$2,945,025</u>	<u>\$3,265,608</u>	<u>\$3,690,095</u>
Net income	\$ 867,983	\$ 620,583	\$ 724,487	\$ 747,160
Dividends	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
Net change for the year	<u>\$ 567,983</u>	<u>\$ 320,583</u>	<u>\$ 424,487</u>	<u>\$ 447,160</u>
Capital and surplus, ending	<u>\$2,945,025</u>	<u>\$3,265,608</u>	<u>\$3,690,095</u>	<u>\$4,137,255</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$4,137,255 as reported in the Trust's 2018 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Trust's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS**Third Party Provider Review**

The Trust does not have a formal policy or process to periodically review the performance of third party providers. 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:

Third Party Provider Review –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 Trust during this examination is hereby acknowledged.

In addition to the undersigned, Linda Scholl, CISA, CFE, APIR, and Santosh Ghimire, AFE, Financial Examiners; and Gary Evans, CISA, AES, CFE, Information Systems Specialist; 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

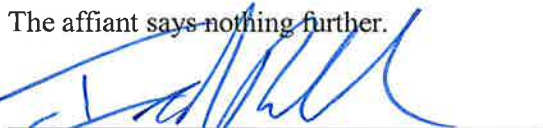
State of Nebraska,

County of Lancaster,

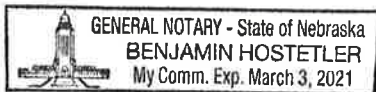
Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the Nebraska Community College Insurance Trust, the Nebraska Intergovernmental Risk Management Association, and the Nebraska Intergovernmental Risk Management Association II.
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 Community College Insurance Trust, the Nebraska Intergovernmental Risk Management Association, and the Nebraska Intergovernmental Risk Management Association II 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 ISAIAK RUSSELL on this 19 day of June, 2019.



(SEAL)


Notary Public

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