

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

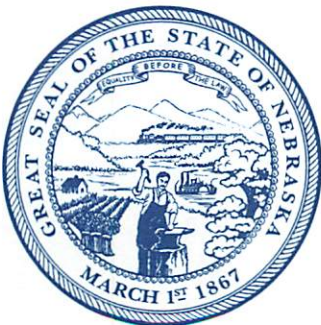
NEBRASKA INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION

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 INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION

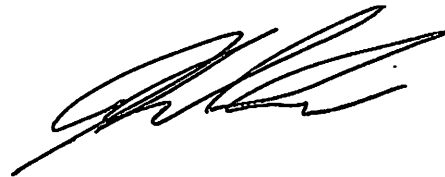
8040 EIGER DRIVE

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 INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION

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 INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION
8040 Eiger Drive
Lincoln, Nebraska 68516

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

INTRODUCTION

The Association 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. A concurrent examination was conducted of the Association’s sister organization, the Nebraska Intergovernmental Risk Management Association II (NIRMA II), which shares common management.

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 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 Formation 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, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Association's property and interests were reviewed, as were plans for employee welfare and pension. The Association's 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 "Excess Insurance". Accounting records and procedures were tested to the extent deemed necessary. 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 Section §44-4310(2) of the Nebraska Insurance Statutes. This included a review of workpapers prepared by Thomas, Kunc and Black, LLP, the Association's external auditors, during their audit of the Association'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 ASSOCIATION

HISTORY

The Association was organized on November 16, 1987 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 Association was formed to provide its members with risk management services and insurance coverages in the form of group self-insurance or standard insurance, or a combination thereof. The Association was granted a Certificate of Authority on January 7, 1988 and commenced funding all or a portion of the general liability, property, and errors and omissions liability insurance for its members on January 15, 1988.

The Association's fiscal year was established as July 1st to June 30th, effective with the filing of its June 30, 2008 Annual Statement. The change in fiscal year was in accordance with changes made to the Association's Formation Agreement.

MANAGEMENT AND CONTROL

Membership

Section 9.4 of the Association's Formation Agreement states that, "all public agencies are eligible to make application to the Pool..." Section 9.4(b) states that, "the public agency must enter this agreement by resolution passed by its governing board." Article II, Section 1 of the Association's By-Laws states that, "an annual meeting of all members of the Association may be held in conjunction with the annual convention of the Nebraska Association of County Officials or as otherwise designated by the Board of Directors."

Board of Directors

The Association's Formation Agreement, Section 9.1 states that, "the Pool shall be operated by a Board of Directors consisting of persons who are elected or appointed officials of public agencies that are signatories hereto. The Board shall consist of eleven (11) persons. A vacancy on the Board shall be filled by a majority vote of the Board. The person appointed to fill a vacancy shall serve for the remainder of the term of the vacating Director. There shall be one nonvoting ex-officio member of the Board of Directors: the Executive Director of the Pool; and such other nonvoting ex-officio members as may be appointed by the Board from time to time. The ex-officio members shall be in addition to the elected members of the Board. Each Board member shall be entitled to one vote in all matters that come before the Board." Section 9.3(b) further states that, "the Board of Directors shall serve staggered terms to promote stability and continuity. All Board Directors shall be elected for a three year term of office."

The Association’s By-Laws, Article I, Section 2 states that, “regular meetings of the Board will be held on the date established by the Board and the notice as to time, place, and agenda shall be provided to Directors at least five days prior to the meeting. Regular meetings of the Board shall be held at least four times a year.”

The following persons were serving as Directors at June 30, 2018:

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Beth Fiegenschuh Sidney, Nebraska	Cheyenne County Clerk	2018
Doris Karloff Yutan, Nebraska	Saunders County Supervisor	2018
Mark Masterton Scottsbluff, Nebraska	Scotts Bluff County Commissioner	2018
Larry Cerny Geneva, Nebraska	Fillmore County Supervisor	2019
Brian Hanson Papillion, Nebraska	Sarpy County Fiscal Administrator	2019
Willis Luedke Crete, Nebraska	Saline County Commissioner	2019
Ron Schmidt Humphrey, Nebraska	Madison County Commissioner	2019
Jean Andrews Fremont, Nebraska	Dodge County Zoning Administrator	2020
Jim Graves Central City, Nebraska	Merrick County Supervisor	2020
Ken Luettel Petersburg, Nebraska	Boone County Commissioner	2020
Raymond Small Ainsworth, Nebraska	Brown County Commissioner	2020

Ex-officio Board Member – Craig Nelson, Nebraska Intergovernmental Risk Management Association, Executive Director.

Directors receive \$500 per meeting attended plus mileage and expenses incurred or \$100 per conference call or committee meeting. The Board chairperson receives an additional \$500 per year.

Officers

The Association’s By-Laws, Article V, Section 1 states that, “the Board shall choose from among the elected Directors a Chairperson, Vice Chairperson and Secretary/Treasurer.”

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

<u>Name and Residence</u>	<u>Office</u>
Doris Karloff	Chairperson
Jim Graves	Vice Chairperson
Brian Hanson	Secretary/Treasurer

Committees

Article III, Section 1 of the Association’s 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, elected or appointed officials of participating members and, to the extent provided in the resolution and subject to this agreement and applicable law, shall have and may exercise the powers of the Board in the management of the business and affairs of the Association.”

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

Brian Hanson, Chairperson	Larry Cerny
Beth Fiegenschuh	Willis Luedke
Mark Masterton	Doris Karloff, ex-officio

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

Larry Cerny, Chairperson	Beth Fiegenschuh
Brian Hanson	Mark Masterton
Doris Karloff, ex-officio	

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

Doris Karloff, Chairperson	Jim Graves
Brian Hanson	

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

Jim Graves, Chairperson	Jean Andrews
Ken Luettel	Ron Schmidt
Raymond Small	Doris Karloff, ex-officio

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

Willis Luedke, Chairperson	Jean Andres
Larry Cerny	Beth Fiegenschuh
Doris Karloff, ex-officio	

The following persons were serving on the Planning and Governance Committee at June 30, 2018:

Doris Karloff, Chairperson	Larry Cerny
Jim Graves	Brian Hanson
Mark Masterton	

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

Mark Masterton, Chairperson	Jim Graves
Ken Luettel	Raymond Small
Ron Schmidt	Doris Karloff, ex-officio

TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective January 1, 2004, the Association entered into an administrative service agreement with the Nebraska Risk Management Association, Inc. (NRMA). NRMA is a non-profit entity that provides administrative services and operational management. Effective March 14, 2008, the renewal date was amended to July 1 each year. Monthly, the Association pays an amount equal to all costs and expenses incurred by NRMA in connection with the performance of its services to the Association, not otherwise directly paid by the Association, including but not limited to its pro rata share of wages, salaries, benefits, taxes, insurance, rent, condominium fees, supplies, utilities, third-party charges, travel expenses, and other amounts required or reasonably incurred in connection with such services. The amount, paid on a pro rata monthly basis, is determined and agreed to annually prior to the beginning of each contract term based on evaluation of those NRMA services, activities, and expenses specifically devoted to the Association in comparison to the balance for any other clients.

The Association's sister company, NIRMA II, also has an agreement with NRMA. The Association pays all shared expenses related to both the Association and NIRMA II and is then reimbursed by NIRMA II on a monthly basis for its portion of the expenses. These expenses are allocated evenly unless the expense can be otherwise identified by Association.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Association is licensed to transact business in the State of Nebraska only. As of June 30, 2018, its membership totaled 81 counties, 6 area aging agencies, and 3 other public agencies.

The Association operates to improve county government by continually monitoring its changing duties, evaluating its exposure to provide coverage, maintaining loss prevention programs and providing long term financial arrangements to ensure claim payments and other services for a self-insurance program.

Coverage offered to its members includes general liability, auto liability, law enforcement liability, public officials, employment practices, and employee benefits liability, cyber liability, building and contents, inland marine, auto physical damage, workers' compensation, and crime.

EXCESS INSURANCE

Annually, the Association has obtained per occurrence excess insurance protections from Country Reinsurance, Limited (CRL) for both its property and liability lines of business. CRL reinsures \$1,750,000 in excess of the Association's \$250,000 retention per occurrence of property coverage. Liability coverage provided by CRL varies between the Association's lines of business. Commercial general liability, business automobile liability, law enforcement liability, public officials liability, employment practices liability, and employee benefits liability is subject to \$300,000 retention and CRL insures the next \$4,700,000 of losses, per occurrence, accident, or wrongful act. CRL provides cyber liability coverage of \$1,750,000 in excess of the Association's retention of \$250,000. The cyber liability coverage is subject to a \$2,000,000 annual aggregate for each member. CRL offers an optional cyber liability limit of up to \$4,750,000 excess of the Association's \$250,000 retention. One member purchased the optional cyber liability limit.

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 Association during the period covered by this examination:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Long-term investments	\$14,334,716	\$15,067,868	\$15,197,257	\$13,612,369
Assets	23,002,956	24,129,408	24,440,474	25,545,100
Loss reserves	3,513,156	3,770,938	3,530,116	2,871,390
Total liabilities	9,806,504	10,503,885	9,404,542	8,846,443
Surplus	13,196,452	13,625,523	15,035,932	16,698,657
Net premiums	4,614,346	4,685,919	4,566,699	4,375,297
Investment income	463,440	504,564	550,446	880,698
Net losses	1,102,621	1,437,166	1,554,836	240,925
Net income	1,682,413	857,356	1,617,693	2,754,626

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Association at June 30, 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 **June 30, 2018**

Assets

Short-term investments	\$ 1,386,592
Long-term investments	13,612,369
Common stock	462,363
Real estate	2,974,833
Cash on deposit	4,184,090
Interest accrued	132,082
Premiums receivable	2,659,696
Recoverables on paid claims	127,409
Electronic data processing equipment	<u>5,666</u>
Totals	<u>\$25,545,100</u>

Liabilities, Surplus, and Other Funds

Loss reserves	\$ 2,871,390
Loss adjustment expenses payable	871,927
Unearned premiums	4,229,905
Draft liability	87,613
Pending security transactions	450,097
Taxes, licenses, fees	58,975
Other liabilities	<u>276,536</u>
Total liabilities	\$ 8,846,443
Surplus	<u>16,698,657</u>
Totals	<u>\$25,545,100</u>

STATEMENT OF INCOME – 2018**Revenue**

Premiums earned, direct	\$ 6,018,050
Premiums earned, transferred by excess	<u>(1,642,753)</u>
Net premiums	\$ 4,375,297
Investment income	<u>880,698</u>
Total revenues	<u>\$ 5,255,995</u>

Expenses

Losses incurred, direct	\$ 1,265,518
Losses incurred, transferred by excess	<u>(1,024,593)</u>
Net losses	\$ 240,925
Loss expenses incurred	752,262
Other underwriting expenses incurred	<u>1,508,182</u>
Total expenses	<u>\$ 2,501,369</u>
Net income	<u>\$ 2,754,626</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	\$12,333,509	\$13,196,452	\$13,625,523	\$15,035,932
Net income	\$ 1,682,413	\$ 857,356	\$ 1,617,693	\$ 2,754,626
Unrealized capital gain	643,295	265,406	599,251	56,615
Dividends	(698,989)	(500,000)	(500,000)	(1,000,587)
Distribution of surplus	(68,387)	(19,564)		
Change in non-admitted assets	____(695,389)	____(174,127)	____(306,535)	____(147,929)
Surplus, ending	\$13,196,452	\$13,625,523	\$15,035,932	\$16,698,657

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$16,698,657 as reported in the Association's 2018 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Association's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

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

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Safekeeping Agreement

The exam team reviewed the Association's Safekeeping Agreement with Union Bank and Trust Company and noted that the agreement did not appear to be compliant with Nebraska Administrative Rules and Regulations Title 210, Chapter 81, specifically subsections 003.02 (a) and (j). It is recommended that the Association amend the existing Safekeeping Agreement with Union Bank and Trust Company to include the provisions required by Nebraska Administrative Rules and Regulations Title 210, Chapter 81.

Data Recovery

The exam team noted that the Association utilizes Origami Risk for its premium and claims administration. It was noted that there currently is not a process in place to back up data that is housed in the Origami environment. It is recommended that the Association determine its Recovery Point Objective (RPO) for each business unit and establish a process to back up data in compliance with the RPO in a way that can be recovered and viewed in the event of a third party failure.

Third Party Provider Review

The Association 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:

Safekeeping Agreement – It is recommended that the Association amend the existing Safekeeping Agreement with Union Bank and Trust Company to include the provisions required by Nebraska Administrative Rules and Regulations Title 210, Chapter 81.

Data Recovery –It is recommended that the Association determine its Recovery Point Objective (RPO) for each business unit and establish a process to back up data in compliance with the RPO in a way that can be recovered and viewed in the event of a third party failure.

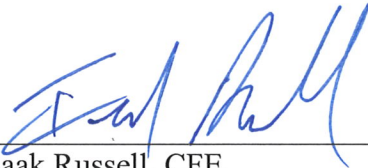
Third Party Provider Review – It is suggested that a review of third party service providers be conducted and documented at least annually. This can be accomplished by a review of a Statement of Operating Controls (SOC) report, or review of external audit reports.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Association 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

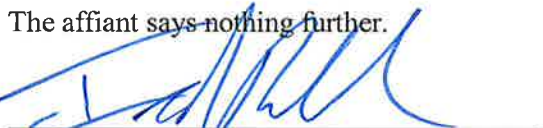
State of Nebraska,

County of Lancaster,

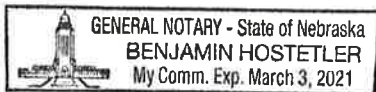
Isaak Russell, being duly sworn, states as follows:

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].