

CERTIFICATION

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

SEP 03 2015

FILED

September 3, 2015

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 II

as of

June 30, 2014

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

Take notice that the proposed report of the financial examination of

NEBRASKA INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION II

dated as of June 30, 2014, verified under oath by the examiner-in-charge on July 28, 2015, and received by the company on August 4, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 20 day of August 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

Nebraska Intergovernmental Risk Management Association II

as of

June 30, 2014



Lincoln, Nebraska
June 11, 2015

Honorable Bruce R. Ramage
Director of Insurance
State of Nebraska
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

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

NEBRASKA INTERGOVERNMENTAL RISK MANAGEMENT ASSOCIATION II
100 North 12th Street, Suite 200
Lincoln, Nebraska, 68508

(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, 2010 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on June 30, 2014, and includes such subsequent transactions as were deemed pertinent to this report.

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

SCOPE OF EXAMINATION

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

A general review and survey 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 summarized in this report under the caption "Description of Company". 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 By-Laws and Formation Agreement were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Members and Board of Directors, 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. The Association's Certificate of Authority 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 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 Association's claims handling procedures pertaining to the adjustment and payment of incurred losses were also noted.

The assets were verified and evaluated, and the liabilities and reserves determined, in order to present herein a statement of the Association's financial condition as of June 30, 2014. This included a review of selected workpapers prepared by Thomas, Kunc and Black, LLP, the Association's auditors, in their examination of the Association's accounts for the year ending June 30, 2014. A portion 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. The aforementioned utilization of the auditor's workpapers was performed pursuant to Title 210 (Rules of Nebraska Department of Insurance), Chapter 56, Section 013. All accounts were reviewed during the current examination, however, none were deemed to require special emphasis.

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 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 to provide workers' compensation coverage to pool participants. On June 28, 1988 the Department of Insurance granted the Association a Certificate of Authority and it commenced business as of that date.

Pursuant to a change in the Intergovernmental Risk Management Act, Section §44-4310(1) during the 1997 legislative session, the Association applied for and received approval from the Nebraska Insurance Director to file its financial statements corresponding to its fiscal

year of August 1st through July 31st. This change began with the July 31, 1997 Annual Statement.

Beginning August 1, 2004, the Association changed accounting methods in which they no longer maintain separate balance sheets by contract year. The Department approved new financial statement filing instructions on August 24, 2005 allowing the Intergovernmental Risk Pools to file their CPA report in lieu of an annual statement, as long as pertinent detailed information, including loss and investment information, was still available upon request. This change became effective with the Association's July 31, 2005 Annual Statement.

The Association's fiscal year end was changed from July 31st to June 30th effective with the filing of its June 30, 2008 financial statement. The change in fiscal year was in accordance with changes to the Association's amended Formation Agreement.

MANAGEMENT AND CONTROL

Membership

Section 9.4 of the Association's Formation Agreement states, "all Public Agencies are eligible to make application to the Pool". Section 9.4(b) states, "the Public Agency must enter this Agreement by resolution passed by its governing board". Section 7.3 of the Formation Agreement states, "a Public Agency may withdraw from participation in the Pool, effective as of any anniversary of the effective date, by written notice of termination evidenced by legally adopted resolution of the member's governing body and given to the Pool and to 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". Section 7.4 further states, "after it ceases to participate in the Pool, the Public Agency shall remain liable for any costs and obligations incurred by the Pool while the Public Agency was a participant, and

any contractual obligations the Public Agency has entered into with the Pool on or before the date of termination, as provided by Neb. Rev. Stat. Sec. §44-4309(3)”.

According to Article II, Section 1 of the Association’s By-Laws, “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

Section 9.1 of the Association’s Formation Agreement states, “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 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, “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”.

Article I, Section 2 of the Association’s By-Laws states, “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”.

Members of the Board of Directors, duly elected and serving the Association at June 30, 2014 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term</u>
Beth Fiegenschuh Sidney, Nebraska	Cheyenne County Clerk	2013-2015
Doris Karloff Yutan, Nebraska	Saunders County Supervisor	2013-2015
Mark Masterton Scottsbluff, Nebraska	Scotts Bluff County Commissioner	2013-2015
Larry Cerny Geneva, Nebraska	Fillmore County Supervisor	2014-2016
Brian Hanson Papillion, Nebraska	Sarpy County Fiscal Administrator	2014-2016
Willis Luedke Crete, Nebraska	Saline County Commissioner	2014-2016
Daniel Purdy Grand Island, Nebraska	Hall County Supervisor	2014-2016
Jean Andrews Fremont, Nebraska	Dodge County Zoning Administrator	2012-2014 ^(a)
Dennis Byars Beatrice, Nebraska	Gage County Supervisor	2012-2014 ^(a)
Jim Graves Central City, Nebraska	Merrick County Supervisor	2012-2014 ^(a)
Doug Teaford Ogallala, Nebraska	Keith County Commissioner	2012-2014 ^(b)

^(a) Board Director was reelected to serve a three year term from January 1, 2015 to December 31, 2017.

^(b) Raymond Small, Brown County Commissioner, was elected to fill the spot vacated by the retirement of Doug Teaford. Mr. Small's term begins January 1, 2015.

Ex-Officio Board Member:

Craig Nelson – Executive Director of the Association

Directors receive \$400 per meeting attended plus mileage and expenses incurred or \$75 per conference call or committee meeting. The Board chairperson receives an additional \$500 per year.

Officers

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

Officers serving at June 30, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Doris Karloff	Chairperson
Jim Graves	Vice Chairperson
Brian Hanson	Secretary-Treasurer

Compensation paid to Officers is limited to the per diem and expenses incurred for Board meetings attended, as cited above.

Committees

Committees of the Board, and their membership, at June 30, 2014, included the following:

**Policy & Coverage
Review Committee**

Mark Masterton, Chairperson
Jean Andrews
Dennis Byars
Brian Hanson
Dan Purdy
Doris Karloff, Ex-Officio

**Loss Prevention
and Safety Committee**

Jim Graves, Chairperson
Jean Andrews
Larry Cerny
Beth Fiegenschuh
Doug Teaford
Doris Karloff, Ex-Officio

**Finance, Audit and
Compliance Committee**

Brian Hanson, Chairperson
Denis Byars
Willis Luedke
Mark Masterton
Doug Teaford
Doris Karloff, Ex-Officio

Claims Committee

Larry Cerny, Chairperson
Beth Fiegenschuh
Jim Graves
Mark Masterton
Doris Karloff, Ex-Officio

Planning and Governance Committee

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

Nominating Committee

Doug Teaford, Chairperson
Larry Cerny
Willis Luedke
Dan Purdy
Doris Karloff, Ex-Officio

Executive Committee

Doris Karloff, Chairperson
Jim Graves
Brian Hanson
Craig Nelson

Committee members are reimbursed \$75 per meeting plus mileage and expenses.

RELATED PARTY TRANSACTIONS

The Association and its sister company, NIRMA, each entered into separate administrative service agreements with the Nebraska Risk Management Association, Inc. (NRMA). NRMA is a non-profit corporate entity governed by a Board of Directors which consists of five members. NRMA provides administrative services and operational management for the two associations. The agreement became effective January 1, 2004 and renewed annually on August 1 until the renewal date was amended to July 1 effective March 14, 2008. Each month, 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.

NIRMA's practice is to pay all shared expenses related to NIRMA and the Association and is reimbursed by the Association on a monthly basis for the Association's portion of the expenses, allocated evenly unless the expense can be otherwise identified by association.

FIDELITY BOND AND OTHER INSURNACE

The Association has no direct employees. The Association has physical assets consisting of EDP equipment, office equipment and automobiles. In addition, applicable insurance coverages are also being carried by the Association's service administrator. The Association along with NIRMA and NRMA are each listed as named insured's in a Financial Institution bond providing limits of up to \$1,000,000 subject to a \$25,000 deductible. The bond insures the Association for fidelity, on premises, in transit, forgery or alteration, counterfeit currency, and other key exposures. This policy was issued by an authorized insurance company.

The Association along with NIRMA and NRMA are each listed as named insured's in a Professional Liability Policy providing limits of up to \$4,000,000 subject to a \$50,000 deductible. This policy was issued by an authorized insurance company.

The Association along with NIRMA and NRMA are also named insureds for a comprehensive business protection policy that offers coverage for commercial property, general liability, inland marine, commercial automobile, workers' compensation and employers' liability, and umbrella coverage.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Nebraska only. As evidenced by its current Certificate of Authority, the Association is licensed to operate a risk management pool and to provide group self-insurance to its members. As of June 30, 2014, its membership totaled 80 counties and 6 area aging agencies.

The Association operates to improve county government by continually monitoring the changing duties of county government, 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.

At June 30, 2014, coverage offered to members through the Association was limited to workers' compensation.

EXCESS INSURANCE

The Association's obtains excess insurance protection on its workers' compensation program. The Association's retention for the period ending June 30, 2014 was \$500,000. Coverage was provided by a reinsurance agreement with County Reinsurance, Limited. The limits of liability provided under the agreement for each member of the Association are as follows:

Part One	Workers' Compensation	
	Bodily Injury by Accident	\$3,000,000 each accident, \$500,000 retention
	Bodily Injury by Disease	\$3,000,000 each employee, \$500,000 retention
Part Two	Employer's Liability	
	Bodily Injury by Accident	\$2,000,000 each accident, \$500,000 retention

Bodily Injury by Disease \$2,000,000 each employee, \$500,000 retention

In addition, the Association has a Specific Excess of Loss agreement with Safety National Casualty Corporation providing coverage in excess of \$3,000,000 up to the maximum statutory limit of indemnity per occurrence as required by Nebraska.

BODY OF REPORT

GROWTH

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

	<u>6/31/11</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>
Short-term investments	\$ 946,845	\$ 2,029,759	\$ 1,754,861	\$ 2,098,516
Long-term investments	10,588,948	10,304,116	11,698,734	11,908,569
Cash on deposit	4,709,421	4,176,089	3,677,634	3,733,242
Total assets	20,292,886	20,487,248	21,717,953	22,756,469
Loss reserves	5,513,449	5,379,406	5,745,779	6,120,318
Unearned premium	4,384,647	4,542,191	4,666,937	5,090,165
Total liabilities	10,525,193	10,527,669	11,015,084	11,795,112
Surplus	9,767,693	9,959,579	10,702,869	10,961,357
Net premiums	3,999,566	4,325,476	4,542,192	4,672,495
Net losses	3,264,973	2,832,313	3,170,013	3,222,784
Investment income	376,562	395,074	361,422	365,545
Net income	(314,113)	675,966	341,953	500,729

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying statement of income for the 2013/2014 fiscal year, reflect the financial condition of the Association as of June 30, 2014 and its transactions during the year as determined through this examination. A reconciliation of the members' fund balance for the period under review is also included.

Nebraska Intergovernmental Risk Management Association II
Balance Sheet
June 30, 2014

Admitted Assets:

Short-term investments	\$ 2,098,516
Long-term investments	11,908,569
Common stock	1,584,412
Cash on deposit	3,733,242
Interest accrued	311,492
Premiums receivable	3,104,896
Recoverables on paid claims	1,799
Deposit	6,833
EDP equipment	<u>6,710</u>
 Total assets	 <u><u>\$22,756,469</u></u>

Liabilities and Surplus:

Loss reserves	\$ 6,120,318
Loss adjustment expenses payable	384,670
Unearned premiums	5,090,165
Draft liability	38,362
Other liabilities	<u>161,597</u>
 Total liabilities	 <u><u>\$11,795,112</u></u>
 Surplus	 <u><u>\$10,961,357</u></u>
 Total liabilities and surplus	 <u><u>\$22,756,469</u></u>

Nebraska Intergovernmental Risk Management Association II
Statement of Income
June 30, 2014

Revenues:

Premiums earned, direct	\$5,123,848
Premiums earned, transferred by excess	<u>(451,353)</u>
Net premiums	4,672,495
Investment income	<u>365,545</u>
Total revenues	<u>\$5,038,040</u>

Expenses:

Losses incurred, direct	\$3,023,737
Losses incurred, transferred by excess	<u>199,047</u>
Net losses	\$3,222,784
Loss expense incurred	240,843
Other underwriting expenses incurred	<u>1,073,684</u>
Total expenses	<u>\$4,537,311</u>
Net income	<u>\$ 500,729</u>

Member Fund/Surplus Account

	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>
Surplus, beginning of year	<u>\$10,040,386</u>	<u>\$9,767,693</u>	<u>\$ 9,959,579</u>	<u>\$10,702,869</u>
Net income	\$(314,113)	\$ 675,966	\$ 341,953	\$ 500,729
Unrealized capital gain	93,473	155,135	519,922	169,526
Dividends		(496,493)		(446,928)
Change in non-admitted assets	<u>(52,053)</u>	<u>(142,722)</u>	<u>(118,585)</u>	<u>35,161</u>
Surplus, end of year	<u>\$ 9,767,693</u>	<u>\$9,959,579</u>	<u>\$10,702,869</u>	<u>\$10,961,357</u>

EXAMINATION CHANGES IN THE FINANCIAL STATEMENTS

No changes were made to the financial statements as a result of this examination.

Members' fund balance of \$10,961,357, as stated by the Association in the June 30, 2014 audited statement, was accepted for this examination. Examination findings, in the aggregate, were considered to have no material effect on the Association's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations contained in the previous report of examination are reflected below together with the remedial actions taken by the Association:

1. **Related Party Transactions:** It is recommended that the Association and NIRMA II enter into a written agreement documenting the allocation and settlement terms for shared expenses.

Action – The Association has complied.

2. **Investments:** It is recommended that the Association obtain and file an amended custodial agreement which is in compliance with all aspects to Neb. Title 210, Chapter 81.

Action – The Association has complied.

3. **Fidelity Bond and Other Insurance:** NIRMA is the named insured on a commercial auto policy, as well as, on a commercial business policy providing inland marine, general liability, workers compensation & employers liability, and property coverage's to NIRMA. It is recommended that the Association also be listed as an insured under the aforementioned commercial policies, in order to protect the financial interests of the Association and any individuals driving its vehicles.

Action – The Association has complied.

4. **Corporate Records:** It was noted that the Association amended By-Laws were not filed with the Nebraska Department of Insurance as required by Neb. Rev. Stat. § 44-32,118. Prior to the issuance of this report (2010 exam report), the Association filed its amended By-Laws with the Nebraska Department of Insurance.

Action – The Association has complied.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no comments or recommendations made as a result of the current examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made as a result of this examination.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Officers and employees of the Association are hereby acknowledged.

In addition to the undersigned, Ms. Kim Stevenson, Examiner, and Gary Evans, Information Systems Specialist, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "K. L. Stubbs", written over a horizontal line.

Kevin L. Stubbs, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Kevin Stubbs, being duly sworn, states as follows:

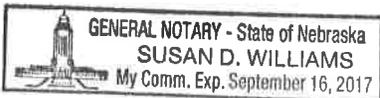
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the **Nebraska Intergovernmental Risk Management Association II**.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the **Nebraska 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.

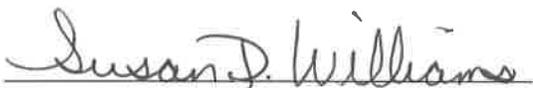
The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Kevin Stubbs on this 28 day of July, 20 15.

(SEAL)




Notary Public

My commission expires 9/16/2017 [date].