

CERTIFICATION

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

OCT 18 2013

FILED

October 18, 2013

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

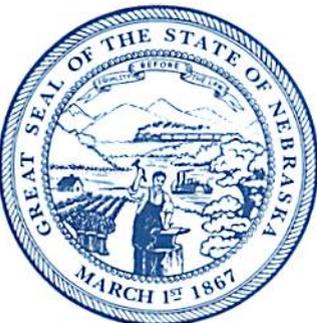
Financial Examination Report of
League Association of Risk Management

as of

September 30, 2011

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

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

LEAGUE ASSOCIATION OF RISK MANAGEMENT

as of

September 30, 2011



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Lincoln, Nebraska
August 15, 2013

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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:

LEAGUE ASSOCIATION OF RISK MANAGEMENT
1335 "L" Street
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 September 30, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on September 30, 2011, 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 the provisions of Neb.Rev.Stat. § 44-4310(2).

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 Interlocal 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, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The insurance coverage protecting the Association's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Association's general plan of operation.

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

The Association's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the examination process. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Association were considered in accordance with the provisions of Neb.Rev.Stat. § 44-4310(2). This included a review of workpapers prepared by Thomas, Kunc & Black, LLP, the Association's external auditors, during their audit of the

Association's accounts for the years ended September 30, 2010 and 2011. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF ASSOCIATION

HISTORY

The Association was organized under the laws of the State of Nebraska pursuant to the Intergovernmental Risk Management Act, Section 44-4301 (1987 Supp.). Its purpose is to provide members with risk management services and insurance coverages in the form of group self-insurance or standard insurance, including any combination of group self-insurance and standard insurance, to protect members against losses for liability, property, errors and omissions liability and workers' compensation losses. The Association was granted a Certificate of Authority on May 1, 1995 and commenced funding all or a portion of the General Liability, Property, and Errors and Omissions Liability insurance for its members on August 1, 1995. The Association began funding Workers' Compensation insurance on October 1, 1997.

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 October 1 to September 30. This change began with the September 30, 1998 Annual Statement.

MANAGEMENT AND CONTROL

Membership

Membership in the Association consists of Nebraska municipalities, represented by their respective Boards, who through the execution of an Interlocal Agreement, commit to participate for three years. The Interlocal Agreement states that, "A municipality may withdraw from participation at any time after the initial thirty-six (36) months effective as of any anniversary of the effective date, by written notice of termination 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. Section 44-4309. After it ceases to participate in the Pool, the municipality shall remain liable for any costs and obligations incurred by the Pool while the municipality was a participant, and contractual obligation the municipality has entered into with the Pool on or before the date of termination, as provided by Neb. Rev. Stat. Section 44-4309(3)".

The Amended By-Laws state that, "An annual meeting of all members of LARM (the Association) shall be held in conjunction with the annual conference of the League of Nebraska Municipalities, unless the Board shall designate some other time or place for the holding of said meeting".

Board of Directors

The Amended By-Laws state that, "The pool shall be operated by a Board of Directors consisting of elected or appointed Officials of members. The initial Board shall consist of nine persons, but the number may be increased by the Board up to any number above nine but not to exceed fifteen members to maintain appropriate size and geographical representation as the number of members increase. A vacancy on the Board shall be filled by a majority vote of the

Board upon a recommendation made by the nominating committee or the Administrator. The person appointed to fill a vacancy shall serve for the remainder of the term of the vacant Board member. There shall be two ex-officio members of the Board of Directors: the President and Executive Director (also called Administrator) of the League of Nebraska Municipalities. The President and the Executive Director of the League shall be ex-officio, non-voting members of the Board of Directors. The ex-officio members shall be in addition to the nine elected members of the Board”.

The following persons were serving as Directors at September 30, 2011:

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
David Boeckner Scottsbluff, Nebraska	City Council Member	December 31, 2011
Douglas Hanson Hickman, Nebraska	City Council Member	December 31, 2011
Sue Moore Imperial, Nebraska	City Council Member	December 31, 2011
Jan Rise Fremont, Nebraska	Administrative Services Director	December 31, 2011
Joe Patterson Hastings, Nebraska	City Administrator	December 31, 2012
Robert Rager Holdrege, Nebraska	City Administrator	December 31, 2012
Rita Ramirez La Vista, Nebraska	Assistant City Administrator	December 31, 2012
Jerry Wilcox Crete, Nebraska	Clerk/Treasurer of Crete	December 31, 2012
Randy Gates Norfolk, Nebraska	Finance Office of Norfolk	December 31, 2013

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
James Glover Papillion, Nebraska	City Council Member	December 31, 2013
Melissa Harrell Wahoo, Nebraska	City Administrator/Clerk/Treasurer	December 31, 2013
James Hawks North Platte, Nebraska	City Administrator	December 31, 2013

Ex-officio Board Members:

Douglas K. Hanson, League of Nebraska Municipalities President
L. Lynn Rex – Executive Director, League of Nebraska Municipalities

The Amended By-Laws state that, “By resolution of the Board, a Director shall be reimbursed for his or her direct expenses incurred in attending meetings of the Board and performing other authorized services as a Director”. Directors receive no compensation for serving on the Board.

Officers

The Association’s By-Laws state that, “At the annual meeting of all members of LARM (the Association) held in conjunction with the annual conference of the League of Nebraska Municipalities, unless the Board shall designate some other time or place for the holding of said meeting, the LARM Board of Directors shall choose from among the elected Directors, a Chairperson and a Vice Chairperson. The Executive Director of the League, or his or her designee, shall be the Clerk”.

The following is a listing of Officers elected and serving the Association at September 30, 2011:

Name

Douglas K. Hanson
Robert L. Rager
L. Lynn Rex

Office

Chairman
Vice Chairman
Clerk

Committees

The Amended By-Laws state that, “The Board of Directors may, by Resolution adopted by a majority of the whole Board, designate three or more of the members of LARM’s Board of Directors to constitute an Executive Committee which, to the extent provided in such Resolution, shall have and exercise the authority of the Board of Directors in the management of the business of LARM”. As of the exam date there was no designated Executive Committee.

The Amended By-Laws also state 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 one or more Directors, but otherwise include other elected and appointed Officials and employees of LARM members not currently represented on the LARM Board of Directors, to assure active participation in LARM by a broad base of members. To the extent provided in the resolution and subject to the LARM By-Laws and applicable law, a committee shall have and may exercise the powers of the Board in the management of the business and affairs of LARM in those instances when the LARM Board of Directors, per the Open Meetings Act, delegates duties to the Committee that include ‘holding hearings, making policy, or taking formal action...’ on the LARM Board’s behalf. Such committees shall have such names and duties as may be determined from time to time by authorization of the Board”.

The following persons were serving on the following subcommittees at September 30, 2011:

Claims Committee

Melissa Harrell
Jim Hawks
Gary Miller
Joe Patterson

Investment Committee

Joe Patterson, Chair
Randy Gates
James Glover
Sue Moore
Jerry Wilcox

Coverage Committee

David Boeckner
Doug Hanson
Gary Miller
Bob Rager
Rita Ramirez
Jan Rise

Nominating Committee

Doug Hanson
Joe Mangiamelli
Lynn Rex

TRANSACTIONS WITH AFFILIATES

Agreement for the Formation of the League Association of Risk Management

When each member municipality executes the Interlocal Agreement, they agree to form and participate in the Association, which has formed the Nebraska Risk Management Pool. The Association is sponsored by the League of Nebraska Municipalities (League). The League is a corporation formed by Nebraska Municipalities to promote the application of the most efficient methods of municipal government. The League has agreed to furnish, provide or contract for the necessary administrative and management services required by the Pool.

The computation of the fee charged by the League is two percent (2%) of gross earned contribution on all members during the Pool's fiscal year plus reimbursement of direct expenses paid by the League on behalf of the Pool.

SERVICE AGREEMENTS

Effective October 1, 2010, the League of Nebraska Municipalities, which created the Association, entered into an administrative services agreement with JI Specialty Services, Inc. (JISS). Through the services agreement JISS provided the following functions for the

Association's workers' compensation, liability, and property protection programs: general program management, claims handling, underwriting, policyholder, financial, and loss control services. The Association compensated JISS for their services on a budget-based fee arrangement for the combined workers' compensation and liability/property programs. The budget-based fee for the 2010/2011 Pool Year was \$1,186,470. Other compensation included loss control fees, additional fees such as medical bill re-pricing and nurse case management, and reinsurance brokerage/placement fees.

The Association terminated their services agreement with JISS and, effective April 1, 2012, the Association entered into a pool consulting agreement with York Risk Pooling Services, Inc. (York). Under this contract, York agrees to provide the Association with the following services: accounting and financial, actuarial, underwriting, marketing and sales, claim, reinsurance, and program management. As compensation for York's services, the Association will pay a monthly fee, in 2012, in the amount of \$42,583.33 to York. In 2014, the League will pay York 5% of the total premium of each new member added to the pool on or after April 1, 2014. York will be eligible to receive additional compensation based on the underwriting income of the pool starting with the fiscal year ending September 30, 2014 and each fiscal year thereafter. Additional compensation can also be received based on 5% of the amount that is equal to Net Income less Investment Income which equals or exceeds \$1 million.

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 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 September 30, 2011, its membership totaled 62 members.

The Association operates to provide risk management services and to fund some or all of the losses as may be agreed to by such municipalities and the pool.

Coverage offered to its members includes liability, property, errors and omissions liability and workers' compensation losses.

REINSURANCE

Ceded

The Association entered into an excess of loss reinsurance contract with General Reinsurance Corporation effective November 1, 2008. The contract covers automobile liability, general liability, law enforcement liability and excess liability all written on an occurrence basis, as well as employee benefits liability and public officials liability written on a claims-made basis. The Association retains the first \$300,000 per occurrence in respect to all coverage parts combined under the policy. The limit of liability of each policy cannot exceed \$5,000,000 per occurrence, per member, regardless of the number of coverage parts.

An excess insurance agreement with Midwest Employers Casualty Company was entered into, effective October 1, 2010, which provides for cession of the Association's workers' compensation policies. The Association retains \$500,000 per accident or disease with an aggregate retention based on a percentage of estimated payroll, minimum of \$7,237,977. The per accident or disease limit is the statutory amount for workers' compensation and \$2,000,000 for employers liability. The agreement has an aggregate limit for benefits of \$5,000,000 beyond any per accident or disease limit.

The Association entered into a reinsurance program called Public Entity Property Insurance Program (PEPIP) which is reinsured by Lexington Insurance Company. Alliant Insurance Services, Inc. is the broker for the property reinsurance. Covered under this agreement

are property and boiler and machinery. For property, the limit of coverage is \$500,000,000 each occurrence, all insureds/members combined and subject to policy exclusions as defined in the policy and aggregate limit is \$850,000,000 shared by all members/entities in the contract. For boiler and machinery, the per occurrence limit is \$100,000,000 boiler explosion and machinery breakdown. Deductible is \$10,000 for electronic data processing media, consequential damage, and objects over 200 hp, 1,000 KW/KVA/Amps or Boilers over 5,000 square feet of heating surface, \$50,000 for objects over 350 hp, 2,500 KW/KVA/Amps or Boilers over 10,000 square feet of heating surface, \$100,000 objects over 500 hp, 5,000 KW/KVA/Amps or Boilers over 25,000 square feet of heating surface, \$250,000 objects over 750 hp, 10,000 KW/KVA/Amps or Boilers over 75,000 square feet of heating surface and \$350,000 objects over 25,000 hp, 25,000 KW/KVA/Amps or Boilers over 250,000 square feet of heating surface.

General

It was noted in the review of the reinsurance contracts that the arbitration clause, errors & omissions clause and offset clause were missing from both the contract with Midwest Employers Casualty Company and the PEPiP contract. The PEPiP contract is also missing an insolvency clause and entire agreement clause which are both required per SSAP No. 62R, Paragraph 8(a) and 8(c), respectively.

BODY OF REPORT

GROWTH

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

	<u>9-30-08</u>	<u>9-30-09</u>	<u>9-30-10</u>	<u>9-30-11</u>
Cash	\$ (67,275)	\$ (8,459)	\$ (692,068)	\$ (474,850)
Short-term investments	11,108,175	650,336	761,470	536,627
Long-term investments	8,551,611	11,897,464	11,747,356	11,520,790
Total assets	18,215,557	19,615,472	19,043,897	12,588,105
Losses	4,207,496	4,752,743	4,657,415	4,477,781
Loss adjustment expenses	1,148,081	1,026,020	1,385,265	778,721
Unearned Premium	6,486,178	6,194,036	6,173,800	(797,750)
Total liabilities	12,160,184	13,216,294	13,229,461	4,910,641
Surplus	6,055,373	6,399,178	5,814,436	7,677,464
Premium earned	5,168,112	5,698,906	5,690,925	5,807,302
Losses incurred	1,842,237	2,936,290	2,630,113	1,894,575
Underwriting gain (loss)	1,614,320	862,540	(36,038)	1,722,596
Net income (loss)	2,118,091	1,303,523	165,713	1,857,573

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 September 30, 2011 and its transactions during the year 2010/11 as determined through this examination. A reconciliation of the members' fund balance for the period under review is also included.

FINANCIAL STATEMENT September 30, 2011

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$ (474,850)		\$ (474,850)
Short-term investments	536,627		536,627
Long-term investments	<u>11,520,790</u>	<u> </u>	<u>11,520,790</u>
Subtotal, cash and invested assets	\$11,582,567		\$11,582,567
Premiums receivable			
Interest receivable	47,311		47,311
Deferred premiums, booked but not yet due	8,500		8,500
Reinsurance recoverable on paid losses	<u>949,727</u>	<u> </u>	<u>949,727</u>
Total assets	<u>\$12,588,105</u>		<u>\$12,588,105</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 4,477,781
Loss adjustment expenses	778,721
Unearned premium	(797,750)
Dividends payable	
Taxes payable	90,493
Other liabilities	336,396
Funds held under reinsurance treaties	<u>25,000</u>
Total liabilities	<u>\$ 4,910,641</u>
Surplus	<u>7,677,464</u>
Total liabilities and surplus	<u>\$12,588,105</u>

STATEMENT OF INCOME – September 30, 2011**Underwriting Income**

Premiums earned	\$5,807,302
Deductions:	
Losses incurred	\$1,894,575
Loss expenses incurred	(235,937)
Other underwriting expenses incurred	<u>2,426,068</u>
Total underwriting deductions	<u>\$4,084,706</u>
Net underwriting gain	<u>\$1,722,596</u>

Investment Income

Net investment income	<u>\$ 133,834</u>
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Other Income

Miscellaneous Income	<u>1,143</u>
Net income	<u>\$1,857,573</u>

MEMBER FUND/SURPLUS ACCOUNT

	<u>9-30-08</u>	<u>9-30-09</u>	<u>9-30-10</u>	<u>9-30-11</u>
Beginning balance	<u>\$3,936,758</u>	<u>\$6,055,373</u>	<u>\$6,399,178</u>	<u>\$5,814,436</u>
Net income (loss)	\$2,118,091	\$1,303,523	\$ 165,713	\$1,857,573
Dividends		(1,011,377)	(750,000)	
Change in non-admitted assets	(2,506)	6,006		(29,628)
Change in unrealized gain/(loss)				35,083
Change in provision for reinsurance	<u>3,030</u>	<u>45,653</u>	<u> </u>	<u> </u>
Net change for the year	<u>\$2,118,615</u>	<u>\$ 343,805</u>	<u>\$ (584,742)</u>	<u>\$1,863,028</u>
Ending balance	<u>\$6,055,373</u>	<u>\$6,399,178</u>	<u>\$5,814,436</u>	<u>\$7,677,464</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Member fund balance (surplus) in the amount of \$7,677,464, as reported in the Association's September 30, 2011 Independent Auditors' Report, 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

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

Premium Taxes – It is recommended that the Association account for all premiums written and credits for excess on an annual basis. This can be done on either a January through December basis or on an October through September bases, as September 30 serves as the year end for the Association.

Action: The Association has complied with this recommendation.

Board of Directors Minutes – It is recommended that the Association document, more thoroughly, any resignations and subsequent filling of vacancies on the Board of Directors.

Action: The Association has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Clauses in Reinsurance Contracts

It was noted in the review of the reinsurance contracts that the arbitration clause, errors & omissions clause and offset clause were missing from both the contract with Midwest Employers Casualty Company and the PEPiP contract. The PEPiP contract is also missing an insolvency clause and entire agreement clause which are both required per SSAP No. 62R, Paragraph 8(a) and 8(c), respectively. It is recommended that the Association amend its reinsurance contracts to include the necessary clauses and to comply with SSAP No. 62R, Paragraph 8(a) and 8(c).

Actuarial Report Data

While tying out the actuarial report data to the trial balance, the examiner noted that the direct reserves for property were overstated by \$27,700. The Independent Auditor was not able to explain the difference. It is recommended that the Association assures the actuarial data ties to the financial statement and that an explanation of statutory adjustments made are documented.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Clauses in Reinsurance Contracts – It is recommended that the Association amends their reinsurance contracts to include the necessary clauses and to comply with SSAP No. 62R, Paragraph 8(a) and 8(c).

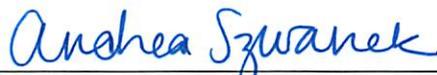
Actuarial Report Data – It is recommended that the Association assures the actuarial data ties to the financial statement and that an explanation of statutory adjustments made are documented.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Elizabeth Hofker, AFE and Brian Davis, Financial Examiners; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Andrea Szwaneck, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Andrea Szwanek, being duly sworn, states as follows:

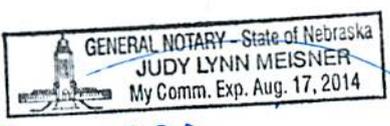
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of League Association of Risk Management.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards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

Andrea Szwanek
Examiner-in-Charge's Signature

Subscribed and sworn before me by Judy Meisner on this 9th day of October, 2013

(SEAL)



Judy Lynn Meisner
Notary Public

My commission expires Aug 17 2014 [date].

Faint, mostly illegible text at the top of the page, possibly containing a header or introductory paragraph.

Handwritten signature or name, possibly "L. J. ..."

My Comm. Exp. 08/17/2014
JUDY LYNN WEAVER
GENERAL HOBBY - State of Nevada

Handwritten signature and text below the stamp, including "L. J. ..."