

# CERTIFICATION

October 22, 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

**NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL**

as of

August 31, 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

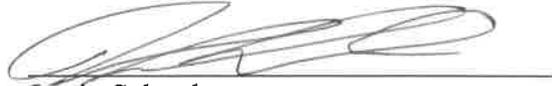
Take notice that the proposed report of the financial examination of

**NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL**

dated as of August 31, 2014, verified under oath by the examiner-in-charge on September 15, 2015, and received by the company on September 15, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 2 day of October, 2015.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**NASB ALL LINES INTERLOCAL COOPERATIVE AGGREGATE POOL**

**as of**

**August 31, 2014**



Lincoln, Nebraska  
July 14, 2015

Honorable Bruce R. Range  
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:

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

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

**INTRODUCTION**

The Pool was last examined as of August 31, 2010 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on August 31, 2014, and includes such subsequent transactions as were considered pertinent to this report.

**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 was made of the Pool's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The

Pool's history was traced and has been set out in this report under the caption "Description of Pool". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Trustees and the departmental organization of the Pool. The By-Laws and Participation Agreement were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members and Board of Trustees, held during the examination period, were read and noted. Attendance at meetings, election of Trustees and Officers, and approval of investment transactions were also noted.

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

The Pool's excess insurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Excess Insurance". Accounting records and procedures were tested to the extent deemed necessary, including a review of internal controls, method of claims handling and all procedures pertaining to the adjustment and payment of incurred losses.

The assets were verified and evaluated, and the liabilities and reserves determined, in order to present herein a statement of the Pool's financial condition as of August 31, 2014. This included a review of selected workpapers prepared by Thomas, Kunc and Black, LLP, the Pool's external auditors, during their audit of the Pool's accounts for the examination period. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners, and have been utilized in determining the scope and areas of emphasis in conducting the

examination. The aforementioned utilization of the auditor's work papers was performed pursuant to Title 210 (Rules of Nebraska Department of Insurance), Chapter 56, Section 013.

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

## **DESCRIPTION OF POOL**

### **HISTORY**

The Pool was organized on June 16, 1990 under the laws of the State of Nebraska pursuant to the Intergovernmental Risk Management Act, Section §44-4301 to §44-4339 of the Nebraska Insurance Statutes. The Pool was formed to provide workers' compensation coverage to members of the Nebraska Association of School Boards (NASB). On August 22, 1990 the Department of Insurance granted the Pool a Certificate of Authority and it commenced business as of that date.

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

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

### **MANAGEMENT AND CONTROL**

#### **Membership**

Article III, Section 3.5 of the Pool's Participation Agreement states, "members and/or school districts shall mean (a) those public school districts defined in §79-101, (b) those

educational service units established under §79-2201, and (c) those technical community colleges established under §79-2636, the governing boards of which are members of NASB which have passed resolutions pursuant to law entering into this agreement.”

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

### **Board of Trustees**

Article IX, Section 9.1 of the Pool’s Participation Agreement states, “the Pool shall be operated by a Board of Trustees consisting of two ex officio members and nine (9) persons, who are elected officials or appointed officials of school districts, which are signatories hereto. The two ex officio members of the Board of Trustees shall be the President and the Executive Director of NASB. The other nine members shall be elected by a vote of the Board of Trustees of NASB. A vacancy on the Board shall be filled by a vote of the Board of Trustees of NASB. The person appointed to fill the vacancy shall serve for the remainder of the term of the vacating trustee. All board members whether ex officio elected or appointed shall be entitled to one vote each in all matters that come before the Board.”

Members of the Board of Trustees, duly elected and serving the Pool as of August 31,

2014 were as follows:

<b><u>Name and Residence</u></b>	<b><u>Member Affiliation</u></b>	<b><u>Term Expiration</u></b>
Cort Dewing Valentine, NE	School Board Member Valentine Public Schools	12/31/2014*
Terri Haynes Chadron, NE	School Board Member Chadron Public Schools	12/31/2014*
Joe Peitzmeier Oakland, NE	Superintendent Oakland-Craig Public Schools	12/31/2014*
Patty Bentzinger Hickman, NE	School Board Member Norris Public Schools	12/31/2015
Virgil Harden Grand Island, NE	Business Manager Grand Island Public Schools	12/31/2015
Bill Knapper Scottsbluff, NE	Business Manager Scottsbluff Public Schools	12/31/2015
Suzan DeCamp St. Paul, NE	School Board Member St. Paul Public Schools	12/31/2016
Doug Lewis Papillion, NE	Assistant Superintendent Papillion-LaVista Public Schools	12/31/2016
Jeff Rippe Bellevue, NE	Assistant Superintendent Bellevue Public Schools	12/31/2016

\*Terri Haynes and Cort Dewing were reelected through 12/31/2017, while Joe Peitzmeier was replaced by Lynn Johnson, Superintendent from Arlington.

Ex-Officio Board Members:

Marilyn Bohn – President, NASB

John Spatz - Executive Director, NASB

Trustees may be reimbursed for expenses incurred while attending meetings of the Board and performing other authorized services as a Trustee.

## **Officers**

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

Officers serving the Pool as of August 31, 2014 were as follows:

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

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

## **Committees**

In accordance with Article III, Section 1 of the By-Laws, “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 Trustees and to the extent provided by the Board and subject to the Agreement and applicable law, shall have and may exercise the powers of the Board in the management of the business and affairs of the Pool”.

The Finance and Audit Committee elected and serving at August 31, 2014 was comprised of:

Joe Peitzmeier  
Terri Haynes  
Bill Knapper

The Underwriting and Marketing Committee elected and serving at August 31, 2014 was comprised of:

Virgil Harden  
Cort Dewing  
Marilyn Bohn

The Claims Committee elected and serving at August 31, 2014 was comprised of:

Patty Bentzinger  
Jeff Rippe  
John Spatz/Jennifer Jorgensen

The Loss Control Committee elected and serving at August 31, 2014 was comprised of:

Suzan DeCamp  
Doug Lewis

## **SERVICE AGREEMENTS**

### **Management Agreement**

Each member of the Pool is also a member of NASB. The Pool has entered into a management agreement with NASB under which NASB provides certain management services to the Pool, effective September 1, 2011. The agreement states that NASB shall maintain the appropriate records and procedures to comply with the rules, regulations and other requirements of the Nebraska Department of Insurance; be responsible for the preparation and filing of all records, statistics, forms or other materials or information required by the Department of Insurance; and the filing of all premium tax returns and the payment of all premium taxes which shall be provided by the Pool. NASB shall be responsible for the approval of and payment for all items of expense. Additionally, this agreement provides, in part, that NASB shall provide to the Pool: “monthly accounting of all income and expenses as directed and/or incurred by the Pool; preparation and delivery all member contribution statements; conduct all banking activities of the Pool, including receipt, deposit and disbursement of monies of the Pool; make investments of the funds of the Pool in accordance with the policies established by the Board of Trustees of

the Pool; maintain books and records in a manner consistent with generally accepted accounting principles, and consistent with all statutory insurance accounting principles; retain the services of independent auditors for all of the Pool's books and for the preparation of all necessary reports, including quarterly reports, and all financial statements required by law.”

The agreement states that, “the parties shall adopt a working budget on a regular basis in accordance with the customary practices and policies of the parties, and shall determine in such budget the anticipated costs and expense of the operation of the Pool; all such estimates shall provide the initial basis for the payments of costs and expenses to be made by the Pool to NASB.” Such amounts are subject to review and adjustment at any time, so that in no event shall NASB fail to recover the actual costs and expenses expended for the benefit of the Pool. The fee charged for fiscal year 2014 was \$240,000 to be paid in quarterly amounts of \$60,000.

#### **Loss Control Service Agreement**

The Pool has contracts with four consultants to develop and implement a loss control program for members of the Pool. The focus of the program is to reduce the risk of injuries/accidents and liability claims for employees and others who enter school property. Duties of the consultants include meeting with superintendents and other appropriate personnel to develop a network of on-site risk managers, provide guidance to increase safety awareness and the activation of safety programs. Reports to the Pool are also required for the development of a safety database. Loss control fees paid by the Pool in 2014 totaled \$149,816.

#### **Administration Agreement**

The Pool has an agreement with Public Risk Management, Inc. (PRM), under which PRM agrees to promote the Pool including the solicitation of other potential school district participants and to serve as an information resource to the Pool. PRM shall maintain the

appropriate records and procedures necessary to comply with the rules, regulations and other requirements of the Nebraska Department of Insurance and to submit to NASB all Pool experience rating data. PRM shall provide a resident agent in the State of Nebraska, issue all coverage documents and certificates and procure on behalf of the Pool, and at the Pool's expense, insurance and reinsurance coverage for the protection of the Pool. PRM shall maintain the books and records of all moneys which PRM handles for the Pool in a manner consistent with generally accepted accounting principles and consistent with statutory insurance accounting principles. PRM shall also provide actuarial support services to the Pool and assist the Pool in determining necessary contributions.

For the services performed under this agreement, the Pool shall pay PRM a fee as approved by the Board of Trustees in its annual budget. Such fee is to be paid in four quarterly payments beginning September 1 of each year. This fee was \$70,000 for 2014.

#### **Claims Management Agreement**

A service agreement for administration of a claims program was entered into by and between Sedgwick Claims Management Services, Inc. (SCMS) and the Pool on September 1, 2010. This agreement was a contract renewal with the same party, which has provided similar services to the Pool since the inception of the Pool. Under this agreement, SCMS shall review all claim and loss reports received by the Pool and process all qualified claims; conduct claim investigations or arrange for independent investigators, appraisers, or medical or other experts to the extent deemed necessary; pay benefits, expenses, and adjust or settle claims at its discretion in an amount not to exceed \$10,000, or as specifically approved by the Pool; maintain a file for each claim, notify excess or umbrella insurers of each qualified claim with values that may exceed the Pool's retention; assist Pool's counsel in preparing the defense of litigated cases;

maintain a current estimate of the expected total cost of each claim based on known facts; furnish the Pool with computer reports of selected loss information; and report federal, state, and local 1099 information for vendor payments made by SCMS.

SCMS provides managed care services on workers' compensation claims, special investigative unit services and Medicare reporting and compliance services. SCMS may subcontract to affiliated corporations various services to be provided under this agreement. The Pool shall pay SCMS a flat service fee negotiated annually and specified by addendum to the agreement. This fee was \$446,190 for the 2014 year.

### **Security Breach Agreement**

The Pool has an agreement with Kilpatrick Townsend and Stockton LLP law firm to provide security breach related legal, loss prevention, crisis management and loss control services. The effective date of this agreement was January 3, 2014. The fee for this service is \$500 per month and the agreement is continuous contingent on payment of this fee.

### **TERRITORY AND PLAN OF OPERATIONS**

The Pool is authorized to transact business in the State of Nebraska only. As evidenced by its current Certificate of Authority, the Pool is licensed to operate a risk management pool and to provide group self-insurance to its members.

The Pool operates to provide risk-management services and cost effective insurance coverage for property, general liability, automobile, crime, dishonesty, school board liability and workers' compensation coverage to public school districts, educational service units and technical community colleges, the governing boards of which are Members of the Nebraska Association of School Boards. Membership totaled 155 school districts and educational service units as of August 31, 2014.



Educators' Legal Liability:	
Each claim	\$ 5,000,000
Annual aggregate per member	5,000,000
Annual aggregate for the pool	24,000,000
Self-insured retention, each claim	100,000
Workers' Compensation & Employees Liability:	
Workers' compensation each accident	\$600,000
Employers liability each accident	600,000
Self-insured retention each accident	250,000
Crime:	
Employee dishonesty each loss	\$1,000,000
Money and securities, each loss	1,000,000
Forgery or alteration, each loss	1,000,000
Self-insured retention, each loss	25,000

The Pool is liable for only one Self-insured retention (S.I.R.) in total for any monoline or multi-line loss and/or claim and/or occurrence. Multi-line losses are subject to the highest applicable S.I.R.

In the event a multi-line loss involves more than one section of coverage, the excess carrier is liable for the difference between the sum of all S.I.R. applicable to the loss and the individually smallest applicable S.I.R. This liability is in addition to the excess limits expressed above.

An aggregate excess of loss cover provides up to \$1,000,000 ultimate net loss over the Pool's annual aggregate retention.

#### Excess Property

Interests Covered:	Real and Personal Property, Inland Marine and Auto Physical Damage
Basis of Recovery:	Replacement Cost on Physical Damage, actual loss sustained on time element and actual cash value (ACV) of autos
Limits of Recovery:	\$100,000,000 per occurrence excess of \$500,000 per occurrence subject to applicable deductibles in primary policy.

#### Sublimits:

Earth movement & volcanic action – per occurrence, annual aggregate	\$5,000,000
Flood and water damage – per occurrence, annual aggregate	5,000,000
Extra expense – per occurrence	5,000,000
Newly acquired property – per occurrence	5,000,000

Auto physical damage – on the road	\$ 500,000
Auto physical damage for rented vehicles	50,000
Miscellaneous unnamed locations – per occurrence	5,000,000
Property in course of construction – per occurrence	5,000,000
Building ordinance – per occurrence	5,000,000
Pollutant clean up and removal, annual aggregate	25,000
Fire department service charges	100,000
Leasehold interest	250,000
Interruption by civil authority	5,000,000
Automobiles owned or leased by insured	5,000,000
Debris removal	5,000,000
Transportation	5,000,000

#### Boiler and Machinery

Equipment breakdown	\$100,000,000
Property damage, business income, extra expenses	Included in above
Off premises property damage	25,000
Service interruption	1,000,000
Contingent business income	25,000
Newly acquired locations	5,000,000
Perishable goods, data restoration, demolition, ordinance or law, expediting expense, hazardous substances	100,000
Deductibles:	
Direct damage	\$1,000
Indirect damage	24 hours
Perishable goods	\$250

#### Excess Workers' Compensation

Workers' compensation:	
Bodily injury by accident, each accident	Statutory
Bodily injury by disease, each employee	Statutory
Employer's liability:	
Bodily injury by accident, each accident	\$2,500,000
Bodily injury by disease, each employee	2,500,000
Self-insured retention:	
Each accident	\$850,000
Each employee for disease	850,000

## **BODY OF REPORT**

### **GROWTH**

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

	<b><u>8/31/11</u></b>	<b><u>8/31/12</u></b>	<b><u>8/31/13</u></b>	<b><u>8/31/14</u></b>
Cash on deposit	\$ 2,382,816	\$ 4,039,773	\$ 3,638,242	\$ 5,139,815
Short-term investments	12,427,295	10,646,204	12,207,452	10,860,907
Long-term investments	7,900,914	8,157,321	7,977,683	10,666,422
Admitted assets	24,742,889	26,316,251	27,749,110	32,116,407
Loss reserves	6,734,896	10,029,547	10,534,348	12,072,617
Unearned premium	5,213,600	5,925,073	5,959,982	7,714,625
Total liabilities	15,218,485	18,705,459	18,950,991	22,406,857
Surplus	9,524,404	7,610,792	8,798,119	9,709,550
Premium earned (net)	7,998,872	9,679,623	10,661,681	11,243,904
Losses incurred (net)	4,358,631	8,432,265	5,832,033	8,336,502
Net underwriting gain or (loss)	1,782,108	(824,651)	3,057,023	985,435
Net investment income earned	94,035	106,143	82,324	71,846
Net income	1,720,885	(713,612)	3,140,838	1,057,920

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Pool with the State of Nebraska Department of Insurance and present the financial condition of the Pool for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the members fund balance (surplus) for the period under review is also included.

**FINANCIAL STATEMENT**  
**August 31, 2014**

	<b><u>Total</u></b>	<b><u>2014/2015</u></b>	<b><u>2013/2014</u></b>	<b><u>2012/2013</u></b>
<b><u>Assets</u></b>				
Cash on deposit	\$ 5,139,815	\$1,184,069	\$(306,2013)	\$2,079,013
Short-term investments	10,860,907	6,100,071	1,018,745	364,394
Long-term investments	10,666,422		5,911,860	2,353,647
Accrued interest	26,799		9,648	7,219
Accounts receivable – premiums	443,056	430,556		12,500
Accounts receivable – reinsurance recoverable	4,686,821		73,501	
Subrogation in transit	36,778		118	(12,500)
Note receivable	<u>255,809</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<b><u>\$32,116,407</u></b>	<b><u>\$7,714,696</u></b>	<b><u>\$6,707,659</u></b>	<b><u>\$4,804,273</u></b>
<b><u>Liabilities and Surplus and Other Funds</u></b>				
Accounts payable	\$ 37,032		\$ 36,782	
Loss reserves	12,072,617		6,771,011	\$2,546,250
Loss adjustment expense payable	1,355,383		539,471	248,823
Unearned premiums	7,714,625	\$7,714,625		
Dividends declared but unpaid	1,100,000			
Other accrued liabilities	<u>127,200</u>	<u>                    </u>	<u>127,200</u>	<u>                    </u>
Total Liabilities	\$22,406,857	\$7,714,625	\$7,474,464	\$2,795,073
Surplus	<u>9,709,550</u>	<u>71</u>	<u>(766,805)</u>	<u>2,009,200</u>
Total Liabilities and Surplus	<b><u>\$32,116,407</u></b>	<b><u>\$7,714,696</u></b>	<b><u>\$6,707,659</u></b>	<b><u>\$4,804,273</u></b>

**FINANCIAL STATEMENT**  
**August 31, 2014 (continued)**

	<b><u>2011/2012</u></b>	<b><u>2010/2011</u></b>	<b><u>2009/2010</u></b>	<b><u>2008/2009</u></b>
<b><u>Assets</u></b>				
Cash on deposit	\$1,006,614	\$(1,908,472)	\$ 644,564	\$ 269,605
Short-term investments	349,048	13,512	100,822	7,585
Long-term investments	100,209			300,074
Accrued interest	118		194	1,733
Accounts receivable – premiums		11,551	18,652	206
Accounts receivable – reinsurance recoverable	154,905	2,913,127	412,126	1,060,110
Subrogation in transit		96		
Note receivable	_____	_____	_____	_____
Total Assets	<b><u>\$1,610,894</u></b>	<b><u>\$ 1,029,814</u></b>	<b><u>\$1,176,358</u></b>	<b><u>\$1,639,313</u></b>
<b><u>Liabilities and Surplus and Other Funds</u></b>				
Accounts payable				
Loss reserves	\$1,410,591	\$ (101,245)	\$ 605,739	\$ 83,635
Loss adjustment expense payable	171,203	155,753	46,301	74,039
Unearned premiums				
Dividends declared but unpaid				400,000
Other accrued liabilities	_____	_____	_____	_____
Total Liabilities	\$1,581,794	\$ 54,508	\$ 652,040	\$557,674
Surplus	_____ 29,100	_____ 975,306	_____ 524,318	_____ 1,081,639
Total Liabilities and Surplus	<b><u>\$1,610,894</u></b>	<b><u>\$ 1,029,814</u></b>	<b><u>\$1,176,358</u></b>	<b><u>\$1,639,313</u></b>

**FINANCIAL STATEMENT**  
**August 31, 2014 (continued)**

	<b><u>2007/2008</u></b>	<b><u>2006/2007</u></b>	<b><u>2005/2006</u></b>	<b><u>2004/2005</u></b>
<b><u>Assets</u></b>				
Cash on deposit	\$ 430,094	\$ 431,079	\$ 296,033	\$ 208,575
Short-term investments	505,981	579,142	242,903	188,655
Long-term investments	450,148	449,968	100,230	600,458
Accrued interest	1,209	2,839	725	1,475
Accounts receivable – premiums			(30,409)	
Accounts receivable – reinsurance recoverable	10,050	37	43	7
Subrogation in transit				
Note receivable	_____	_____	<u>255,809</u>	_____
Total Assets	<u>\$1,397,482</u>	<u>\$1,463,065</u>	<u>\$865,334</u>	<u>\$999,170</u>
<b><u>Liabilities and Surplus and Other Funds</u></b>				
Accounts payable			\$ 250	
Loss reserves	\$ 154,958	\$ 215,393	128,712	\$ 82,768
Loss adjustment expense payable	6,055	23,624	9,868	4,880
Unearned premiums				
Dividends declared but unpaid	200,000	300,000	100,000	
Other accrued liabilities	_____	_____	_____	_____
Total Liabilities	\$361,013	\$ 539,017	\$238,830	\$ 87,648
Surplus	<u>1,036,469</u>	<u>924,048</u>	<u>626,504</u>	<u>911,522</u>
Total Liabilities and Surplus	<u>\$1,397,482</u>	<u>\$1,463,065</u>	<u>\$865,334</u>	<u>\$999,170</u>

**FINANCIAL STATEMENT**  
**August 31, 2014 (continued)**

	<b><u>2003/2004</u></b>	<b><u>2002/2003</u></b>	<b><u>2001/2002</u></b>	<b><u>2000/2001</u></b>
<b><u>Assets</u></b>				
Cash on deposit	\$350,733	\$123,262	\$ 8,483	\$ 28,982
Short-term investments	295,736	136,877	84,687	122,919
Long-term investments	100,000	100,230		
Accrued interest	395	699		
Accounts receivable – premiums				
Accounts receivable – reinsurance recoverable			3,848	24,603
Subrogation in transit				
Note receivable	_____	_____	_____	_____
Total Assets	<b><u>\$746,864</u></b>	<b><u>\$361,068</u></b>	<b><u>\$97,018</u></b>	<b><u>\$176,504</u></b>
<b><u>Liabilities and Surplus and Other Funds</u></b>				
Accounts payable				
Loss reserves	\$ 97,950	\$ 13,747	\$(19,422)	\$ (6,016)
Loss adjustment expense payable	5,006		21,416	10,016
Unearned premiums				
Dividends declared but unpaid	100,000			
Other accrued liabilities	_____	_____	_____	_____
Total Liabilities	\$202,956	\$ 13,747	\$ 1,994	\$ 4,000
Surplus	<u>543,908</u>	<u>347,321</u>	<u>95,024</u>	<u>172,504</u>
Total Liabilities and Surplus	<b><u>\$746,864</u></b>	<b><u>\$361,068</u></b>	<b><u>\$97,018</u></b>	<b><u>\$176,504</u></b>

**FINANCIAL STATEMENT**  
**August 31, 2014 (continued)**

	<b><u>1999/2000</u></b>	<b><u>1998/1999</u></b>	<b><u>1997/1998</u></b>	<b><u>1996/1997</u></b>
<b><u>Assets</u></b>				
Cash on deposit	\$115,760	\$ 32,052	\$ 51,456	\$ 5,044
Short-term investments	163,392	163,685	158,001	156,073
Long-term investments		100,000	99,598	
Accrued interest	84	368	9	
Accounts receivable – premiums				
Accounts receivable – reinsurance recoverable		2,197		
Subrogation in transit		16,496		
Note receivable	_____	_____	_____	_____
Total Assets	<b><u>\$279,236</u></b>	<b><u>\$314,798</u></b>	<b><u>\$309,064</u></b>	<b><u>\$161,117</u></b>
<b><u>Liabilities and Surplus and Other Funds</u></b>				
Accounts payable				
Loss reserves	\$ 4,446	\$ (1,191)	\$ 3,271	\$ 2,549
Loss adjustment expense payable		6,969		
Unearned premiums				
Dividends declared but unpaid				
Other accrued liabilities	_____	_____	_____	_____
Total Liabilities	\$ 4,446	\$ 5,778	\$ 3,271	\$ 2,549
Surplus	<u>274,790</u>	<u>309,020</u>	<u>305,793</u>	<u>158,568</u>
Total Liabilities and Surplus	<b><u>\$279,236</u></b>	<b><u>\$314,798</u></b>	<b><u>\$309,064</u></b>	<b><u>\$161,117</u></b>

**FINANCIAL STATEMENT**  
**August 31, 2014 (continued)**

	<b><u>1995/1996</u></b>	<b><u>1994/1995</u></b>	<b><u>1993/1994</u></b>
<b><u>Assets</u></b>			
Cash on deposit	\$(46,592)	\$135,655	\$20
Short-term investments		108,679	
Long-term investments			
Accrued interest		84	
Accounts receivable – premiums			
Accounts receivable – reinsurance recoverable	3,942	28,325	
Subrogation in transit	32,568		
Note receivable	_____	_____	_____
Total Assets	<b><u>\$(10,082)</u></b>	<b><u>\$272,743</u></b>	<b><u>\$20</u></b>
<b><u>Liabilities and Surplus and Other Funds</u></b>			
Accounts payable			
Loss reserves	\$ (2,234)	\$ 81,704	
Loss adjustment expense payable	14,814	17,145	
Unearned premiums			
Dividends declared but unpaid			
Other accrued liabilities	_____	_____	_____
Total Liabilities	\$ 12,580	\$ 98,849	\$ 0
Surplus	<u>(22,662)</u>	<u>173,894</u>	<u>20</u>
Total Liabilities and Surplus	<b><u>\$(10,082)</u></b>	<b><u>\$272,743</u></b>	<b><u>\$20</u></b>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>Total</u></b>	<b><u>2014/2015</u></b>	<b><u>2013/2014</u></b>	<b><u>2012/2013</u></b>
Premiums earned, direct	\$17,254,296		\$17,348,601	\$ (98,005)
Premiums earned, excess	<u>(6,010,392)</u>		<u>(6,010,410)</u>	
Net premiums	\$11,243,904	\$ 0	\$11,338,191	\$ (98,005)
Losses incurred, direct	24,928,333		23,664,295	633,082
Losses incurred, subrogation and salvage	(60,136)		(15,648)	(41,866)
Losses incurred, excess insurance recovery	<u>(16,531,695)</u>		<u>(13,425,000)</u>	<u>(893,912)</u>
Net losses	\$ 8,336,502	\$ 0	\$10,223,647	\$(302,696)
Loss expenses incurred	1,096,307		1,167,544	(65,804)
Other underwriting expenses incurred	<u>825,660</u>		<u>602,465</u>	<u>223,163</u>
Total expenses	\$10,258,469	\$ 0	\$11,993,656	\$(145,337)
Net underwriting gain	985,435	0	(655,465)	47,332
Net investment income earned	71,846	71	15,244	11,174
Other income	<u>639</u>		<u>606</u>	<u>33</u>
Net income	<u>\$ 1,057,920</u>	<u>\$71</u>	<u>\$ (639,615)</u>	<u>\$ 58,539</u>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>2011/2012</u></b>	<b><u>2010/2011</u></b>	<b><u>2009/2010</u></b>	<b><u>2008/2009</u></b>
Premiums earned, direct	\$ 1,082	\$ 2,618		
Premiums earned, excess		18		
Net premiums	<u>\$ 1,082</u>	<u>\$ 2,636</u>	<u>\$ 0</u>	<u>\$ 0</u>
Losses incurred, direct	(332,626)	866,434	(139,925)	333,430
Losses incurred, subrogation and salvage	(1,087)	(985)	(100)	
Losses incurred, excess insurance recovery	<u>(227,000)</u>	<u>(1,648,149)</u>	<u>(3,632)</u>	<u>(344,000)</u>
Net losses	<u>\$(560,713)</u>	<u>\$ (782,700)</u>	<u>\$(143,657)</u>	<u>\$ (10,570)</u>
Loss expenses incurred	71,704	(86,178)	(3,343)	47,571
Other underwriting expenses incurred		<u>(51)</u>	<u>11</u>	
Total expenses	<u>\$(489,009)</u>	<u>\$ (868,929)</u>	<u>\$(146,989)</u>	<u>\$ 37,001</u>
Net underwriting gain	490,091	871,565	146,989	(37,001)
Net investment income earned	2,202	91	707	3,105
Other income				
Net income	<u>\$ 492,293</u>	<u>\$ 871,656</u>	<u>\$ 147,696</u>	<u>\$ (33,896)</u>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>2007/2008</u></b>	<b><u>2006/2007</u></b>	<b><u>2005/2006</u></b>	<b><u>2004/2005</u></b>
Premiums earned, direct				
Premiums earned, excess				
Net premiums	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Losses incurred, direct	(51,811)	(10,000)	(8,000)	(8,550)
Losses incurred, subrogation and salvage				(450)
Losses incurred, excess insurance recovery		<u>4,000</u>		<u>1,000</u>
Net losses	<u>\$(51,811)</u>	<u>\$ (6,000)</u>	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>
Loss expenses incurred	(8,187)	(6,000)	(1,000)	(1,000)
Other underwriting expenses incurred		<u>72</u>		
Total expenses	<u>\$(59,998)</u>	<u>\$(11,928)</u>	<u>\$ (9,000)</u>	<u>\$ (9,000)</u>
Net underwriting gain	59,998	11,928	9,000	9,000
Net investment income earned	4,462	9,670	13,644	4,474
Other income				
Net income	<u>\$ 64,460</u>	<u>\$ 21,598</u>	<u>\$22,644</u>	<u>\$13,474</u>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>2003/2004</u></b>	<b><u>2002/2003</u></b>	<b><u>2001/2002</u></b>	<b><u>2000/2001</u></b>
Premiums earned, direct				
Premiums earned, excess				
Net premiums	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Losses incurred, direct	(5,000)	(3,000)	(2,999)	(3,000)
Losses incurred, subrogation and salvage				
Losses incurred, excess insurance recovery			<u>2,999</u>	<u>3,000</u>
Net losses	<u>\$(5,000)</u>	<u>\$(3,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Loss expenses incurred	(1,000)		(2,000)	(3,000)
Other underwriting expenses incurred				
Total expenses	<u>\$(6,000)</u>	<u>\$(3,000)</u>	<u>\$(2,000)</u>	<u>\$(3,000)</u>
Net underwriting gain	6,000	3,000	2,000	3,000
Net investment income earned	1,779	2,080	9	14
Other income				
Net income	<u>\$7,779</u>	<u>\$5,080</u>	<u>\$2,009</u>	<u>\$3,014</u>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>1999/2000</u></b>	<b><u>1998/1999</u></b>	<b><u>1997/1998</u></b>	<b><u>1996/1997</u></b>
Premiums earned, direct				
Premiums earned, excess				
Net premiums	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Losses incurred, direct	(1,000)			\$(1,000)
Losses incurred, subrogation and salvage				
Losses incurred, excess insurance recovery		<u>(1,000)</u>	<u>(1,000)</u>	
Net losses	<u>\$(1,000)</u>	<u>\$(1,000)</u>	<u>\$(1,000)</u>	<u>\$(1,000)</u>
Loss expenses incurred		(3,000)		
Other underwriting expenses incurred				
Total expenses	<u>\$(1,000)</u>	<u>\$(4,000)</u>	<u>\$(1,000)</u>	<u>\$(1,000)</u>
Net underwriting gain	1,000	4,000	1,000	1,000
Net investment income earned	203	1,066	1,291	459
Other income				
Net income	<u>\$ 1,203</u>	<u>\$ 5,066</u>	<u>\$ 2,291</u>	<u>\$ 1,459</u>

**STATEMENT OF INCOME**  
**August 31, 2014**

	<b><u>1995/1996</u></b>	<b><u>1994/1995</u></b>
Premiums earned, direct		
Premiums earned, excess		
Net premiums	<u>\$ 0</u>	<u>\$ 0</u>
Losses incurred, direct	\$(1,000)	\$(1,000)
Losses incurred, subrogation and salvage		
Losses incurred, excess insurance recovery		<u>1,000</u>
Net losses	<u>\$(1,000)</u>	<u>\$ 0</u>
Loss expenses incurred	(7,000)	(3,000)
Other underwriting expenses incurred		
Total expenses	<u>\$(8,000)</u>	<u>\$(3,000)</u>
Net underwriting gain	\$ 8,000	\$ 3,000
Net investment income earned	0	101
Other income		
Net income	<u>\$ 8,000</u>	<u>\$ 3,101</u>

## SURPLUS ACCOUNT

	<u>8/31/11</u>	<u>8/31/12</u>	<u>8/31/13</u>	<u>8/31/14</u>
Surplus, end of prior period	\$8,703,519	\$9,524,404	\$7,610,792	\$8,798,119
Net income	\$1,720,885	\$ (713,612)	\$3,140,838	\$1,057,920
Appropriated surplus	1,000,000	1,000,000		
Utilization of appropriated surplus		(1,000,000)		
Change in non-admitted assets			(953,511)	953,511
Dividends	<u>(1,900,000)</u>	<u>(1,200,000)</u>	<u>(1,000,000)</u>	<u>(1,100,000)</u>
Change in surplus	<u>\$ 820,885</u>	<u>\$(1,913,612)</u>	<u>\$1,187,327</u>	<u>\$ 911,431</u>
Surplus, end of current period	<u>\$9,524,404</u>	<u>\$7,610,792</u>	<u>\$8,798,119</u>	<u>\$9,709,550</u>

## EXAMINATION CHANGES IN THE FINANCIAL STATEMENTS

Surplus in the amount of \$9,709,550, as reported in the Pool's 2014 Annual Statement, has been reduced to \$8,811,367 as a result of examination adjustments noted below:

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<b><u>Assets</u></b>			
Accounts receivable – reinsurance recoverable	\$ 4,686,821	\$ 3,788,637	\$ (898,184) <sup>1</sup>
<b><u>Income Statement</u></b>			
Losses incurred, direct	24,928,333	24,166,359	761,974 <sup>2</sup>
Losses incurred, excess insurance Recovery	16,531,695	14,871,537	<u>(1,660,158)</u> <sup>1&amp;2</sup>
Net income			<u>\$ (898,184)</u>

## **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

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

**Investments – Custodial Agreements** – It is recommended that the Pool revise its custodial agreement with the broker holding securities on its behalf to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

**Action:** The Pool has complied with this recommendation.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Accounts Receivable – Reinsurance Recoverable<sup>1</sup>**

There were multiple misstatements detected during the examination that caused the asset balance to be overstated. The first error was the result of not properly separating losses between auto liability and auto physical damage on a single claim prior to applying the single incident retention that was triggered for the auto liability excess insurance. The inclusion of the auto physical damage losses caused the asset to be overstated by \$49,796. It is recommended that the Pool segregate losses by coverage prior to application of excess insurance retentions.

The remaining misstatements resulted from errors made in the calculation of the aggregate insurance receivable related to both the workers' compensation and multi-peril lines in the 2011 policy year. The calculation for the workers' compensation line erroneously included reserve amounts when determining the recoverable on paid claims amount. The multi-peril recoverable calculation included incorrect data and formulas. The combined impact of these errors resulted in the asset "accounts receivable – reinsurance recoverable" being overstated by \$848,388 and the income statement line "losses, excess insurance recovery" overstated by the

same amount. It is recommended that the Pool only include losses paid in their calculation of the receivable amount from excess insurers.

### **Schedule P Reconciliation**<sup>2</sup>

Examiner attempts to reconcile losses incurred per the income statement to the Schedule P loss payments generated a difference associated with the 2011 policy year workers' compensation IBNR. Further inquiry found that the error resulted from incorrect adjusting entries made that ultimately caused both "losses incurred, excess insurance recovery" and "losses incurred, direct" income statement line items to be overstated by \$761,974. This error did not have a net impact on surplus. It is recommended that the Pool perform a reconciliation between the Schedule P and the balance sheet and income statement to ensure accurate annual statement presentation.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

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

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

## ACKNOWLEDGEMENT

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

In addition to the undersigned, Kim Stevenson, Financial Examiner; Linda K. Scholl, CISA, CFE, Information Systems Specialist; and Gordon Hay, FCAS, MAAA, CPCU, Senior Property & Casualty Actuarial Examiner; 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

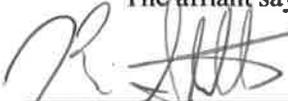
State of Nebraska,

County of Lancaster,

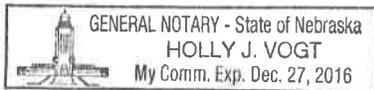
Kevin Stubbs, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the **NASB All Lines Interlocal Cooperative Aggregate Pool**.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the **NASB All Lines Interlocal Cooperative Aggregate Pool** was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

  
\_\_\_\_\_  
Examiner-in-Charge's Signature

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



(SEAL)

  
\_\_\_\_\_  
Notary Public

My commission expires 12/27/16 [date].