

AUG 24 2017

FILED

CERTIFICATION

August 24, 2017

I, Bruce R. Range, 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, 2015

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. Range

DIRECTOR OF INSURANCE

NEBRASKA

Good Life. Great Opportunity.

DEPARTMENT OF INSURANCE



State Priced - Governor

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

LEAGUE ASSOCIATION OF RISK MANAGEMENT

dated as of September 30, 2015, verified under oath by the examiner-in-charge on July 24, 2017 and received by the company on July 24, 2017, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 14th day of August 2017.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in blue ink, appearing to read "Justin Schrader".

Justin Schrader
Chief Financial Examiner

Bruce R. Ramge, Director
Department of Insurance

941 O Street, Suite 400
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STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

LEAGUE ASSOCIATION OF RISK MANAGEMENT

as of

September 30, 2015



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Lincoln, Nebraska
July 11, 2017

Honorable Bruce R. Ramage
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, 2011 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on September 30, 2015, 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 and approval of investment transactions were also noted.

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

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

The Association's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "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, 2014 and 2015. 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.

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

The Association's By-Laws state, "unless otherwise approved by the League of Nebraska Municipalities Executive Board, LARM Membership shall be restricted to municipalities

maintaining membership in the League of Nebraska Municipalities, and, subject to approval by the League of Nebraska Municipalities Executive Board, sanitary and improvement districts, public power agencies, and such other public agencies of the State of Nebraska that the Board shall, from time to time, approve, subject to adopted underwriting standards.” According to the By-Laws, "LARM members deciding to voluntarily terminate participation in LARM must provide written notice to the Director of the Nebraska Department of Insurance and all other LARM members at least ninety (90) days prior to the desired termination date. The decision to terminate participation in LARM is subject to the approval of the Director of the Nebraska Department of Insurance.”

Board of Directors

The Association’s 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 By-Laws state that, "the Board shall hold meetings within the State of Nebraska. All meetings shall be held in accordance with the Open Meetings Act.” The By-Laws further state,

“meetings of the Board shall be held no less than four (4) times each year. Meetings of the Board may be called by the Chairperson or the Board and shall be called by the Chairperson upon request of three members of the Board. Notice of meetings of the Board, other than emergency or special meetings, shall be given to each Director at least five calendar days, if possible, prior to the meeting stating the time, place and agenda.”

The following persons were serving as Directors at September 30, 2015:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Beth Bonderson Hoskins, Nebraska	Clerk, Village of Hoskins
Bob Clausen North Platte, Nebraska	Board Member, Lower Platte North NRD
Lane Danielzuk Gering, Nebraska	City Administrator, City of Gering
Randy Gates Norfolk, Nebraska	Finance Officer, Norfolk
David Hunter, Jr. Auburn, Nebraska	Manager, Auburn Board of Public Works
Jim Keegan Hemingford, Nebraska	City Chairperson, Village of Hemingford
Vince Knight Stanton, Nebraska	Sanitary and Improvement District No. 1
Joe Mangiamelli Columbus, Nebraska	City Administrator, City of Columbus
Kimberly Neiman Pilger, Nebraska	City Clerk/Treasurer, City of Pilger
Tomas “KC” Ortiz Syracuse, Nebraska	Mayor, City of Syracuse
Brian Roberts Mason City, Nebraska	City Council Member, Village of Mason City
Gerald Solko St. Paul, Nebraska	City Council Member, City of St. Paul

Shannon Stuchlik
Pierce, Nebraska

Board Member/Vice Chair, Northeast
Nebraska Economic Development District

Andrew Ward
Valentine, Nebraska

City Council Member, City of Valentine

Jerry Wilcox
Crete, Nebraska

City Clerk/Treasurer, City of Crete

Ex-officio Board Members:

Marlene Johnson
West Point, Nebraska

President, League of Nebraska
Municipalities

L. Lynn Rex
Lincoln, Nebraska

Executive Director, League of Nebraska
Municipalities

Officers

The Association's By-Laws state, "the LARM Board of Directors shall choose from among the elected Directors, a Chairperson and a Vice Chairperson for a one (1) year term at a LARM Board of Directors meeting during the 4th calendar quarter of each year. 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, 2015:

<u>Name</u>	<u>Office</u>
Gerald Solko	Chairman
Joe Mangiamelli	Vice Chairman
L. Lynn Rex	Secretary

Committees

The 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.”

The By-Laws further state, "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 committees at September 30, 2015:

Executive Committee

- David Hunter
- Joe Mangiamelli
- Lynn Rex
- Gerald Solko

Nominating Committee

- Lane Danielzuk
- Jim Keegan
- Joe Mangiamelli
- Lynn Rex
- Gerald Solko

Ad Hoc Committee

- Lane Danielzuk
- Randy Gates
- Joe Mangiamelli
- Lynn Rex
- Gerald Solko
- Shannon Stuchlik

Investment Committee

- Randy Gates
- Vince Knight
- KC Ortiz
- Gerald Solko
- Shannon Stuchlik
- Andrew Ward
- Jerry Wilcox

Coverage Committee

Beth Bonderson
Bob Clausen
David Hunter
Mike Ogelvie
Jan Rise
Gerald Solko

TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

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. Effective June 21, 2000, the League agreed to furnish, provide or contract for the necessary administrative and management services required by the Pool.

The Association entered into an administrative services agreement with the League of Nebraska Municipalities (League) in 2000 and subsequently amended in 2005. Approximately four (4) years ago, the Association separated its payroll, healthcare and pension from the League, however, the agreement has not been updated to reflect the change in relationship between the entities. It is recommended the Association amend the agreement with the League, as needed, to reflect the change in relationship.

For the services provided by the League, the Association pays a fee of two and one-half percent (2.5%) of gross earned contribution on all members. The League budgets this revenue separately and specifically for expenses directly related to the services provided. In addition, the Association pays the League two percent (2%) of the gross earned contribution on all members

on a monthly basis, however, the League may, at its discretion, waive some or all of this expense at any time.

SERVICE AGREEMENTS

York Risk Pooling Services, Inc.

Effective April 1, 2015, the Association entered into a consulting agreement with York Risk Pooling Services, Inc. (York). The League approved the selection of York as a service provider pursuant to the Agreement for the formation of the Association. York's services include, but are not limited to, accounting, financial services, actuarial services, underwriting, claims handling, and reinsurance.

The Association pays York base compensation in the form of a monthly fee. Beginning on April 1, 2015, the Association paid York \$55,650 per month for the first year of service. For each successive year the fee shall be increased by the Consumers Price Index (CPI). If the CPI is not available, the parties shall agree upon a reasonably comparable index to apply. In addition to the base compensation, the Association shall pay five percent (5%) of the first year's total annual premium of each new member added to the pool on a semi-annual basis. In addition to the base compensation and the new business compensation, York is also eligible to receive compensation based on the underwriting income of the Association starting with the fiscal year ending September 30, 2014 and each fiscal year thereafter. The Association shall pay five percent (5%) of the amount that is equal to Net Income less Investment Income that exceeds \$1,000,000. This amount shall not exceed \$75,000 for any one fiscal period.

In addition to the aforementioned compensations, York is eligible for a retention bonus for each pool member that renews its membership in the pool through the joint efforts of York and the Association. For such renewal premiums, the Association shall pay York: \$5,000 per

renewing members with annual premium of \$75,000 to \$150,000; \$10,000 per renewing members with annual premium of \$150,000 to \$250,000; and \$15,000 per renewing member with annual premium in excess of \$250,000.

By the Numbers Actuarial Consulting, Inc.

On April 21, 2015 the Association entered into an actuarial services agreement with By the Numbers Actuarial Consulting, Inc. (BYNAC). The agreement calls for BYNAC to prepare two reports annually. The first report calculates the indicated premium for the upcoming policy period and the second report estimates the required reserves for financial statement reporting. In addition and at the Association's option, BYNAC will perform a semi-annual review of their loss experience at March 31. The fees associated with this agreement are guaranteed for three (3) years and total \$27,000 per year for the two (2) annual reports and \$2,750 per year for the semi-annual review.

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, 2015, its membership totaled 130 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.

REINSURANCE

Ceded

The Association entered into a casualty excess of loss reinsurance contract with Great American Insurance Group effective October 1, 2014. The contract provides coverage for automobile liability, general liability, law enforcement liability and public official's liability written on an occurrence basis. The Association retains the first \$300,000 per occurrence, per member; however, the reinsurer's liability shall never exceed \$5,000,000 per occurrence, per member.

An excess of loss reinsurance agreement with Midwest Employers Casualty Company (MECC) was entered into for one year, effective October 1, 2014, which provides for cession of the Association's workers' compensation policies. The Association retains \$750,000 per accident or disease with an aggregate retention based on a percentage of estimated payroll, with a minimum retention of \$3,344,034. 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.

On July 1, 2015, the Association entered into a reinsurance program called the Alliant Property Insurance Program (APIP), formerly the Public Entity Property Insurance Program (PEPIP). Covered under this reinsurance agreement are property and boiler and machinery. For property, the limit of coverage is \$500,000,000 each occurrence, all insureds combined and subject to policy exclusions with an aggregate limit of \$1,050,000,000 shared by all insureds in the contract. For boiler and machinery, the per occurrence limit is \$100,000,000 for boiler explosion and machinery breakdown. Boiler and machinery deductibles are numerous and vary from \$10,000 for electronic data processing media up to \$350,000 for objects over 25,000 hp, 25,000 KW/KVA/Amps or Boilers over 250,000 square feet of heating surface.

General

It was noted during the review of the Association's reinsurance contracts that the insolvency clause and the entire agreement clause were missing from the contract with APIP. Both clauses are required per SSAP No. 62R, Paragraph 8(a) and 8(c), respectively. In addition, it was noted that the Association's reinsurance contracts with MECC and APIP did not contain errors and omissions and arbitration clauses. The contract with APIP was also missing an offset clause. It is suggested that the Association amend its reinsurance contracts with MECC and APIP to include the clauses noted above. Although these clauses are not specifically required by SSAP No. 62R, they are considered "best practice" and offer additional protection to the parties involved.

BODY OF REPORT

GROWTH

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

	<u>9-30-12</u>	<u>9-30-13</u>	<u>9-30-14</u>	<u>9-30-15</u>
Cash & short-term investments	\$ 125,033	\$ 4,004,156	\$ 5,948,652	\$ 5,731,742
Long-term investments	11,474,005	8,190,653	5,250,000	7,490,000
Premiums receivable	8,675	7,787,000	6,502,997	5,869,981
Total assets	13,945,629	20,318,451	19,328,941	19,982,558
Loss reserves	4,965,400	5,426,056	5,299,965	3,540,623
Loss adjustment expenses	1,636,474	1,683,802	1,900,992	1,351,099
Unearned premium	(733,792)	6,911,339	5,775,867	6,359,987
Total liabilities	6,080,850	14,161,351	13,186,247	11,393,067
Surplus	7,864,779	6,157,100	6,142,694	8,589,491
Net premiums	5,161,798	4,817,474	5,937,060	4,900,431
Net losses	1,767,824	3,776,147	2,880,733	284,683
Other underwriting expenses	2,187,851	2,403,301	2,479,946	2,419,847
Net income (loss)	187,315	(1,713,514)	(14,406)	2,446,797

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, 2015 and its transactions during the year 2014/15 as determined through this examination. A reconciliation of the members' fund balance for the period under review is also included.

FINANCIAL STATEMENT **September 30, 2015**

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$ 679,449		\$ 679,449
Short-term investments	5,052,293		5,052,293
Long-term investments	<u>7,490,000</u>	<u> </u>	<u>7,490,000</u>
Subtotal, cash and invested assets	\$13,221,742		\$13,221,742
Premiums receivable	5,869,981		5,869,981
Interest receivable	13,855		13,855
Reinsurance recoverable on paid losses	<u>876,511</u>	<u> </u>	<u>876,511</u>
Total assets	<u>\$19,982,558</u>		<u>\$19,982,558</u>
<u>Liabilities, Surplus and Other Funds</u>			
Losses			\$ 3,540,623
Loss adjustment expenses			1,351,099
Unearned premium			6,359,987
Taxes payable			74,620
Other liabilities			41,738
Funds held under reinsurance treaties			<u>25,000</u>
Total liabilities			<u>\$11,393,067</u>
Surplus			<u>8,589,491</u>
Total liabilities and surplus			<u>\$19,982,558</u>

STATEMENT OF INCOME
September 30, 2015

Underwriting Income

Premiums earned	\$ 4,900,431
Losses incurred	\$ 284,683
Loss expenses incurred	(202,164)
Other underwriting expenses incurred	<u>2,419,847</u>
Total underwriting deductions	<u>\$ 2,502,366</u>
Net underwriting gain	<u>\$ 2,398,065</u>
Net investment income	\$ 44,140
Miscellaneous Income	<u>4,592</u>
Net income	<u>\$ 2,446,797</u>

MEMBER FUND / SURPLUS ACCOUNT

	<u>9-30-12</u>	<u>9-30-13</u>	<u>9-30-14</u>	<u>9-30-15</u>
Beginning balance	\$7,677,464	\$ 7,864,779	\$6,157,100	\$6,142,694
Net income	187,315	(1,713,514)	(14,406)	2,446,797
Change in non-admitted assets	(33,154)	(25,808)	(42,482)	(42,624)
Change in unrealized gain	<u>33,154</u>	<u>31,643</u>	<u>42,482</u>	<u>42,624</u>
Net change for the year	<u>\$ 187,315</u>	<u>\$(1,707,679)</u>	<u>\$ (14,406)</u>	<u>\$2,446,797</u>
Ending balance	<u>\$7,864,779</u>	<u>\$ 6,157,100</u>	<u>\$6,142,694</u>	<u>\$8,589,491</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Member fund balance (surplus) in the amount of \$8,589,491, as reported in the Association's September 30, 2015 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

Reinsurance Clauses

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 MECC and the PEPPI contract. The PEPPI 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).

Action – The Association has not complied with this recommendation. A recommendation will be made again for the missing clauses.

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.

Action – The Association has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Fidelity Bond

It was noted during the review of the Association's insurance coverages that the Association did not have a fidelity bond in place as of September 30, 2015. Guidance from the NAIC Financial Condition Examiners Handbook was provided to assist in determining the amount of coverage needed. The Association indicated they would get a fidelity bond in place. It is suggested the Association obtain a fidelity bond in accordance with the guidance from the NAIC Financial Condition Examiners Handbook.

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 amend its reinsurance contract with the Alliant Property Insurance Program and Midwest Employers Casualty Company to include the clauses required by SSAP No.62R, Paragraph 8(a) and 8(c) and other missing clauses noted.

Administrative Services Agreement - The Association indicated the agreement with the League of Nebraska Municipalities has not been updated to reflect the change in relationship between the entities approximately four (4) years ago. It is recommended the Association amend the Administrative Services Agreement with the League as needed to reflect the change in relationship.

Fidelity Bond - It is suggested the Association obtain a Fidelity Bond in accordance with the guidance from the NAIC Financial Condition Examiners Handbook.

ACKNOWLEDGMENT

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph Hofmeister", is written over a horizontal line.

Joseph Hofmeister, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska