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**FILED**  
**NOV 27 2013**  
Department of Insurance  
State of Idaho

*Attorneys for the Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
OF THE STATE OF IDAHO**

In the Matter of:

WORKERS COMPENSATION EXCHANGE

Certificate of Authority No. 565  
NAIC No. 34576

Docket No. 18-2905-13

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2011**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of Workers Compensation Exchange (the Exchange), in accordance with Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Workers Compensation Exchange as of December 31, 2011 (Report), as filed.

**FINDINGS OF FACT**

1. The Exchange is an Idaho-domiciled reciprocal insurer licensed to provide workers' compensation insurance to its subscribers under Certificate of Authority No. 565.

2. The Department completed an examination of the Exchange pursuant to Idaho Code § 41-219(1) on or about November 4, 2013. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on November 4, 2013, and a copy of such verified Report was transmitted to the Exchange on the same date. A copy of the verified Report is attached hereto as Exhibit "A."

4. On or about November 4, 2013, the Department received a Waiver signed by Todd Blake, Attorney-in-Fact for the Exchange. By execution of such Waiver, a copy of which is attached hereto as Exhibit "B," the Exchange consented to the immediate entry of a final order by the Department's Director (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals, pursuant to Idaho Code § 41-227(4), with respect to any matters contained in the Report were received by the Department from the Exchange.

#### **CONCLUSIONS OF LAW**

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that the Exchange is in compliance with the requirements of the Idaho Insurance Code.

**ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Workers Compensation Exchange as of December 31, 2011, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall be exempt from the exemptions from disclosure provided in chapter 3, title 9, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, the Exchange shall file with the Department's Deputy Chief Examiner affidavits executed by each of its trustees stating under oath that they have received a copy of the adopted Report and related orders.

**IT IS SO ORDERED.**

DATED this 27<sup>TH</sup> day of November, 2013.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
\_\_\_\_\_  
WILLIAM W. DEAL  
Director

**CERTIFICATE OF SERVICE**

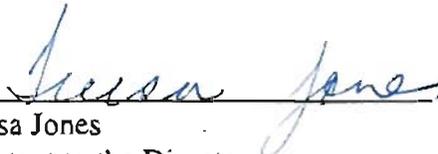
I HEREBY CERTIFY that, on this 27th day of November, 2013, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2011 to be served upon the following by the designated means:

Workers Compensation Exchange  
Attn: Todd Blake, Attorney-in-Fact  
1901 Idaho Street  
Lewiston, ID 83501

- first class mail
- certified mail
- hand delivery
- email

Georgia Siehl, CPA, CFE  
Bureau Chief / Chief Examiner  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
Boise, ID 83720-0043  
[georgia.siehl@doi.idaho.gov](mailto:georgia.siehl@doi.idaho.gov)

- first class mail
- certified mail
- hand delivery
- email

  
\_\_\_\_\_  
Teresa Jones  
Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

WORKERS COMPENSATION EXCHANGE

(NAIC Company Code 34576)

as of

December 31, 2011

EXHIBIT

A

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

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WILLIAM W. DEAL  
Director

Boise, Idaho  
November 4, 2013

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

Workers Compensation Exchange  
1901 Idaho Street  
Lewiston, Idaho 83501

hereinafter referred to as the "Exchange," at its offices in Lewiston, Idaho. The following Report of Examination is respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2007, through December 31, 2011. The examination was conducted at the Lewiston, Idaho office of the Exchange by the State of Idaho Department of Insurance. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* and the NAIC *Accounting Practices and Procedures Manual*.

All accounts and activities of the Exchange were considered in accordance with the NAIC's risk-focused examination process. The NAIC *Financial Condition Examiners Handbook* requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Exchange by obtaining information about the Exchange including corporate governance, identifying and assessing inherent risks within the Exchange and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC *Annual Statement Instructions* as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Exchange attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

There was some reliance placed on the work performed by the internal audit staffs of Clearwater Paper Corporation and Potlatch Corporation for the year 2011.

In addition to the Report of Examination, a Management Letter was issued to the Exchange by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

## PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2002 through December 31, 2006.

A review was made to ascertain what action was taken by the Exchange with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exception was adequately addressed by the Exchange.

## HISTORY AND DESCRIPTION

The Exchange was organized as a reciprocal insurer under Title 41, Chapter 29, Idaho Code and commenced operations on August 1, 1918.

The Exchange was founded for the purpose of providing workers compensation insurance for the employees of an association of businesses that engage in the forest products industry in the State of Idaho. The businesses for which coverage is provided are known as the "Subscribers". The Subscribers formed the Exchange, and operate it as a not-for-profit insurance exchange.

The following businesses were Subscribers to the Exchange as of December 31, 2011:

Bennett Lumber Products, Inc.	J. I. Morgan, Inc.
Clearwater Paper Corporation	Potlatch Corporation
Idaho Forest Group, Inc.	Stimson Lumber Company

The Exchange is managed by an Attorney-in-Fact with authority granted under powers of attorney executed by each Subscriber.

Each Subscriber is independent of the others and is responsible for its own losses up to \$200,000 per claim. The Subscribers are subject to additional assessments of funds needed to meet the obligations of the Exchange, and each may be required to pay a sum equal to one year's annual premium in the event its losses and loss adjustment expenses exceed its annual paid-in premiums. In the event that an individual Subscriber should be unable to meet its premium obligations, the other Subscribers may be assessed additional premiums to cover the default.

The Subscribers' premiums are based on monthly payroll, actual losses incurred, and expenses of the Exchange offset by interest income. The premiums are calculated on a retrospective basis and are considered earned when written.

## MANAGEMENT AND CONTROL

### General

Management and control of the Exchange are guided by an advisory committee known as the "Trustees" of the Exchange. The Trustees consist of six persons, appointed by the Subscribers. Each Subscriber is entitled to one vote for a Trustee for each \$100,000 of annual payroll based upon the calendar year next preceding the year in which the vote is taken. The Trustees agreed to meet annually during the second week in June.

The basic duties of the Trustees, which comply with Section 41-2920, Idaho Code, are set forth in the Subscriber agreement as noted below:

- Supervise the finances and investments of the Exchange.
- Supervise the operations of the Exchange to the extent necessary to assure conformity with the Amended Subscribers Agreement and with the Power of Attorney between each Subscriber and the Attorney-in-Fact.
- Provide an office and personnel and such other assistance needed by the Attorney-in-Fact to carry out the duties and operations of the Exchange.
- Secure the audit of the accounts and records of the Exchange and of the Attorney-in-Fact.

- Fix and determine the compensation to be paid to the Attorney-in-Fact and the other employees of the Exchange.

### Board of Trustees

At year-end 2011, the following persons were serving on the Board of Trustees.

<u>Name</u>	<u>Position</u>
Scott Atkinson	President, Idaho Forest Group, Inc.
Marc Brinkmeyer	Chair, Idaho Forest Group, Inc.
Eric Cremers	Chief Financial Officer, Potlatch Corporation
Robert DeVleming	Division Vice President, Clearwater Paper Corporation
Robert Jahns	Director Human Resources, Bennett Lumber Products, Inc.
Ken Colyer	Operational Accounting Manager, Clearwater Paper Corporation

Subsequent to the examination date, Marc Brinkmeyer and Robert DeVleming no longer served as Trustees. They were replaced by Beti Becker, Idaho Forest Group, Inc. and Scott Corbit, Esquire, Clearwater Paper Corporation. For the 2013-2014 term, Eric Cremers and Robert Jahns were replaced by Sean Hoagland, Potlatch Corporation, and Teresa Quimby, Bennett Lumber Products, Inc.

### Officers:

The following persons were serving as officers of the Exchange as of December 31, 2011:

<u>Name</u>	<u>Position</u>
Scott Atkinson	President
Todd Blake	Secretary, Attorney-in-Fact

### Committees

The Board of Trustees also serves as the Exchange's Audit Committee pursuant to IDAPA 18.01.62.010.03. The Exchange does not have any other committees.

### Conflict of Interest

The Exchange adopted a conflict of interest policy on June 12, 1997 that required the Trustees and the Attorney-in-Fact to complete a statement of any conflicts or possible conflicts with the performance of their duties and responsibilities. The statements completed during the examination period appeared to appropriately disclose any conflicts or possible conflicts of interest.

### Contracts and Agreements

The Exchange purchased its claims management system from the DAVID Corporation. An end user agreement between the Exchange and DAVID Corporation was signed on January 21, 1999.

This agreement granted the Exchange a license to use the software on its personal computers and/or file servers. A software maintenance agreement complements the end user agreement. Either party may terminate the agreements by giving at least thirty days written notice.

During 2000, the Exchange entered into an Employee Benefit and Payroll Services Agreement with Potlatch Corporation. Under the agreement, the Exchange's employees were permitted to participate in Potlatch's employee benefit plans. Potlatch was responsible for preparing and filing payroll related federal and state tax reports on behalf of the Exchange. The Exchange reimbursed Potlatch for direct payroll costs, taxes, plus a fixed monthly fee. Either party may terminate the agreement on thirty days notice, with or without cause. After Potlatch Corporation spun off its paper and tissue division, Clearwater Paper Corporation assumed administration of the agreement in 2008.

Subsequent to the examination date, the Employee Benefit and Payroll Services Agreement was terminated effective December 31, 2012.

## CORPORATE RECORDS

### Power of Attorney and Subscriber Agreements

The Exchange is a reciprocal insurer and as such, provides insurance through an Attorney-in-Fact. Because of this, there are no articles of incorporation or bylaws. The general policies, procedures and guidelines typically included in the articles of incorporation and bylaws are instead provided to the Exchange through its Power of Attorney and the Subscriber Agreements.

The Power of Attorney and Subscriber agreements were not amended during the examination period.

### Minutes of Meetings

A review of the minutes of the meetings of the Board of Trustees for the period January 1, 2007 through December 31, 2011 and subsequent thereto indicated that a quorum was present at all meetings. The Trustees approved the Exchange's investment transactions as required by Section 41-704, Idaho Code.

The minutes of the June 12, 2008 Trustees' meeting indicated the Report of Examination as of December 31, 2006 conducted by the Idaho Department of Insurance was reviewed and discussed.

## FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Exchange were maintained during the period covered by the examination. Coverages in effect as of December 31, 2011 included blanket

crime; surety bonds; business owners, liability, employment practices, hired auto, and employers liability.

The Attorney-in-Fact is covered by a surety bond in the amount of \$25,000 in accordance with Section 41-2912, Idaho Code. The Exchange is covered by a surety bond of \$1,795,000 pursuant to Section 41-313A, Idaho Code.

The protection of the blanket crime policy met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance companies providing coverage to the Exchange were licensed or otherwise authorized in the State of Idaho.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Employees of the Exchange were provided benefits through the Potlatch Corporation's Salaried Employee Benefit Plan. The benefits included medical and dental benefits, life insurance, 401(k) savings plan, vacation and time off, including accidental death and disability, short-term disability and long-term disability, severance plans, and retirement. The benefits were administered by the Clearwater Paper Corporation under the Employee Benefits and Payroll Services agreement previously discussed.

Subsequent to the examination date, the benefits and services under the Employee Benefits and Payroll Services agreement were terminated effective December 31, 2012. The Exchange obtained similar health, dental, disability and life insurance coverages from Idaho domiciled insurers starting July 1, 2012. Also starting July 1, 2012, the Exchange changed its contribution to the employee 401(k) plan. Prior to July 1, 2012, the Exchange had matched 70 percent of the first 6 percent contributed by its employees. The Exchange also contributed 5 percent to each employee's 401(k) plan as a defined contribution. The employees were eligible for severance benefits, offered vacation, and received paid holidays consistent with the prior policy.

### TERRITORY AND PLAN OF OPERATION

The Exchange is licensed only in the State of Idaho as a domestic reciprocal insurer with the business written being limited exclusively to workers compensation insurance.

Only firms that are exclusively engaged in the forest products industry in the State of Idaho are eligible for admission to the Exchange as a "Subscriber". Potential Subscribers must demonstrate an active participation in a lumber industry support group, meet certain standards for the safety of its workers, have adequate financial capacity and stability, and have access to a resource base which will provide for future financial stability.

According to the Subscribers Agreement, new Subscribers can be admitted to the Exchange only upon the unanimous vote of all existing Subscribers, and upon terms and conditions agreed to by

the new Subscriber, all of the existing Subscribers, and the Attorney-in-Fact. The Exchange is not currently looking for new Subscribers.

The Exchange has maintained its home office in Lewiston, Idaho, since its inception. All insurance operations are performed at that location.

### STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2011, the examination confirmed with the Idaho Department of Insurance that the Exchange had made provision for the following deposits to be held in trust for the protection of all its policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, in compliance with Sections 41-316A, 41-803 and 41-804, Idaho Code.

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
FNMA, 1.25%, 9/28/2015	\$ 501,000	\$ 502,030	\$ 501,000
Federal Farm Credit Banks, 2.125%, 12/5/16	500,000	522,485	493,595
Idaho Health Facs, 4.5%, 12/31/37	<u>500,000</u>	<u>507,330</u>	<u>500,000</u>
Total:	<u>\$1,501,000</u>	<u>\$1,531,845</u>	<u>\$1,494,595</u>

### GROWTH OF THE EXCHANGE

The Exchange's growth for the years indicated, as taken from its Annual Statements, is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Income(Loss)</u>
2007	\$10,738,106	\$10,392,200	\$345,906	\$ 69,419
2008	8,965,652	8,899,736	65,916	117,937
2009	9,028,667	8,625,079	403,588	137,747
2010	9,885,670	9,358,753	526,917	0
2011*	10,470,110	9,855,129	614,981	0

\*As determined by Examination.

In 2010 and 2011, net income of \$0 was reported. This is because the Exchange, as a reciprocal insurer, only assessed its subscribers an amount to equal \$0.00 net income. The Exchange retained 100 percent of its interest and dividend income through May 31, 2009 and 20 percent from June 1, 2009 through December 31, 2009. This has allowed the Exchange to weather market changes in its common stock investments. No interest or dividend income was retained starting in 2010, and none is expected to be retained for the foreseeable future.

## LOSS EXPERIENCE

The ratios of claims and underwriting expenses incurred to premiums earned shown in the following schedule were derived from amounts reported in the Exchange's Annual Statements:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Losses and Underwriting Expenses Incurred</u>	<u>Ratio of Losses and Underwriting Expenses to Premiums Earned</u>
2007	\$4,762,242	\$4,325,794	\$805,024	107.75%
2008	3,055,906	3,001,359	316,508	108.58%
2009	3,496,564	2,697,489	832,441	100.96%
2010	4,641,225	3,859,094	905,174	102.66%
2011*	4,334,710	3,607,842	868,076	103.26%

\*As determined by Examination.

## REINSURANCE

### Assumed

The Exchange did not assume any reinsurance business during the examination period.

### Ceded

Pursuant to the Subscribers Agreement, each Subscriber is responsible for the first \$200,000 of loss for an injury to any one person. The Subscribers collectively are responsible for losses between \$200,000 and \$1,000,000 for injury to any one person, with each Subscriber's responsibility to be based upon its pro rata share of the payroll of all of the Subscribers. The Exchange shall obtain commercial reinsurance for losses above \$1,000,000 per accident.

In this connection, the Exchange obtained specific excess workers' compensation and employers' liability insurance through an agreement with Safety National Casualty Corporation, St. Louis, Missouri. The agreement provided coverage on losses in excess of \$1,000,000. The maximum limit of indemnity for workers' compensation was \$25,000,000 per occurrence and \$1,000,000 for employers' liability.

The period of the agreement was April 1, 2011 to April 1, 2012. This agreement renewed previous versions in-force starting in April 1, 2006. The agreement may be cancelled by either party with written notice not less than ninety days prior to the cancellation date, except for non-payment of premium; cancellation shall become effective ten days after notice is dispatched.

Reinsurance premiums under the agreement are a percentage of the annual remuneration of the employees covered by the Exchange and its Subscribers, plus a minimum deposit premium.

Subsequent to the examination date, the Subscribers approved increasing the retention from \$1,000,000 to \$1,250,000 effective April 1, 2014.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The Power of Attorney grants the Attorney-in-Fact to write workers compensation insurance contracts under the laws of the State of Idaho, among other things. The Power of Attorney, therefore, serves as the “basic policy” of the Exchange. The policy period is indeterminate and not associated with any specific policy period. As previously reported, the Subscriber policies are fully assessable.

### Treatment of Policyholders

The Exchange maintains a complaint register in compliance with Section 41-1330, Idaho Code. There were no complaints filed with the Exchange during the period under examination.

The Exchange has a fraudulent claim procedure in place in compliance with Section 41-290, Idaho Code. According to the Attorney-in-Fact, there were no fraudulent claims identified during the examination period.

### Advertising and Sales Materials

Due to the specialized nature of the Exchange’s operations, it does not engage in any type of advertising or promotional activities.

## ACCOUNTS AND RECORDS

### General Accounting

The Exchange utilizes HP ProLiant ML100 as its hardware platform. The operating system is Windows Server, Standar FE, and Windows XP, Version 2002. Program management software is DAVID Corporation’s Renaissance. The claims management system is Renaissance 3.3. Cougar Mountain 12 is used as the general ledger and accounting system. The Exchange utilizes Booke’s Complete Package Annual Statement software for preparation of its statutory financial statements.

### Independent Accountants

The Exchange requested and received from the Idaho Department of Insurance exemptions from filing audited financial reports pursuant to IDAPA 18.01.62.024.01 throughout the examination period. The Exchange’s largest Subscribers, Potlatch Corporation and Clearwater Paper

Corporation, performed internal audits of the Exchange in lieu of the aforementioned audited financial reports.

### Actuarial Opinion

Todd Blake, CPCU, CPA, MBA, Attorney-in-Fact for the Workers Compensation Exchange, made a statement of actuarial opinion, regarding the unpaid losses and loss adjustment expenses reported by the Exchange in its 2011 annual statement. The opinion stated that Mr. Blake was appointed by the Board of Directors on June 1, 2011 to render the opinion. In correspondence dated November 25, 2011, the Idaho Department of Insurance deemed Mr. Blake to be qualified to sign the 2011 actuarial opinion and would accept the actuarial opinion subject to the following conditions:

- The actuarial opinion be filed in accordance with the NAIC Annual Statement Instructions for Property and Casualty Companies.
- Mr. Blake is required to retain and make available his workpapers for review by the Department's examiners.
- The Department may periodically request supplemental information from the Exchange.
- The actuarial opinion must be filed by March 1, 2012.

In Mr. Blake's opinion, the amounts listed in Exhibit A of the statement of actuarial opinion and recorded in the Annual Statement of the Exchange as of December 31, 2011:

- (1) Meet the requirements of the insurance laws of Idaho.
- (2) Are computed in accordance with accepted loss reserving standards and principles.
- (3) Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Exchange under the terms of its contracts and agreements.

The actuarial items reported in the 2011 Annual Statement, on which Mr. Blake's opinion was rendered, were as follows:

<u>Loss Reserves</u>	
1. Reserves for Unpaid Losses (Page 3, Line 1, Column 1)	\$8,220,911
2. Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3, Column 1)	\$1,526,123
3. Reserve for Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Total from Columns 13 and 15, Line 12)	\$9,332,000
4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Totals from Columns 17, 19, and 21, Line 12)	\$1,526,000
5. Retroactive Reinsurance Reserve Assumed (Page 3, Write-in Item)	\$ 0
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion.	\$ 0

<u>Premium Reserves</u>		
7. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$	0
8. Reserve for Net Unearned Premiums for Long Duration Contracts	\$	0
9. Other Premium Reserve items on which the Appointed Actuary is Expressing an Opinion	\$	0

The Idaho Department of Insurance deemed Todd Blake, the Attorney-in-Fact, qualified to sign the actuarial report for all years under examination. Mr. Blake was appointed by the Board of Trustees pursuant to NAIC *Annual Statement Instructions Property and Casualty*.

### FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2011.

Statement of Income, for the Year Ending December 31, 2011.

Capital and Surplus Account, for the Year Ending December 31, 2011.

Reconciliation of Capital and Surplus Account, December 31, 2006, through December 31, 2011.

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BALANCE SHEET

As of December 31, 2011

ASSETS

	<u>Assets</u>	Non Admitted <u>Assets</u>	<u>Net Admitted</u>
Bonds	\$ 4,974,595	\$ 0	\$ 4,974,595
Common stocks	808,063	0	808,063
Real estate: Properties occupied by the Exchange	10,729	0	10,729
Cash, cash equivalents and short-term investments	3,704,804	0	3,704,804
Investment income due and accrued	20,703	0	20,703
Uncollected premiums and agents' balances in the course of collection	821,396		821,396
Amounts recoverable from reinsurers	73,773	0	73,773
Net deferred tax asset	324,473	276,559	47,914
Electronic data processing equipment and software	2,710	0	2,710
Furniture and equipment, including health care delivery assets	5,423	0	5,423
Totals	<u>\$10,746,669</u>	<u>\$276,559</u>	<u>\$10,470,110</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 8,220,911
Loss adjustment expenses	1,526,123
Other expenses	30,496
Taxes, licenses and fees	77,599
Total liabilities	<u>\$ 9,855,129</u>
Subscriber Deposit	\$ 602,049
Unassigned funds (surplus)	12,932
Total Surplus as regards policyholders	<u>\$ 614,981</u>
	<u>\$10,470,110</u>

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STATEMENT OF INCOME

For the Year Ending December 31, 2011

	<u>Per Examination and Per Exchange</u>
Premiums earned	\$4,334,710
Losses incurred	3,607,842
Loss adjustment expenses incurred	540,767
Other underwriting expenses incurred	<u>327,309</u>
Total underwriting deductions	<u>\$ 4,475,918</u>
Net underwriting loss	<u>\$ (141,208)</u>
Net investment income earned	\$ 136,120
Net realized capital losses	<u>1,889</u>
Net investment gain	<u>\$ 138,009</u>
Excess reserves on claimant	<u>\$ 3,199</u>
Total other income	<u>\$ 3,199</u>
Net income	<u>\$ 0</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2011

	<u>Per Exchange</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Capital and surplus, December 31, 2010	<u>\$526,917</u>	<u>\$ 0</u>	<u>\$526,917</u>
 <b>GAINS AND (LOSSES) IN SURPLUS</b>			
Net income	\$ 0	\$ 0	\$ 0
Change in net unrealized capital gains	76,587	0	76,587
Change in net deferred income tax	(935)		(935)
Change in nonadmitted assets	<u>12,412</u>	<u>0</u>	<u>12,412</u>
Change in surplus as regards policyholders for the year	<u>\$ 88,064</u>	<u>\$ 0</u>	<u>\$ 88,064</u>
Surplus as regards policyholders, December 31, 2011	<u>\$614,981</u>	<u>\$ 0</u>	<u>\$614,981</u>

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RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2006 Through December 31, 2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and Surplus, December 31, previous year	<u>\$246,477</u>	<u>\$ 345,906</u>	<u>\$ 65,916</u>	<u>\$403,588</u>	<u>\$526,917</u>
GAINS AND (LOSSES) IN SURPLUS					
Net income	\$ 69,419	\$ 117,937	\$137,747	\$ 0	\$ 0
Change in net unrealized capital gains	9,649	(388,527)	210,861	99,611	76,587
Change in net deferred income tax	15,091	(99,036)	(40,084)	107	(935)
Change in nonadmitted assets	<u>5,270</u>	<u>89,636</u>	<u>29,148</u>	<u>23,611</u>	<u>12,412</u>
Change in surplus as regards policyholders for the year	<u>\$ 99,429</u>	<u>\$(279,990)</u>	<u>\$337,672</u>	<u>\$123,329</u>	<u>\$ 88,064</u>
Surplus as regards policyholders, December 31, current year	<u>\$345,906</u>	<u>\$ 65,916</u>	<u>\$403,588</u>	<u>\$526,917</u>	<u>\$614,981</u>

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## SUMMARY

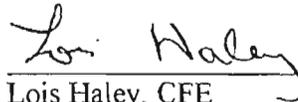
### Summary

The results of this examination disclosed that as of December 31, 2011, the Exchange had admitted assets of \$10,470,110, liabilities of \$9,855,129 and total surplus as regards policyholders of \$614,981. Therefore, the Exchange's total capital and surplus was in compliance with the minimum capital and surplus requirements of Sections 41-313A and 2930, Idaho Code.

## CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Exchange's Attorney-in-Fact, President of the Board of Trustees, and employees in conducting the examination

Respectfully submitted,

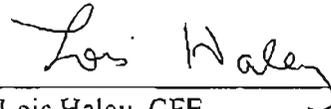


Lois Haley, CFE  
Senior Insurance Examiner  
Department of Insurance  
State of Idaho

AFFIDAVIT OF EXAMINER

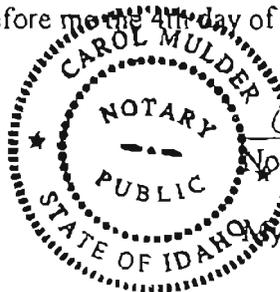
State of Idaho  
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of the Workers Compensation Exchange for the period from January 1, 2007 through December 31, 2011, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.



Lois Haley, CFE  
Senior Insurance Examiner  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me on the 4th day of November, 2013 at Meridian, Idaho



Carol Mulder  
Notary Public

My commission expires: 10-7-2016

C. L. "BUTCH" OTTER  
Governor

State of Idaho  
**DEPARTMENT OF INSURANCE**

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2011, of the:

**WORKERS COMPENSATION EXCHANGE  
1901 IDAHO STREET  
LEWISTON, IDAHO 83501**

By executing this Waiver, the Exchange hereby acknowledges receipt of the above-described examination report, verified as of the 4th day of November 2013, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Exchange also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 4 day of November, 2013

**WORKERS COMPENSATION EXCHANGE**

Todd Blake

Name (print)

[Signature]

Name (signature)

Attorney-in-Fact

Title

**EXHIBIT**

B