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**FILED**  
**JUN 21 2016** *✓*  
Department of Insurance  
State of Idaho

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE**

**STATE OF IDAHO**

In the Matter of:

ASSOCIATED LOGGERS EXCHANGE

Certificate of Authority No. 1245  
NAIC No. 37370

Docket No. 18-3174-16

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2014**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of Associated Loggers Exchange (ALE), an Idaho-domiciled reciprocal insurer, pursuant to Idaho Code § 41-219(1) and (5), 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 Associated Loggers Exchange as of December 31, 2014 (Report), as filed.

### **FINDINGS OF FACT**

1. ALE is an Idaho-domiciled insurance company licensed to transact workers' compensation insurance in Idaho under Certificate of Authority No. 1245.
2. The Department completed an examination of ALE pursuant to Idaho Code § 41-219(1) and (5) on or about June 3, 2016. 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 June 3, 2016, and a copy was transmitted to ALE on June 8, 2016. A copy of the verified Report is attached hereto as Exhibit A.
4. On or about June 9, 2016, the Department received a Waiver from ALE signed by John Graham, President and Attorney-in-Fact. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, ALE consented to the immediate entry of a final order by the Director of the Department (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 with respect to any matters contained in the Report were received by the Department from ALE.

### **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 ALE meets the minimum surplus requirements set forth in Idaho Code § 41-313(1), as incorporated by Idaho Code § 41-2906.

**ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Associated Loggers Exchange as of December 31, 2014, 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 not be subject to the exemptions from disclosure provided in chapter 1, title 74, 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, ALE shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

**IT IS SO ORDERED.**

DATED this 15 day of June, 2016.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE



DEAN L. CAMERON  
Director

### **NOTIFICATION OF RIGHTS**

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that, on this 21 day of June, 2016, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2013 to be served upon the following by the designated means:

Associated Loggers Exchange  
John Graham, President and Attorney-in-Fact  
3380 Elder Street  
Boise, ID 83705  
[johng@aleinsure.com](mailto:johng@aleinsure.com)

☐ 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

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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

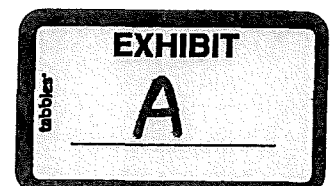
Of

ASSOCIATED LOGGERS EXCHANGE  
(a domestic reciprocal insurer)

NAIC Company Code: 37370

as of

December 31, 2014



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Boise, Idaho  
May 20, 2016

The Honorable Dean L. Cameron  
Director of Insurance  
State of Idaho  
700 West State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043

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, 2014, of the financial condition and corporate affairs of:

Associated Loggers Exchange  
3380 Elder Street  
Boise, Idaho 83705

Hereinafter referred to as the "Exchange," at its offices in Boise, Idaho. The following report of examination is respectfully submitted.



## SCOPE OF EXAMINATION

### *Period Covered*

We have performed our multi-state examination of the Exchange. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

### *Examination Procedures Employed*

Our examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). The 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. The 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 (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Exchange retained the services of a certified public accounting firm, Presnell Gage, PLLC, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Exchange were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Exchange's corporate governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Exchange's individual operating profile. A risk-focused approach was determined appropriate.

The examination determined the risks associated with identified key functional areas of the Exchange's operation and considered mitigating factors. Interviews were held with the senior management of the Exchange to gain an understanding of the entity's operating profile and control environment.

The examination relied on the findings of the actuarial firm contracted by the Department to verify pricing and reserves.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

#### *Status of Prior Examination Findings*

There were no exceptions noted in our preceding Report of Examination, dated January 12, 2012 which covered the period from January 1, 2007 to December 31, 2010.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Our examination did not disclose any material adverse findings or any adjustments that impacted the Exchange's reported capital and surplus.

### **SUBSEQUENT EVENTS**

The following subsequent events were noted:

#### Investment Advisory Agreement

The Exchange signed a new Investment Advisory Agreement, dated February 20, 2016. This agreement was executed between the Exchange and Selway Asset Management, Inc. (SAM). Under its terms, SAM was retained as investment counsel to manage funds and securities of the Exchange. SAM had the power to invest and reinvest funds and to buy, sell, and trade securities for the benefit of the Exchange. A management fee of 1/4 of 1 percent for the first \$25 million and 0.15 percent for the amount over \$25 million on the total value of funds and securities under management were paid quarterly in advance to its investment counsel. The Exchange has the right to terminate without penalty at any time upon oral or written notice. SAM has the right to terminate the contract upon written notice.

### **COMPANY HISTORY**

#### *General*

The Exchange was organized as a Casualty-Workers' Compensation Only, Reciprocal Insurer under the laws of the State of Idaho. Pursuant to Section 41-2909, Idaho Code, the Certificate of

Authority was issued through its Attorney-in-Fact, Associated Loggers Management Corporation (ALMC), in the name of the Exchange on July 24, 1979. On May 24, 1994, the Exchange purchased all of the outstanding capital stock of its corporate Attorney-in-Fact, ALMC. This transaction was approved by the Idaho Department of Insurance. On June 29, 2001, the Exchange obtained a Certificate of Authority from the State of Montana to write casualty business, limited to workers' compensation only. The Exchange started writing premium in the State of Montana in 2002.

The Exchange's statutory home office address is 3380 Elder Street, Boise, Idaho 83705. The Exchange's principal place of business and primary location of its books and records are the same.

#### *Dividends and Capital Contributions*

During the period January 1, 2011 through December 31, 2014, the Board of Governors declared and paid the following premium returns to subscribers of the Exchange:

<u>Date Declared</u>	<u>Date Approved</u>	<u>Date Paid</u>	<u>Distribution</u>
4/28/2011	4/28/2011	5/2/2011	\$ 1,000,000
4/26/2012	4/26/2012	5/2/2012	\$ 700,000
4/25/2013	4/25/2013	5/2/2013	\$ 400,000
4/24/2014	4/24/2014	5/2/2014	\$ 600,000

#### *Mergers and acquisitions*

There were no mergers or acquisitions during the examination period.

#### *Surplus Debentures*

Only one class of surplus note was outstanding during the current examination period. These surplus notes represented amounts originally contributed to the Exchange to fund its minimum surplus requirements. The notes were issued to original and early subscribers of the Exchange, and amounts were based on a percentage of estimated annual premiums. These notes do not bear interest and were subordinated to all liabilities of the Exchange.

Redemption of surplus notes was dependent upon Board of Governor determination, certain surplus requirements and Department of Insurance approval. During the examination period, the Exchange redeemed the following surplus notes pursuant to Section 41-2916, Idaho Code.

<u>Date Board Authorized</u>	<u>Date DOI Approved</u>	<u>Date Redeemed</u>	<u>Number of Surplus Notes</u>	<u>Amount Redeemed</u>	<u>Balance Per Examination</u>
			Balance @ 12/31/10*		\$ 52,765
Various dates in 05 and 07	Various dates in 05 and 07	Various dates in 2011	16	5,291	
			Total Redemptions		<u>5,291</u>
			Balance @ 12/31/14*		<u>\$ 47,474</u>

\*Balance per examination

## **CORPORATE RECORDS**

### Rules of the Associated Loggers Exchange

The Exchange was organized pursuant to Title 41, Chapter 29, Idaho Code, as a casualty-worker's compensation only, reciprocal insurer. As such, the Exchange was an unincorporated aggregation of subscribers and did not have articles of incorporation. The Exchange, however, operated under the Rules of the Exchange, which were analogous to bylaws of a corporation. There were no amendments to the Rules of the Exchange during the examination period.

### Power of Attorney

Pursuant to Section 41-2910, Idaho Code, the rights and powers of the attorney of a reciprocal insurer shall be as provided in the power of attorney given it by the subscribers. The power of attorney was contained in the workers' compensation and employers' liability insurance policy, and was, therefore, executed by the member by acceptance of the policy.

A review of the minutes of the meetings of the Members, the Board of Governors, the Investment Committee and the Audit Committee for the period January 1, 2011 through the completion of fieldwork indicated compliance with the Rules of the Exchange with respect to annual membership and board meeting dates, the election of the Board of Governors and Officers, and the appointment of Alternate Governors and Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Governors' meetings held during the examination period and that business transactions conducted by the Exchange were authorized. Specifically, contracts and agreements were approved, return of premium was declared and redemption of surplus notes was properly authorized. In addition, investments of the Exchange were authorized by the Board of Governors and Investment Committee as required by Section 41-704, Idaho Code.

The Prior Examination Report as of December 31, 2010, was distributed to the Board on February 23, 2012, and reviewed at the Board of Directors meeting on March 3, 2012, in accordance with Section 41-227 (6) (a), Idaho Code.

## **MANAGEMENT AND CORPORATE GOVERNANCE**

The Rules of the Exchange indicated the number of Governors must be at least nine (9), who shall supervise the finances and operations of the Exchange. Two or more members shall be appointed by the Attorney-in-Fact, and one member shall be the Executive Director of Associated Logging Contractors of Idaho, Inc.

The remaining members of the Board of Governors shall be duly elected by the membership of the Exchange. No Governor shall serve for more than two consecutive terms, with the exception of the two or more members appointed by the Attorney-in-Fact and the Executive Director of Associated Logging Contractors of Idaho, Inc. No person shall serve as an elected member of the Board unless he or she is a member, or a partner of, or an officer of a member. At least two-thirds (2/3) of the members of the Board of Governors, other than the members appointed by the Attorney-in-Fact and the Executive Director of Associated Logging contractors of Idaho, Inc. shall at all times be members, partners, or officers employed by the Idaho forest product industry.

The Rules of the Exchange also provided for appointment of a Board of Alternate Governors, consisting of a minimum of five and a maximum of fifteen members who are members of the Exchange, the exact number of which shall be determined by the Board of Governors. Members of the Alternate Board may be selected to appear and vote in place of any Governor unable to attend a meeting of the Board of Governors.

Each member of the Exchange shall have one vote upon any matter submitted to a vote. At any meeting, the presence in person or by proxy of 30 percent or more of the membership shall constitute a quorum.

The annual meeting of the Exchange shall be held during March, April or May of each year, at a time determined by the Board of Governors.

The following persons served as Governors of the Exchange as of December 31, 2014.

<u>Name</u>	<u>Principal Occupation</u>
Bob Danielson, Chairman St. Maries, Idaho	Owner Danielson Logging, Inc.
Ron Streeter, Vice Chairman Dalton Gardens, Idaho	Owner Streetercorp, Inc.
Shawn Keough, Secretary Coeur d'Alene, Idaho	Executive Director Associated Logging Contractors of Idaho, Inc.
Rex Anderson Deer Lodge, Montana	Logging Supervisor Sun Mountain Lumber
Jack A. Buell St. Maries, Idaho	Owner JMF Co., Inc.
Tim E. Christopherson Kamiah, Idaho	Owner Dabco, Inc.
Merlyn Dallas Colpron Gresham, Oregon	Owner Colpron & Associates
Rick Smith Kalispell, Montana	Owner Smith Logging Inc.
James Corby Finke Orofino, Idaho	Owner Finke Logging Co., Inc.
Richard A. Nordstrom Post Falls, Idaho	Owner Richard A. Nordstrom Logging
Tom Ray Orofino, Idaho	Owner Ray Timber Harvesting LLC
Barry Smith Missoula, Montana	Owner Barry Smith Logging Inc.

Frank Howerton  
Athol, Idaho

Owner  
Howerton Logging Inc.

Raymond Francis Coon  
Pierce, Idaho

Owner  
RF Coon Logging, Inc.

The number of Governors serving on the Board at December 31, 2014 met the requirements of the Rules of the Exchange and Section 41-2835, Idaho Code.

#### Board of Alternate Governors

The following persons were appointed as members of the Board of Alternate Governors at December 31, 2014:

Steve Sherich

Mark Mahon

Capella Ikola

John Larson

G. Bruce McLaughlin, Jr.

Robert St. Onge

Norman Tomlinson

Greg Kelso

Bill Lowry

Ken Swanstrom

#### Committees

The Rules of the Exchange authorize the Board of Governors to establish one or more committees, each of which shall consist of two or more Governors. As of December 31, 2014 the Exchange's Board of Governors had appointed the following committees:

##### Audit Committee:

Capella Ikola, Chariman

Bob Danielson

Jack A. Buell

Merlyn D. Colpron

Tim E. Christopherson\*

##### Investment Committee:

Bob Danielson, Chariman

Ron Streeter, Vice Chairman

Shawn Keough

Chad Neptune

John Graham

Jack Buell

Merle Colpron

Tim Christopherson

##### Advisory Committee:

Kelly Kelso

Robert Peterson

Dave Johnson

Mark Mahon

Scott Brassey

\*Alternate member of the Committee

The Rules of the Exchange provide for principal officers to consist of Chairman of the Board of Governors and a Secretary. The Exchange may also have, at the discretion of the Board of Governors, one or more vice-chairmen, one or more assistant secretaries, a treasurer and one or more assistant treasurers. The following person served as officers of the Exchange as of December 31, 2014.

Bob Danielson	Chairman
Ron Streeter	Vice Chairman
Shawn Keough	Secretary

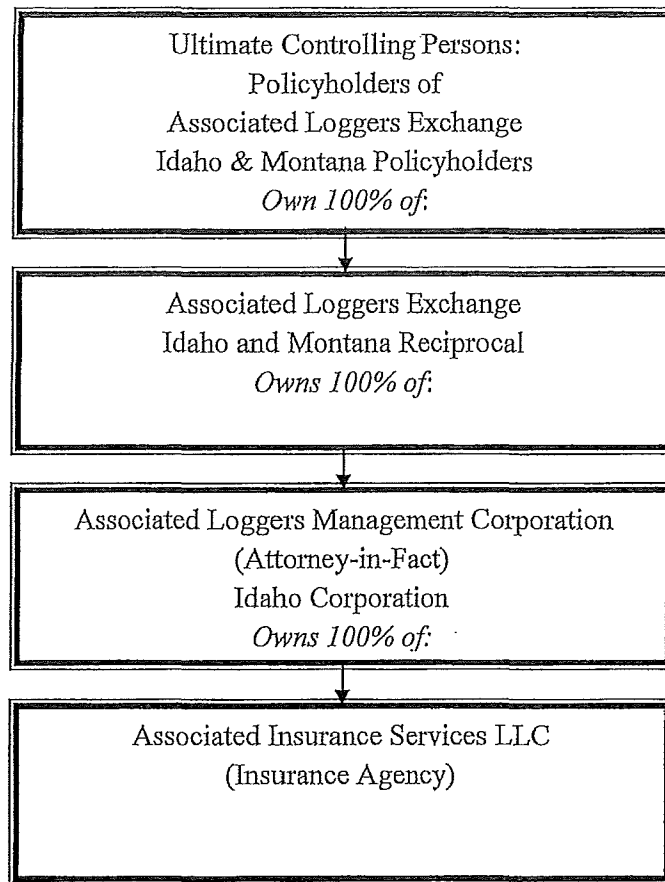
The Exchange became a member of an insurance holding company system on May 24, 1994, through purchase of its Attorney-in-Fact, ALMC.

As a reciprocal insurance company, the Exchange operated through and was managed by its Attorney-in-Fact. The following individuals were serving as Officers of the Attorney-in-Fact at December 31, 2014:

John Graham	President
Merlyn Colpron	Secretary

The Exchange was an unincorporated aggregation of subscribers acting individually and collectively through their Attorney-in-Fact. The "Ultimate Controlling Persons" therefore, were the policyholders of the Exchange as shown in the organizational chart on the following page:





Contracts and Agreements:

The Exchange had the following agreements in effect at December 31, 2014:

Management Agreement

Under the terms of this agreement, Associated Loggers Management Corporation (ALMC); an affiliate, agreed to act as Attorney-in-Fact for the Exchange and its subscribers. Pursuant to the agreement, the Attorney-in-Fact was responsible for production, underwriting, and servicing of insurance, as well as servicing and handling insurance claims and losses. In consideration for these services, the Attorney-in-Fact received 10 percent and 13 percent of the Exchange's gross paid premium written in the states of Idaho and Montana respectively.

The Exchange was responsible for expenses including, but not limited to losses and claim payments; loss prevention expenses; governmental charges; taxes; audit and attorney fees; board fees and expenses; reinsurance premiums; investment counsel fees; officers' expenses, and subscriber meeting expenses.

The management agreement was effective July 1, 2014 through June 30, 2015, and may be terminated by either party for reasons specified therein. This agreement was renewed on September 22, 2015 that covered the period from July 1, 2015 through June 30, 2016. Fees paid on the renewed agreement were the same percentages of the Exchange's gross paid premium written as in the prior year.

#### Safety Services Agreements

A safety services agreement was executed between the Exchange and ALC Services, Inc. (ALC). ALC is a wholly-owned subsidiary of Associated Logging Contractors, Inc. ALC is an Idaho corporation specializing in insurance and safety services products for Idaho's logging industry. Under terms of the agreement, ALC agreed to provide loss prevention services through development and administration of a safety program for the Idaho insureds of the Exchange.

ALC was paid compensation in an amount equal to 5 percent of gross paid premium on Idaho workers' compensation insurance collected during the preceding month.

The term of the agreement was July 1, 2014 through June 30, 2016 and may be cancelled by either party with ninety days prior written notice.

Another safety services agreement was executed between the Exchange and MLA Services, Inc. (MSI) effective on July 1, 2014. MSI is a Montana corporation specializing in insurance and safety services products for Montana's logging industry. Under terms of the agreement, MSI provided loss prevention services through development and administration of a safety program for the Montana insureds of the Exchange.

MSI was paid compensation in an amount equal to 4 percent of gross paid premium on Montana workers' compensation insurance collected during the preceding month.

The term of the agreement was July 1, 2014 through June 30, 2016 and may be cancelled by either party with ninety days prior written notice.

#### Investment Management Contract

This contract, dated April 17, 2008, was executed between the Exchange and Burroughs & Hutchinson, Inc. (B&I). Under its terms, B&I was retained as personal investment counsel to manage funds and securities of the Exchange. B&I had the power to invest and reinvest funds and to buy, sell, and trade securities for the benefit of the Exchange. A management fee of 1/4 of 1 percent for the first \$25 million and 0.15 percent for the amount over \$25 million on the total

value of funds and securities under management were paid quarterly in advance to its investment counsel. Either party may terminate the contract upon written notice.

The Exchange did not have any agents. Through the following agreements, the Exchange's attorney-in-fact, Associated Loggers Management Corporation (ALMC), appointed its agents to promote the Exchange's business:

#### Policy Services Agreements

A policy services agreement was executed between Associated Loggers Management Corporation (ALMC) and Associated Insurance Services, LLC (AIS). Under the terms of this agreement, ALMC appointed AIS as its exclusive agent for workers' compensation insurance in Idaho written with the Exchange. AIS were authorized to act as ALMC's agent in connection with the administration of the Exchange's business. For the services rendered, ALMC agreed to pay AIS 3% of the Exchange's gross paid premium from business written in Idaho. This 3% was included in the 10% which the Exchange agreed to pay ALMC under the aforementioned management agreement. The term of this agreement was January 1, 2014 through December 31, 2014 and may be cancelled by either party with ninety days prior written notice.

Another policy services agreement was executed between ALMC and MLA Services, Inc. (MSI), a Montana corporation. Under the terms of this agreement, ALMC appointed MSI as its exclusive Montana producer for workers' compensation insurance written with the Exchange. For the services rendered by MSI, ALMC agreed to pay MSI 4% of the Exchange's gross paid premium from business written in Montana. This 4% was included in the 13% which the Exchange agreed to pay ALMC under the aforementioned management agreement. The term of this agreement was July 1, 2014 through June 30, 2016 and may be cancelled by either party with ninety days prior written notice.

### **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the NAIC for an insurer of the Exchange's size and premium volume is not less than \$250,000. As of December 31, 2014, the Exchange had sufficient fidelity bond coverage subject to a loss limit of \$1,000,000.

In addition to the coverages noted above, the Attorney-in-Fact maintained workers' compensation and employers' liability; business property and liability; and employment practices liability insurance. The Attorney-in-Fact also maintained surety bond coverage pursuant to Section 41-2912, Idaho Code during the period under examination.

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

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Exchange does not have any employees and therefore, no pension, stock ownership or insurance plans.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2014, the Exchange was licensed to write workers' compensation insurance in Idaho and Montana. Operations of the Exchange were conducted from its main administrative office located in Boise, Idaho. In addition, an office to administer claims was maintained in Coeur d'Alene, Idaho.

As stated under the sub-caption, Contracts and Agreements, business was written on behalf of the Exchange through two policy services agreements. One was between the Associated Loggers Management Corporation (ALMC) and Associated Insurance Services, LLC on business produced in Idaho and the other one was between ALMC and MLA Services, Inc. on business produced in Montana. MLA Services, Inc. is a licensed producer (License # 66031) in the State of Montana.

## **GROWTH OF THE COMPANY**

The following represents the Exchange's Premium Activity and its relationship to surplus over the period of our examination:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Written Premium	\$13,442,671	\$11,604,939	\$ 9,164,105	\$ 7,970,658
Policyholder Surplus	12,794,388	12,525,723	11,625,859	11,714,832
Gross Written Premium to Policyholder Surplus Ratio	105%	93%	79%	68%

## MORTALITY AND LOSS EXPERIENCE

The following represents the Exchange's loss experience and its relationship to net premium income over the period of our examination:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Premium Earned	<b>\$11,393,492</b>	<b>\$10,297,668</b>	<b>\$7,947,755</b>	<b>\$6,795,027</b>
Loss Incurred	7,706,953	7,157,868	5,395,026	4,888,787
Loss Adjustment Expenses Incurred	974,641	464,366	563,117	423,926
Total Loss and Loss Adjustment Expenses Incurred	<b>\$8,681,594</b>	<b>\$7,622,234</b>	<b>\$5,958,143</b>	<b>\$5,312,713</b>
Total Loss and Loss Adjustment Expenses Incurred to Net Premium Earned (Loss Ratio)	76%	74%	75%	78%

The Exchange's loss experience has been consistent throughout the examination period.

## REINSURANCE

### *Assumed*

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

### *Ceded*

At December 31, 2014, the Exchange's retention limit was \$1,000,000 per occurrence and ceded the excess to various reinsurers in accordance with the allocation percentages through four excess of loss reinsurance contracts.

The reinsurance contracts were written and administered by its reinsurance intermediary, Benfield Inc., Minneapolis, Minnesota. Contracts in force during the examination period contained the standard insolvency clause, right of offset, arbitration, access to records, commutation, and errors and omissions provisions. The first three layer excess of loss reinsurance contracts were in force for a one-year term commencing April 1 each year. They

were renewed on a continuous basis, with substantially similar terms. The contracts also provided that for seven years after expiration, the Exchange would advise the reinsurers of any claims arising from occurrences which commenced during the contract term that had not been settled. The fourth layer excess of loss reinsurance contract was effective from April 1, 2014 through March 31, 2015 and it only provided excess of loss coverage on one policy in Montana.

The reinsurers that participated in the Exchange's reinsurance contracts executed Interests and Liabilities Agreements; these agreements specified the reinsurer's percentage share in the interests and liabilities set forth in the subject reinsurance contracts.

Coverage Structure of Reinsurance Program  
4/1/2014 – 3/31/2015

Type of Agreement	Reinsurer(s)	Exchange's Retention	Reinsurers' Limits
First Excess of Loss	Alterra Reinsurance USA Inc. (10%) Hannover Ruck SE (30%) Odyssey Reinsurance Company (15%) Lloyd's Underwriters and Companies (30%)	\$1,000,000	\$4,000,000 per occurrence; \$12,000,000 maximum during the term of this contract
Second Excess of Loss	Alterra Reinsurance USA Inc. (10%) Hannover Ruck SE (15%) Odyssey Reinsurance Company (15%) Lloyd's Underwriters and Companies (60%)	\$5,000,000	\$6,000,000 per occurrence; \$12,000,000 maximum during the term of this contract
Third Excess of Loss	Alterra Reinsurance USA Inc. (5%) Arch Reinsurance Company (9.25%) Markel at Lloyd's - Zurich Branch (40%) Lloyd's Underwriters and Companies (45.75%)	\$10,000,000	\$10,000,000 per person; \$20,000,000 maximum during the term of this contract
Fourth Excess of Loss	Lloyd's Underwriter Syndicates The Exchange can only obtain 40% coverage on this agreement; therefore, it self-insured the remaining 60%	\$20,000,000	\$20,000,000 per occurrence; \$20,000,000 maximum during the term of this contract. Note: This excess of loss contract only covered one policy in Montana

## ACCOUNTS AND RECORDS

### General Accounting

As previously reported, accounting, underwriting and claims administration services were provided to the Exchange by its Attorney-in-Fact, pursuant to the management agreement. Under this agreement, the Attorney-in-fact performed general accounting functions. However, an external accountant prepared the annual and quarterly statements filed at the Department.

Information technology services were provided to the Exchange under terms of the data processing agreement between the Attorney-in-Fact (ALMC) and Binary Options, Inc.

Primary Underwriting and Claims systems are hosted onsite and are maintained by Binary Options, Inc. Network Support is provided by MicroNet Systems. Montana claims are processed in Montana using Quick Internet Software Solutions. All financial transactions are still physical. All payments are printed on checks in the Boise office. In addition to the above system, each ALMC employee has a computer connected to the Internet through a DSL modem. These are used for email and web surfing, but are completely isolated from the NT network.

### Independent Accountants

The annual independent audits of the Exchange for the years 2001 through 2014 were performed by Presnell Gage PLLC Accounting and Consulting, Lewiston, Idaho. The financial statements in each report were on a statutory basis. There was some reliance on the 2014 audit report and workpapers in this examination of the Exchange.

### Actuarial Opinion

The policy reserves and related actuarial items were calculated by the Exchange and reviewed by Mark W. Mulvaney, FCAS, MAAA, with the firm of Milliman USA, Inc. The December 31, 2014 statement of opinion reported that the amounts carried in the balance sheet: (a) meet the requirements of the insurance laws of Idaho; (b) are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and (c) make a reasonable provision for all unpaid loss and loss expense obligations of the Exchange under the terms of its policies and agreements.

The identified actuarial items in the Annual Statement were as follows:

Reserve for unpaid losses (Page 3, Line 1)	\$15,549,584
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	1,160,412
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, totals from columns 13 and 15)	21,274,000
Reserve for unpaid loss adjustment expenses – direct and assumed (Schedule P, Part 1, totals from columns 17, 19, and 21)	1,203,000
Page 3 Write-in item reserve, "Retroactive reinsurance reserve assumed"	301,842

### STATUTORY DEPOSITS

As of December 31, 2014, the Exchange had provided the following deposits in trust for the protection of its policyholders and/or creditors through the office of the Director of Insurance in compliance with Section 41-316A, Idaho Code:

<u>Description</u>	<u>Statement</u>	<u>Fair Value</u>
	<u>Value</u>	
Air Products, 1.2%, 10/15/2017	250,441	247,473
Caterpillar, Inc, 2.6%, 6/26/2022	240,796	247,085
Stanley Black Mtn, 2.9%, 11/2/2022	255,888	246,480
Union Bank of California, 5.95%, 5/11/2016	300,710	318,210
	<u>          </u>	<u>          </u>
Total	\$ <u>1,047,835</u>	\$ <u>1,059,248</u>

The Exchange was also required to maintain a special deposit for the Idaho Industrial Commission. This deposit was not for the benefit of policyholders. The following is a schedule of securities on deposit with the Office of the State Treasurer:



<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Blaine County ID, 4.25%, 5/2/2020	\$ 269,953	\$ 271,530
Idaho St Hsg Fin, 5%, 7/15/2021	277,999	266,410
Boise City ID Urban Renewal, 5%, 8/15/2020	167,178	169,777
Boise City Urban Renewal, 5.25%, 8/15/2015	252,197	257,518
Idaho BD Bk Auth Rev, 4.2%, 9/15/2018	272,159	270,228
Idaho Health Facs Auth Rev, 5.75%, 11/1.2017	245,636	269,796
Idaho Hsg Fin Assn Grant Rev, 2.5%, 7/15/2015	249,547	253,020
Idaho St Bond Bank Auth Rev, 4.35%, 9/15/2019	277,082	272,845
Idaho St Hsg Fin, 5.25%, 7/15/2015	195,905	197,556
University of ID Rev Gen Ser, 5%, 4/1/2018	<u>106,528</u>	<u>101,175</u>
Total	<u>\$ 2,314,185</u>	<u>\$ 2,329,854</u>

In addition, the Exchange had the following statutory deposit with the Montana Department of Labor & Industry as of December 31, 2014:

<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
US Treasury, 2.125%, 5/31/15	<u>250,012</u>	<u>252,050</u>
Total	<u>\$ 250,012</u>	<u>\$ 252,050</u>

## FINANCIAL STATEMENTS

### Statement of Assets and Liabilities

As of December 31, 2014

#### ASSETS

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u>
Bonds	\$ 24,842,368	\$ -	\$ 24,842,368
Common stocks	1,950,329	119,441	1,830,888
Cash and short-term investments	3,574,488	-	3,574,488
Investment income due and accrued	281,257	-	281,257
Uncollected premiums and agent's balances	(323,844)	5,110	(328,954)
Deferred premiums	1,449,243	-	1,449,243
Amounts recoverable from reinsurers	75,659	-	75,659
Current federal income tax recoverable	59,022	-	59,022
Net deferred tax asset	546,340	468,386	77,954
Aggregate write-ins for other than invested assets	77,331	-	77,331
Totals	<u>\$ 32,532,194</u>	<u>\$ 592,937</u>	<u>\$ 31,939,257</u>

#### LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 1)	\$ 15,549,584
Loss adjustment expenses (Note 1)	1,160,412
Other expenses	363,788
Taxes, licenses and fees	145,311
Ceded reinsurance premiums payable	976,385
Funds held by company under reinsurance treaties	4,288
Amounts withheld or retained by company for account of others	364,672
Payable for securities	278,587
Aggregate write-ins for liabilities	301,842
Total liabilities	<u>\$ 19,144,869</u>
Surplus notes	\$ 47,474
Unassigned funds (surplus)	12,746,914
Surplus as regards policyholders	12,794,388
Totals	<u>\$ 31,939,257</u>

Statement of Income  
As of December 31, 2014

<u>UNDERWRITING INCOME</u>	2014
Premiums earned	\$ 11,393,492
Deductions:	
Losses incurred	7,706,953
Loss adjustment expenses incurred	974,641
Other underwriting expenses incurred	<u>2,473,535</u>
Total underwriting deductions	\$ <u>11,155,129</u>
Net underwriting gain or (loss)	\$ <u>238,363</u>
 <u>INVESTMENT INCOME</u>	
Net investment income earned	\$ 701,548
Net realized capital gains or (losses)	<u>52,549</u>
Net investment gain or (loss)	\$ <u>754,097</u>
 Net income before dividends to policyholders but before federal and foreign income taxes	 \$ <u>992,460</u>
Dividends to policyholders	\$ <u>600,000</u>
Net income after dividends to policyholders but before federal and foreign income taxes	 \$ <u>392,460</u>
Federal and foreign income taxes incurred	\$ <u>137,907</u>
Net income (loss)	\$ <u><u>254,553</u></u>

Capital and Surplus Account  
As of December 31, 2014

	<u>Per Exchange</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Surplus as regards policyholders, December 31, 2013	\$ 12,525,723	\$ -	\$ 12,525,723
<u>GAINS AND (LOSSES) IN SURPLUS</u>			
Net income (loss)	\$ 254,553	\$ -	\$ 254,553
Change in net unrealized capital gains or (losses)	45,500	-	45,500
Change in net deferred income taxes	31,928	-	31,928
Change in nonadmitted assets	<u>(63,315)</u>	<u>-</u>	<u>(63,315)</u>
Change in surplus as regards policyholders for the year	<u>\$ 268,666</u>	<u>\$ -</u>	<u>\$ 268,666</u>
Surplus as regards policyholders, December 31, 2014	<u>\$ 12,794,388</u>	<u>\$ -</u>	<u>\$ 12,794,388</u>

Reconciliation of Surplus  
From December 31, 2011 through December 31, 2014

	2011	2012	2013	2014*
Surplus as regards policyholders, prior year	\$ 11,927,196	\$ 11,714,832	\$ 11,625,859	\$ 12,525,723
<u>GAINS AND (LOSSES) IN SURPLUS</u>				
Net income (loss)	\$ (201,352)	\$ 66,021	\$ 880,989	\$ 254,553
Change in net unrealized capital gains or (losses)	9,236	132,542	127,508	45,500
Change in net deferred income taxes	(34,878)	18,183	(263,617)	31,928
Change in nonadmitted assets	19,921	(301,807)	151,072	(63,315)
Change in provision for reinsurance	-	(3,912)	3,912	-
Change in surplus notes	(5,291)	-	-	-
Change in surplus as regards policyholders for the year	\$ (212,364)	\$ (88,973)	\$ 899,864	\$ 268,666
Surplus as regards policyholders, current year	\$ 11,714,832	\$ 11,625,859	\$ 12,525,723	\$ 12,794,388

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments to surplus as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS**

<u>Note 1 - Losses &amp;</u>	<u>\$15,549,584</u>
<u>Loss Adjustment Expense</u>	<u>\$1,160,412</u>

The Department's consulting actuary (Taylor-Walker & Associates, Inc.) reviewed the actuarial opinion and supporting actuarial reports of the Exchange's loss and loss adjustment expense reserves as of December 31, 2014. Taylor-Walker concluded that the gross and net loss and loss adjustment reserves estimated by the opining actuary were reported by the Exchange as of December 31, 2014 were reasonable.

## SUMMARY OF RECOMMENDATIONS

Minor control weaknesses and discrepancies on the Exchange's IT systems, and books and records were observed during this examination. These weaknesses and discrepancies, along with the examiner recommendations for correcting them, were addressed separately in the management letter.

## ACKNOWLEDGEMENT

R. Glenn Taylor, ACAS, MAAA; Brent Sallay, ACAS, MAAA; and Solomon Frazier, FSA, ACAS, MAAA of Taylor-Walker & Associates, Inc. performed the actuarial phases of the examination. Jenny Jeffers, AES, CISA of Jennan Enterprises performed the Information Systems review. In addition to the undersigned, Jean Adams-Harris, CFE, CPA, CISA, AES, MCM of Johnson Lambert LLP, participated in the examination representing the Idaho Department of Insurance. Hermoliva B. Abejar, CFE, of Idaho Department of Insurance supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Exchange.

Respectfully submitted,

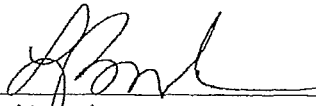
A handwritten signature in black ink, appearing to read 'LBrock', is positioned above the printed name.

Lori Brock, CFE  
Examiner-in-Charge  
Representing the Idaho Department of Insurance

## AFFIDAVIT OF EXAMINER

Idaho  
Boise

Lori Brock, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Associated Loggers Exchange for the period from January 1, 2011 through December 31, 2014, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

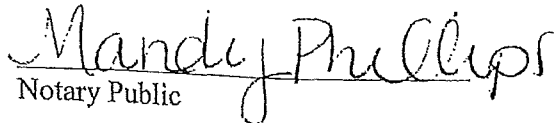


Lori Brock, CFE

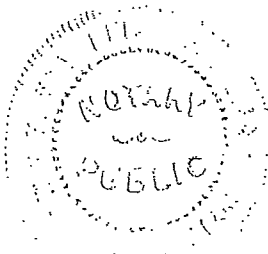
Johnson Lambert LLP

On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 3 day of June, 2016, at Cullman, Alabama



Notary Public



My Commission Expires: 5/23/20

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  
Website: <http://www.doi.idaho.gov>

DEAN L. CAMERON  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2014, of the:

**ASSOCIATED LOGGERS EXCHANGE**  
**3380 Elder Street**  
**Boise, ID 83705**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 3rd day of June 2016, 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 Company 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 9<sup>th</sup> day of June, 2016

**ASSOCIATED LOGGERS EXCHANGE**

John Graham  
Name (print)

John Graham  
Name (signature)

Pres./Att-in-Fact  
Title

