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FILED
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Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of: SURPLUS LINE ASSOCIATION OF IDAHO, INC. Registration No. 2044	Docket No. 18-3268-16 **ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2015**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of the SURPLUS LINE ASSOCIATION OF IDAHO, INC. (the "Association"), pursuant to Idaho Code § 41-219(1) and (5) and IDAPA 18.01.17.011.04.d, 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 the Surplus Line Association of Idaho, Inc. as of December 31, 2015 (Report), as filed.

FINDINGS OF FACT

1. The Association is a nonprofit organization under the general supervision of the Department and, pursuant to IDAPA 18.01.17.011.01, has had delegated to it the responsibility for determining eligibility for export of particular proposed coverages to eligible unauthorized insurers.

2. The Department completed an examination of the Association pursuant to Idaho Code § 41-219(1) and IDAPA 18.01.17.011.04.d on or about November 1, 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 November 1, 2016, and a copy of such verified Report was transmitted to the Association on November 3, 2016. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), the Association had thirty (30) days from service of the Report within which to review, comment, or request a hearing on the Report.

5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from the Association.

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 Association appears to be operating in compliance with the applicable provisions of chapter 12, title 41, Idaho Code, and related Department rules.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of the Surplus Line Association of Idaho, Inc. as of December 31, 2015, 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, the Association 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 27 day of December, 2016.

STATE OF IDAHO
DEPARTMENT OF INSURANCE

DEAN L. CAMERON
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 28th day of December, 2016, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2015 to be served upon the following by the designated means:

Surplus Line Association of Idaho, Inc. 595 South 14th Street Boise, ID 83702 wendy@idahosurplusline.org	☐ first class mail ☒ certified mail ☐ hand delivery ☒ email
Georgia Siehl, CPA, CFE Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State Street, 3rd Floor Boise, ID 83720-0043 georgia.siehl@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email

Pamela Murray

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

Of

THE SURPLUS LINE ASSOCIATION OF IDAHO, INC.

As of

December 31, 2015

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Boise, Idaho
November 1, 2016

Mr. Dean Cameron
Director of Insurance
State of Idaho
Department of Insurance
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Idaho, we have conducted an examination as of December 31, 2015, of the administrative affairs, books, records, and financial condition of:

The Surplus Line Association of Idaho, Inc.

595 South 14th Street
Boise, Idaho 83702

Hereinafter referred to as the "Association", at the primary location of its books and records in Boise, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope financial condition examination of the Association. The last exam was completed as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2015.

Examination Procedures Employed

Our examination was conducted in accordance with IDAPA 18.01.17.011.04.d. Due to the nature of the Association, the examination was not conducted as a risk-focused examination; however, key exhibits from the NAIC Financial Condition Examiners' Handbook were utilized and customized as appropriate for this examination.

The Association is incorporated as a not-for profit organization which is under the general supervision of the Department of Insurance, State of Idaho, and has had delegated to it the responsibility for determination of eligibility for export of particular proposed coverages to eligible unauthorized insurers, and to more effectively enforce the provisions of the surplus line brokers' laws.

The Association files financial statements, prepared by an independent certified public accountant, annually with the Department.

The Association retained the services of a certified public accounting firm, France, Basterrechea, Wagner & Bunn, Chtd., Gooding, Idaho, to audit its financial records for the years under examination. The firm provided the examiner access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation on a modified cash basis of accounting. This is a basis of accounting other than accounting principles generally accepted in the United States. Under the modified cash basis of accounting, accruals are not made for current assets and liabilities, but instead are made for long-term assets and liabilities.

All accounts and activities of the Association were considered during the examination process. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

The examination determined the risks associated with the Association's operations and considered mitigating factors. Interviews were held with the senior management of the Association to gain an understanding of the entity's operating profile and control environment.

This examination report includes findings of fact, as mentioned in Idaho Code§41-227(2) and general information about the Association and its financial condition. There may be other items

identified during the examination that, due to their nature, are not included within the examination report but separately communicated to the Association.

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 exception conditions reported in the prior Report of Examination, dated December 31, 2009, which covered the period from January 1, 2005 to December 31, 2009.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Association's reported net assets.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this report.

ASSOCIATION HISTORY

General

The Association is a quasi-governmental entity organized on January 1, 1958 under Title 41, Chapter 12, Idaho Code, IDAPA 18.01.17 and IDAPA 18.01.18. The Association was incorporated under the laws of the State of Idaho as a not-for-profit corporation on March 12, 1972. The Association received its tax exemption certificate from the Internal Revenue Service in December, 1972, under Internal Revenue Code Section 501(c)(6).

The Association was formed as a non-profit business league to facilitate and encourage compliance by licensed surplus line brokers who are members of the Association with Idaho laws, rules, and regulations, among other things. Any person licensed as a surplus line broker under the laws of Idaho shall become a member of the Association.

CORPORATE RECORDS

The meetings of the Members and Board of Directors were conducted on an annual and semi-annual basis, respectively, for all of the years under examination.

MANAGEMENT AND CORPORATE GOVERNANCE

Pursuant to Article XV of the Association's Bylaws, any person licensed as a surplus line broker under the laws of the State of Idaho shall become a member of the Association. The governing body of the Association is managed and conducted by the Board of Directors consisting of nine members, which automatically includes the officers: President, Vice-President/President-Elect, Secretary-Treasurer, and Immediate Past President. Five of the Directors shall represent the five geographical areas of Idaho set forth in Article IV of the Bylaws. All Directors are required to be members of the Association. All Officers are required to be members of the Association and must have served as regional directors for a minimum of one year.

The current Board of Directors and Officers are listed below.

Name and Business Address	Association Position and Affiliation
Tim Obenchain, CIC Twin Falls, Idaho	President
Ron Howell Pocatello, Idaho	Vice-President/President-Elect
Gail Johnson, CIC Boise, Idaho	Secretary-Treasurer
Scott O. Packham, CIC Blackfoot, Idaho	Immediate Past President
Darrell Kerby Bonners Ferry, Idaho	Director - Region 1
Mike Martin Lewiston, Idaho	Director - Region 2
Jan Christensen Boise, Idaho	Director - Region 3
Jacob Florence Twin Falls, Idaho	Director - Region 4
DeRay Perry, CPCU, AFSB Idaho Falls, Idaho	Director - Region 5

The number of Directors serving the Association at year-end 2015 was in compliance with the Association's Bylaws.

The Association's Bylaws provide for an Executive Committee. The members are selected by the Board of Directors. Members of the Executive Committee at year-end 2015 were:

Tim Obenchain, CIC	President
Ron Howell	Vice President/President-Elect
Gail Johnson, CIC	Secretary-Treasurer
Scott O. Packham, CIC	Immediate Past President

The Association also has a Finance Committee and a Nominating Committee is appointed. Members of the Finance Committee as of December 31, 2015 were:

Tim Obenchain, CIC	Mike Martin
Gail Johnson, CIC	

Members of the Nominating Committee as of December 31, 2015 were:

Scott O. Packham	Chair
Gail Johnson	
Mike Martin	

Management Agreement

The Association, under the general supervision of the Department, has been delegated various responsibilities and requirements under IDAPA 18.01.17. The Board of Directors, in turn, delegated management of the Association to Association Services, Group, Inc. (ASG). ASG is an association management firm providing a variety of managerial and other services to trade associations. Wendy Tippetts is the President/Owner of ASG. She is the current Manager and registered agent of the Association.

ASG provides managerial and other services to the Association under management agreements in effect January 1, 2011 through December 31, 2014, and January 1, 2015 through December 31, 2018. A management fee is paid to ASG on a monthly basis. ASG is also reimbursed for any extraordinary expenses.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2015, the Association had sufficient fidelity bond coverage of $1,000,000. The Association also has additional insurance protection for commercial property, liability, and umbrella/excess liability; directors & officers and employment liability, and cyber security.

GROWTH OF THE ASSOCIATION

The following represents the Association's stamping fee activity and its relationship to net unrestricted assets over the period of our examination.

	2015	2014	2013	2012	2011
Stamping Fees	$217,813	201,463	199,414	163,382	152,344
Net Unrestricted Assets	$1,011,299	999,013	1,004,826	1,064,387	1,145,731
Stamping Fees to Net Unrestricted Assets	22%	21%	20%	16%	14%

The stamping fees increased over the examination period due to increased writings. However, net unrestricted assets decreased because expenses were greater than unrestricted revenues and other support.

ACCOUNTS AND RECORDS

The annual independent audits of the Association for the years 2010 through 2015 were performed by France, Basterrechea, Wagner & Bunn, Chtd., Gooding, Idaho. Their audit reports were made available for the examination.

Document and information requests for the examination were generally made in writing. The Association provided the requested documentation and information in a timely manner.

STATUTORY DEPOSITS

The Association is not required to maintain a statutory deposit.

FINANCIAL STATEMENTS

Statements of Assets and Liabilities - Modified Cash Basis
[As of December 31, 2015]
Statements of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis
[As of December 31, 2015]
Reconciliation of Net Assets
[For all the years under examination]
Analysis of Changes in Financial Statements Resulting From Examination

Statements of Assets and Liabilities - Modified Cash Basis
As of December 31, 2015

ASSETS

Cash	$87,843
Short-term investments, at market value	1,887,472
Total Invested Assets	$1,975,315
Property and equipment, at cost, less accumulated depreciation	35,984
Total Assets	$2,011,299

LIABILITIES ANDNET ASSETS

Unrestricted	
Designated (Note 1)	$1,000,000
Undesignated	1,011,299
Total Net Assets	$2,011,299

Statements of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis
As of December 31, 2015

UNRESTRICTED REVENUES AND OTHER SUPPORT		
Stamping Fees		$ 217,813
Western States Conference revenue (Note 2)		85,360
Investment income		7,574
Rent		10,800
Other		1,141
Total revenue		$322,688
EXPENSES		
Management fees	$160,000	
Western States Conference expenses (Note 2)	60,243	
Depreciation	1,092	
Insurance	7,085	
Legal and accounting	10,470	
Maintenance	19,449	
Office expense	654	
Travel	37,453	
Other expenses	13,956	
Total expenses	$ 310,402	
Net change in unrestricted net assets		$12,286
Net Assets, beginning of year		$1,999,013
Net Assets, end of year		$2,011,299

Reconciliation of Net Assets

	2015	2014	2013	2012	2011	2010
Net Assets, prior reporting year	$1,999,013	$2,004,826	$2,064,387	$2,145,731	$2,243,254	$2,241,949
Net change in unrestricted net assets	$12,286	$(5,813)	$(59,562)	$(81,344)	$(97,523)	$1,305
Net Assets, end of reporting period	$2,011,299	$1,999,013	*$2,004,826	$2,064,387	$2,145,731	$2,243,254

*Rounding: $1.

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments made to net assets in the Report of Examination.

NOTES TO FINANCIAL STATEMENTS

Note (1)	Designated Funds	$1,000,000

Designated funds include resources available for current operations that have been set aside by the Association's Board of Directors. The funds are designated for indemnification for unforeseen litigation as well as purchasing and maintaining equipment for use in the operations of the Association.

Note (2)	Western States Conference revenue	$85,360
	Western States Conference expenses	60,243

The Western States Surplus Lines Conference is traditionally hosted on a rotating basis amongst the stamping offices. The Board of Directors agreed that the Association would host the 2015 Western States Surplus Lines Conference in Sun Valley, Idaho. In this connection, the Board accepted the 2015 budget which included the Western States conference expenses such as a conference management fee, hospitality charges, meals, entertainment, events/activities, and speaker fees, among other things. The revenues included registrant and activities fees as well as contributions from other stamping offices.

COMMENTS AND RECOMMENDATIONS

There are no comments and recommendations noted in this Report of Examination. Minor issues were noted while reviewing the Association's internal controls. These, along with several best practices were suggested to the Association which are addressed separately in the Management Letter.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation extended during the course of the examination by representatives of the Association.

Respectfully submitted,

Lois Haley

Lois Haley, CFE
Examiner-in-Charge
Representing the Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State: Oregon
County: Multnomah

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 Surplus Line Association of Idaho, Inc. for the period from January 1, 2010 through December 31, 2015, 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.

Lois Haley
On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 1st day of November, 2016, at Portland, Oregon

Notary Public

OFFICIAL SEAL
PATRICK J CONNELL
NOTARY PUBLIC - OREGON
COMMISSION NO. 474560
MY COMMISSION EXPIRES JANUARY 24, 2017

My Commission Expires: 01/24/2017