

Department effective June 27th, 2006, and is attached hereto and incorporated herein as Exhibit A.

A copy of the verified Report of Examination, along with a Waiver form, were transmitted to the Company on June 27, 2006 electronically (e-mail).

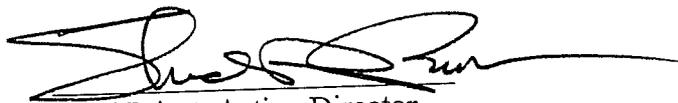
WAIVER

The Waiver was signed by Mr. Richard Ferguson, Executive Director, dated June 27, 2006, and is attached hereto and incorporated herein as Exhibit B. By signing the Waiver, ICRMP consents to the immediate entry of a final order adopting the Report of Examination without any modifications, and the Company has also waived its rights to reconsideration and appeal / judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto and incorporated herein as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described Report of Examination, Exhibit A, is hereby ADOPTED as the final examination report and as an official record of the Department pursuant to Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 29th day of June 2006.



Shad Priest, Acting Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of June, 2006, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Richard Ferguson	<u> X </u>	certified mail
Executive Director	<u> </u>	first class mail
Idaho Counties Risk Management Program,	<u> </u>	hand delivery
Underwriters	<u> </u>	
3100 Vista Avenue, Suite 300	<u> </u>	facsimile
Boise, Idaho 83705	<u> X </u>	e-mail

Mr. Tim Osborne, Controller	<u> </u>	certified mail
Idaho Counties Risk Management Program,	<u> </u>	first class mail
Underwriters	<u> </u>	
3100 Vista Avenue, Suite 300	<u> </u>	hand delivery
Boise, Idaho 83705	<u> </u>	facsimile
	<u> X </u>	e-mail

Georgia Hill, Bureau Chief / Chief Examiner	<u> </u>	certified mail
Idaho Department of Insurance	<u> </u>	first class mail
700 W. State St., 3 rd Floor	<u> </u>	hand delivery
Boise, Idaho 83720-0043	<u> </u>	facsimile
	<u> X </u>	e-mail



William R. Michels, MBA, CFE
Examinations Supervisor
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of the

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS
(ICRMP)

(NAIC Company Code 36480)

as of

December 31, 2004

FILED	<u>6/27/06</u>	<u>Al</u>
	date	initial
ADOPTED	<u>6/29/06</u>	<u>Al</u>
	date	initial
STATE OF IDAHO Department of Insurance		

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State of Idaho
DEPARTMENT OF INSURANCE

JAMES E. RISCH
Governor

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

SHAD PRIEST
Acting Director

Boise, Idaho
June 27, 2006

The Honorable Shad Priest
Acting 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, 2004 of:

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS (ICRMP)

**3100 VISTA AVENUE, SUITE 300
BOISE, IDAHO 83705**

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

SCOPE OF EXAMINATION

This examination covered the period January 1, 2000 through December 31, 2004, as well the related loss development / run-off of the December 31, 2004 loss reserves up through March 31, 2006. Material transactions and/or events occurring subsequent to the examination date(s) were also reviewed.

The examination was conducted at the Boise, Idaho office of ICRMP by examiners from the state of Idaho. 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*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Michael Lamb, LLC, consulting actuary for the Idaho Department of Insurance. A risk assessment review of ICRMP's IT systems and controls was performed by Examination Resources, LLC (Atlanta, Georgia). There was some reliance placed on the 2004 certified public accountant's statutory audit report and work papers during the examination of ICRMP.

A letter of representation attesting to ICRMP's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior examination was conducted by the State of Idaho and covered the period from January 1, 1997 through December 31, 1999.

The Comments and Recommendations contained in that Report and ICRMP's response (Tim Osborne, Controller) to those comments and recommendations were as follows:

Administrator/Attorney-in-Fact

It is recommended that the JPSA be reviewed by DOI for compliance with the requirements in Section 41-2910, Idaho Code.

ICRMP Response

No action has been taken by ICRMP on this recommendation.

Contracts and Agreements

It is recommended that ICRMP monitor and periodically review the associations' techniques utilized in the promotion of the sale of insurance to confirm that they are not performing any services requiring an agent's license.

ICRMP Response

Endorsement contracts with the Idaho Association of Counties and the Association of Idaho Cities have been reviewed. Both associations provide advertising space in their news letters, booth space at their conferences, and general support for ICRMP. Licensed independent agents are the only means in which public entities can obtain membership with ICRMP. The associations perform no activities that would require licensing by the Department of Insurance.

Reinsurance

It is recommended that two reinsurance agreements (Royal and Federal) be amended to include an insolvency clause, and that all future reinsurance agreements contain all necessary clauses.

ICRMP Response

The insolvency clause was addressed concerning the Royal and Federal policies. Documentation of this is retained in our records.

Additionally, it was noted that ICRMP received only a Cover Note for one of the agreements. It is recommended that, in the future, if a cover note is received that a signed agreement is promptly requested to replace the issued cover note.

ICRMP Response

ICRMP has not enacted any formal policy regarding receiving reinsurance policy cover notes. We have had recent staffing changes that should ensure that all reinsurance contracts are accounted for and properly filed. Also, the reinsurer that issued that cover note during the previous exam is no longer a vendor of ICRMP.

Accounts and Records

It was noted that ICRMP utilized the independent accountant's reconciliation of GAAP to SAP adjustments for the 1999 Annual Statement workpapers. It is recommended that ICRMP establish and be able to provide a schedule of/and a reconciliation for Annual/Quarterly Statement GAAP to SAP adjustments.

ICRMP Response

As requested, I prepare quarterly and annual reconciliation between GAAP and SAP.

Real Estate: Properties Occupied by the Company

The 1999 Annual Statement's not admitted portion for ICRMP's Home Office of \$31,810 was admitted for purposes of this examination. The total net changes in Surplus for the 1999 Examination exceeded the net book value of the not admitted portion, which meets the conditions of the 1996 Waiver of Idaho Code Section 41-728(2)(a) limitations. The Real Estate – Properties Occupied by the

Company item's examination admitted amount will be \$3,594,264. (Note: This represents the full book value of Home Office located at 3100 Vista Ave, net of depreciation.)

A waiver granted in 1996 has allowed the Home Office Book Value to be utilized to the extent necessary to maintain a minimum \$2,000,000 surplus level. As of the December 31, 2000 Annual Statement filing on March 1, 2001, this waiver will expire. The implication of Idaho Code Section 41-728(2)(a) and its limitation of admitting the Home Office value only to 10 percent of ICRMP admitted assets will come into effect.

It is recommended that ICRMP review the conditions of the 1996 Waiver of Idaho Code Section 41-728(2)(a) limitations on the Home Office admitted net book value. ICRMP should determine what steps they should take to be in compliance with Idaho Code Section 41-728(2)(a) prior to expiration of the 1996 Waiver agreement and associated filing date of the December 31, 2000 Annual Statement.

It is recommended that, in the future, Schedule A should be prepared utilizing only the Building Cost and any additions or deletions related to the fixed assets of that building.

ICRMP Response

Concerning its home office, ICRMP has been in compliance with Idaho Statutes since the 12/31/99 examination.

Premiums, Agents' Balances in Course of Collection

During the review of ICRMP's aging of premiums receivable, it was determined that ICRMP is exempt from the requirement to report the over-90-day not admitted portion of premiums receivable, based on Section 41-601(5), Idaho Code. This Code Section permits the admission of premiums in the course of collection not more than three months past due, but, this limitation shall not apply to premiums payable directly or indirectly by... any other political subdivision of the State of Idaho, including municipalities, etc. ICRMP would be exempt since it deals exclusively with political subdivisions of the State of Idaho. ICRMP's 1999 Annual Statement indicated that \$31,959 was not admitted and surplus will be increased to admit the over-90-day old premium receivable.

It is recommended that over-90-day old premiums be admitted as an asset for future Annual Statement filings.

ICRMP Response

This recommendation has been implemented.

Losses & Loss Adjustment Expense

Taylor-Walker & Associates, Inc., 1999 examination's contract actuarial findings and comments were as follows:

- Our reserve calculations indicated that ICRMP's net of reinsurance reserves as of December 31, 1999 were outside a range that we consider reasonable. Based upon these findings, we recommend the following examination adjustments to ICRMP 1999 Annual Statement reserves:

Reserves	Per ICRMP	Recommended Adjustment	Per Examination
Net Losses	\$ 4,103,877	\$ 782,757	\$ 4,886,634
Net LAE	\$ 2,295,264	\$ 437,789	\$ 2,733,053
Total Net	\$ 6,399,141	\$ 1,220,546	\$ 7,619,687

- The 1999 reserve opinion contained the required language stating that actuarial reserving data were reconciled to Schedule P of the 1999 Annual Statement. However, the opening actuary did not address this reconciliation in the reserve study. We recommend that the actuary conduct the required reconciliation in future reserve analyses and display that reconciliation in the reserve study.
- The derivation of ULAE reserves is not contained within the reserve study. We recommend that information supporting the selected ratio as well as the derivation of ULAE reserves be included in future reserve studies.

We found several instances of missing data in Schedule P of the 1999 Annual Statement, including the omission of adjusting and other (AO) payments. We recommend that ICRMP complete all applicable portions of Schedule P in future annual statements.

ICRMP Response

The recommendations of the prior examiner were communicated to ICRMP's actuary and corrective action was taken by them.

Other Expenses

A review of Taxes, Licenses and Fees noted that, according to the NAIC Annual Statement Instructions, a reclassification of Commissions Payable of \$696,430 and Commissions Receivable of \$2,485 to Other Expenses is called for. A decrease in surplus in the amount of \$6,630 will be necessary for examination purposes. (See Taxes, Licenses and Fees, for further details and recommendations.)

ICRMP Response

I believe commissions payable and receivable have been properly classified in future statutory filings.

Taxes, Licenses and Fees Due or Accrued

It is recommended that ICRMP reclassify Commissions Payable to the Other Expenses' Annual/Quarterly line items for future statutory filings.

ICRMP Response

I believe commissions payable has been properly classified in future statutory filings.

Amounts Withheld or Retained on Account of Others

It is recommended that accounts be reviewed for year-end State Income Tax and Health Insurance adjustments.

ICRMP Response

The recommended annual review has been performed.

Unassigned Funds

The Unassigned Funds (Surplus) amount of \$2,000,000 was established as a result of the Idaho Department of Insurance allowing ICRMP to admit a sufficient amount of home office real estate holdings (which exceeded the statutory limit) to the extent that minimum surplus requirements are maintained, per Section 41-313, Idaho Code. The 1999 examination determined that Unassigned Funds (Surplus) of \$2,000,000 should be decreased by \$1,164,759 to \$835,241 as of December 31, 1999.

ICRMP Response

This recommendation was performed as requested.

HISTORY AND DESCRIPTION

ICRMP was organized pursuant to the Joint Powers Act, under the authority of Idaho Code Title 67, Chapter 23, Sections 67-2326 to 2333. It commenced business operations on November 29, 1985.

The original business name of the entity was "Idaho Counties Reciprocal Management Program," and it was recognized and treated as an "insurance fund," and as an extension of the Idaho Association of Counties (IAC). It was subsequently determined that ICRMP would be required to be licensed as an insurer and separate entity, pursuant to Title 41, Chapter 29, Idaho Code. On February 1, 1986 it was issued a certificate of authority to write all property and casualty lines of business excluding workers compensation.

By resolution of the Board of Trustees, effective October 6, 1993, "Reciprocal" was deleted from the original business name and replaced with "Risk." On December 16, 1993, "Underwriters" was added to the name in order to comply with Section 41-2905, Idaho Code. The full business name of the entity, as revised, became and is currently known as "Idaho Counties Risk Management Program, Underwriters."

ICRMP was founded for the purpose of providing property and casualty insurance coverages for public agencies of the State of Idaho. The original Joint Powers Agreement granted ICRMP authority to plan, organize, direct, control, and finance the Program, allowing for additional coverage to be obtained reinsurance companies.

"Public Agency," as defined by the Idaho statutes, means any city or political subdivision of the state including, but not limited to, counties, school districts, highway districts, port authorities, instrumentalities of counties, cities, or any political subdivision thereof created under the laws of the State of Idaho.

The original membership was limited to counties which were members of IAC, however, an amendment to the Joint Powers Agreement, effective September 21, 1989, allowed any political subdivision in the State of Idaho (but not the State) to apply for membership as a subscriber for coverage by ICRMP.

The entities for which coverage is provided are known as subscriber "Members." Twenty-six members formed the foundation of ICRMP in 1985. Each member is independent of the other and premiums are established annually by the Board. An individual member's premium shall be limited to the amount set for that policy year, unless the member requests additional coverage. The policies are non-assessable. The Board may offer premium incentives to those faithfully participating in loss prevention and safety programs, and/or increase premiums based on changes in risk, violations of safety or loss prevention programs or for other reasons established by the Board.

ICRMP, the Attorney-in-Fact, delegated specific powers, within the Joint Powers Subscriber Agreement, to the Executive Director/Administrator to run the day-to-day operation of ICRMP.

MANAGEMENT AND CONTROL

An advisory group known as the Board of Trustees (Board) guides the management and control of ICRMP. The Board is elected by the Subscribers in accordance with the provisions of Article X of the Joint Powers Subscribers Agreement (JPSA). The Board shall consist of nine persons, including seven elected county commissioners and two elected officials from political subdivisions. For purposes of geographical representation, the counties are grouped into six districts, each of which will be represented by a county commissioner, and two "Regions", which include all political subdivisions except counties as specified in certain districts. One member-at-large may be selected from all of the Member counties within the State of Idaho.

The primary duties of the Trustees include, but are not limited to the following:

1. To annually elect a chairman and vice-chairman.
2. To admit or expel Members in accordance with this Agreement.
3. To establish contribution amounts and payment procedures for the Members.
4. To establish the insurance and risk management program design for ICRMP.
5. To provide for the selection of all personnel and contractors necessary for the administration and operation of ICRMP, including the appointment of a primary administrator to supervise the business of ICRMP and carry out functions delegated by the Board.
6. To establish a schedule for Board Meetings.
7. To fill vacancies on the Board by majority vote of the remaining trustees for the expired term.
8. To exercise all powers of ICRMP, except powers reserved for the Members.
9. To prepare, adopt and oversee ICRMP's budget.
10. To provide for underwriting, claims and loss control procedures.
11. To provide for the investment and disbursement of funds.
12. To provide to Members an annual report of operations and financial condition.

The Board of Trustees may set a time and place for regular meetings in accordance with applicable law and Article XIV (14) of the JPSA. A review of the minutes of meetings held by the Board during the period under examination indicated that meetings are generally held bi-monthly on a regular basis.

A review of ICRMP's Corporate Records indicated that most of the biographical affidavits on its Officers and Trustees have been filed with the Idaho Department of Insurance. One of the trustees and

the executive director's biographical affidavit could not be found in the Department records. ICRMP provided proof that the executive director's affidavit had been sent to the Department. However the one trustee's affidavit was not sent in. Since then, the trustee has been replaced on the Board of Trustees.

During a discussion with the Controller, it was noted that ICRMP has not provided biographical affidavits for several of the Trustees that have joined the Board since December 31, 2004. It is recommended that ICRMP provide biographical affidavits for the current trustees for which biographical affidavits have not been previously submitted to the Idaho Department of Insurance.

Trustees

The following persons were serving as Trustees and Officer of ICRMP as of December 31, 2004:

<u>Name</u>	<u>Business Address</u>
Jack Buell	St. Maries, ID
Jerry Nance	Dietrich, ID
Seth Beal	Moore, ID
Terry Gestrin	Donnelly, ID
Ted Ellis	Boise, ID
Todd Lakey	Nampa, ID
Craig Rockwood	Iona, ID
Joe Leitch	Nezperce, ID
Jerry Bush	Malad, ID

Officer:

Richard Ferguson	Executive Director
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Committees

The Joint Powers Subscribers Agreement authorizes the Board to form committees and advisory panels on an as needed basis. As of December 31, 2004, no committees had been appointed and established during the period under examination.

Conflict of Interest

ICRMP does have an established conflict of interest policy in accordance with Section 41-2837, Idaho Code, and requires that all trustees, officers and other key employees submit a written disclosure form annually. The signed statements for the examination period were reviewed, and it did not appear that any of the subject individuals who submitted the forms had a serious conflict or potential conflict of interest which would interfere with or compromise their performance of duties, or result in any negative impact on the operations of ICRMP.

The review of the statements revealed that ICRMP was not requiring the key employees to complete a conflict of interest statement annually for 2002, 2003 or 2004. However, in 2005 these employees did complete a conflict of interest statement. It is recommended that ICRMP have all of its Board of Trustees, officers and other key employees complete a conflict of interest statement annually.

Contracts and Agreements

ICRMP was party, during the period under examination and/or subsequently thereto, to the following contracts and agreements:

1. Support/Services Agreement with Idaho Association of Counties (IAC)
2. Support/Services Agreement with Association of Idaho Cities (AIC)
3. An Investment Agreement with Burroughs & Hutchinson, Inc. (B & H)
4. Various lease agreements from tenants of the ICRMP building
5. Property Management Agreement with Colliers

1. Support/Services Agreement with IAC

Effective August 19, 1992, IAC is to provide assistance and support to ICRMP in promoting the sale of insurance to all public entities within the State of Idaho, although it is stipulated that IAC will not act as an agent or representative of ICRMP, and has no power to bind ICRMP to any insurance agreement or arrangement.

The support services provided to ICRMP include the following:

1. Lobbying services to the Idaho State Legislature and state agencies on behalf of ICRMP.
2. Free advertising in IAC publications.
3. Providing and promoting support for ICRMP insurance in presentations, publicly support and encouraging public entities to place insurance coverage with ICRMP.
4. Providing ICRMP with IAC publications and access to IAC meetings at no cost to ICRMP.
5. Providing training programs for county and other governmental officials with regard to ICRMP insurance.

The agreement provides that IAC will be compensated for these services at the rate of \$12,500 per month, payable in equal quarterly installments of \$37,500 every three months, payable within the first 20 days of each quarter.

The agreement may be terminated by either party for "good cause" upon 90 days written notice to the other party.

2. Support Services Agreement with AIC

Effective July 1, 1993, AIC is to provide support and assistance to ICRMP in promoting the sale of insurance to cities throughout the State of Idaho through its staff, expertise and contacts. It is expressly agreed, however, that AIC is not an agent or representative of ICRMP, and has no power to bind ICRMP to any agreement or insurance arrangement.

The support services provided to ICRMP include the following:

1. Copies of various publications such as AIC Directories, Municipal Sourcebooks, Idaho Cities Magazines, and other reports and publications at no cost.
2. Free limited advertising in AIC publications, and access to AIC meetings.
3. Providing and promoting support for ICRMP insurance in presentations, publicly support and encouraging cities to place insurance coverage with ICRMP.
4. Supporting ICRMP legislative efforts if such legislation would be beneficial to cities.
5. Providing training programs for city and governmental officials at its conventions.

The agreement was modified January 12, 2004 so that AIC would be compensated for its services in the amount of \$115,000 per year. The amount could be adjusted on January 15 if shared membership (those entities who are members of both ICRMP and AIC) declined by more than 50%. The compensation was payable semi-annually in January and July each year in advance.

The agreement may be terminated by either party for "good cause" upon 90 days written notice to the other party.

3. Investment Agreement / Burroughs and Hutchinson (B & H)

Effective March 12, 1996, ICRMP entered into an investment management contract with B&H of Boise, Idaho. Under the terms of this agreement, B&H is retained as investment counsel and is authorized to manage, invest, reinvest, buy, sell and trade funds and securities on behalf of ICRMP, through various banks or brokers as designated by ICRMP. B&H is not authorized to withdraw funds or securities from the account, however.

B&H is compensated for its services by a quarterly fee of one-fourth of one percent of the balance of the total funds under its management authority at the beginning of each calendar quarter.

The agreement may be terminated at any time, by either party, upon presentation of a written notice.

4. Various lease agreements from tenants of the ICRMP building

ICRMP owns the building it uses as its home office. Each floor has approximately 10,000 square feet of rentable space. ICRMP occupies approximately half of the third floor and leases the remaining space in the building. The review of the various leases showed that one tenant occupied the entire first floor. On the second floor there were three occupying tenants, however approximately 2,000 square feet of space was empty. Another tenant occupied the second half of the third Floor. The review showed that each lease appeared to be properly signed and that each tenant had provided the required insurance documentation. For additional comments regarding the NAIC reporting requirements for ICRMP's home office building, see the NOTES TO FINANCIAL STATEMENTS section in this report.

5. Property Management Agreement with Colliers

ICRMP signed an agreement in October 2002 with Colliers International to manage the tenants of the ICRMP building. Colliers was responsible for collecting the rental payments and paying the various building expenses. Colliers also assisted in procuring new tenants and helping with the renewal of current leases. For these services Colliers was paid a flat fee for the management portion and a commission for the procurement of new and renewal leases. This agreement was terminated in October 2004.

CORPORATE RECORDS

As ICRMP is a reciprocal, there are no Articles of Incorporation, which would be common to a conventional insurance company.

Shortly after its inception in 1985, ICRMP adopted a "Constitution and ByLaws," effective January 16, 1985. This document contained four Articles, which outlined the purposes and objectives of ICRMP, the duties and powers of the Board of Trustees, the rights and obligations of Members, and a severability provision. It was adopted in conjunction with the Joint Powers Agreement, which became effective November 29, 1985. Subsequently, over a period of several years, all of the provisions contained in the original Constitution and ByLaws were merged into and became a part of the Joint Powers Agreement. On January 16, 1997, the Board of Trustees approved the merger of the Joint Powers Agreement and Subscribers' Agreement, which became the Joint Powers Subscriber Agreement (JPSA).

The JPSA outlines and provides the general policies, procedures, guidelines and rules of ICRMP which must be adopted by and adhered to by all Members, and are considered to be the major governing written authority of the operation, along with the appointment of ICRMP as the Attorney-in-Fact. In addition to the aforementioned, there are ByLaws of the Board of Trustees, which provide procedural standards for the duties and functions of the Board.

Joint Powers Subscriber Agreement

On January 16, 1997, the JPSA was approved by the Board of Trustees. The current agreement includes 23 Articles. The major Articles primarily describe and outline various purposes, functions, guidelines and procedures, including the following:

- II. Establishment, Maintenance and Participation in ICRMP
- III. Purposes and Duration of ICRMP
- IV. Manner of Financing
- VI. ICRMP Powers and Duties
- VIII. Members' Rights and Obligations – Dispute Resolution Procedures
- IX. Member Contributions
- X. Board of Trustees – Election and Removal
- XI. Powers and Duties of the Board of Trustees
- XII. Establishment of Loss Paying Fund
- XVI. Withdrawal From Membership
- XVII. Expulsion of Members
- XVIII. Binding Contractual Obligation
- XX. Severability
- XXI. Power of Attorney

The JPSA was not amended during the period under examination. Subscribers are initially required to sign the agreement along with an ICRMP authorized officer.

Bylaws of the Board of Trustees

This document establishes and provides procedural standards by which the Board of Trustees carries out its duties pursuant to the terms of the Joint Powers Agreement. The Bylaws in effect as of December 31, 1996, and/or subsequently thereto, were adopted May 25, 1990.

It is noted that, in the event of any instances of conflict, the Bylaws are considered to be subordinate to the Joint Powers Subscribers Agreement that establishes ICRMP, both as it existed at the time of adoption of the Bylaws and as the JPSA may be amended in the future.

Subsequent to the examination date, effective October 1, 2005, ICRMP amended the JPSA and incorporated the Bylaws into the JPSA. Thus ICRMP has only one document for its governance. The review of the corporate files and the analysis files at the Idaho Department on April 12, 2006, revealed that this changed JPSA had not been filed with the Idaho Department. It is recommended that ICRMP file changes to its Joint Powers Subscriber Agreement each time the document is changed and approved by the Board of Trustees with the Idaho Department of Insurance.

Power of Attorney

Under the provisions of Idaho Code Section 41-2907, ICRMP, as a joint powers entity, has the full power and authority to plan, organize, direct, and manage the day to day activities of ICRMP and its staff, and to sign, seal, execute, deliver and acknowledge such instruments in writing of whatever kind and nature as may be necessary or proper in the premises on behalf of ICRMP. It appears that in the JPSA, Article XXI (1) & (2), the Members appointed ICRMP to be Attorney-in-Fact (AIF) and agreed that the Board of ICRMP may delegate powers to an Executive Director in accordance with the JPSA. The Executive Director is empowered by the Members to accept service of process on behalf of ICRMP. The Power of Attorney conveyed in the JPSA, Article XXI, shall expire upon termination of ICRMP.

Minutes of Meetings

A review of the minutes of the meetings of the sole Member and of the Board of Trustees for the period under examination indicated compliance with the Joint Powers Subscribers Agreement and the Bylaws. The minutes reflected the annual elections of the Board of Trustees and Officers, acceptance of CPA's Annual Reports, investment transactions and approval for the merger of the Joint Power and Subscribers Agreement. The meetings were well attended and the minutes were duly signed. However, there were no minutes that showed acknowledgement of the receipt, review and acceptance of the examination report as of December 31, 1999. It is recommended that the minutes of the ICRMP Board reflect the review and acceptance of the Department of Insurance examinations in the future.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of ICRMP have been maintained through the period under examination. Coverages in effect as of December 31, 1999, and/or subsequently thereto are summarized as follows:

Fidelity Bond

ICRMP is protected by a fidelity bond, which covers dishonest or fraudulent acts by employees up to \$2,000,000 (single loss and aggregate) with a single loss deductible of \$20,000. The fidelity bond coverage exceeds suggested minimum limits of \$300,000, as recommended by the NAIC.

Other Insurance Coverages

Other insurance coverage maintained by ICRMP included property, insurance company professional liability, employers' and general liability, business automobile liability and property damage, workers compensation, and commercial umbrella coverages.

The insurance companies providing the fidelity bond and other coverages for ICRMP were authorized insurers in the State of Idaho.

OFFICERS & EMPLOYEES BENEFIT PLANS

ICRMP provided a number of benefits to full-time employees. A Personnel Policy, which contained a description of ICRMP's policies and practices, compensation, employee benefits and leave policies, and general rules and discipline procedures, was provided to each employee. The employees are granted paid time off (PTO) in lieu of vacation or sick leave. The employee benefits include, but are not limited to, health and dental insurance, life insurance, retirement through the Public Employees Retirement System of Idaho (PERSI), parental leave and recognition of ten holidays each year.

TERRITORY AND PLAN OF OPERATIONS

ICRMP is licensed only in the State of Idaho as a domestic property and casualty reciprocal insurer, and the business written is limited exclusively to Public Agencies as defined by Idaho Statutes. The public entities and weed spray liability policies written are issued for maximum one year periods from October 1 through September 30 each year.

The Department of Insurance Active Appointment listing indicated that 56 agencies and agents were appointed. The list of appointed agents obtained directly from ICRMP had some agents that were not on the one provides by the Department. Also, some of the agents on the Department list were no longer producing for ICRMP. After a discussion with the Member Services Coordinator, ICRMP noted that they were aware of this discrepancy and were currently working with the Department to correct this. During the examination, the discrepancy was corrected. It is recommended that ICRMP review its current listing of appointed agents with the Department of Insurance web site annually.

The agents' primary responsibilities are to serve as local representatives of ICRMP, providing consultation and technical assistance to the Subscribers, and to file new or renewal applications with ICRMP. The agents are under an appointment agreement with ICRMP, and are subject to specific rules and regulations promulgated by ICRMP. The agents cannot bind or execute contracts of insurance on behalf of ICRMP. Compensation commissions to the agents are based on percentages of annual member contributions.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2004, ICRMP provided the following securities in trust for the protection of its policyholders and creditors, through the Director of the Idaho Department of Insurance and held by Wells Fargo Bank, in order to comply with Section 41-316, Idaho Code:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
U.S. Treasury Note	\$ 250,000	\$ 249,536	\$ 248,398
U.S. Treasury Note	300,000	299,733	292,077
U.S. Treasury Note	250,000	249,978	249,610
U.S. Treasury Note	<u>250,000</u>	<u>249,757</u>	<u>250,353</u>
Totals	<u>\$1,050,000</u>	<u>\$1,049,004</u>	<u>\$1,040,438</u>

GROWTH OF ICRMP

The following schedule reflects the growth of ICRMP, as reported in ICRMP's annual statements, for the five-year period ending December 31, 2004:

<u>Year</u>	<u>Net Admitted</u>		<u>Surplus</u>	<u>Net Gain (Loss)</u>
	<u>Assets</u>	<u>Liabilities</u>		<u>From Operations</u>
1999 *	\$14,937,357	\$14,102,117	\$ 835,240	\$ (957,862)
2000	\$13,957,530	\$13,049,033	\$ 908,497	\$ 403,994
2001	\$17,824,707	\$15,013,640	\$ 2,811,067	\$ 39,803
2002	\$23,981,422	\$17,900,783	\$ 6,080,639	\$3,278,966
2003	\$29,154,304	\$19,261,926	\$ 9,892,378	\$3,954,178
2004 *	\$34,305,286	\$21,453,787	\$12,851,499	\$2,936,714

*per examination

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in ICRMP's Annual Statements are scheduled below:

<u>Year</u>	<u>Premium Earned</u>	<u>Losses & LAE Incurred</u>	<u>Expenses Incurred</u>	<u>Total Losses, LAE and Expenses</u>	<u>Ratio to Earned Premium</u>
1999 *	\$ 7,622,359	\$6,530,676	\$2,640,727	\$ 9,171,403	120.32%
2000	\$ 7,647,170	\$5,268,170	\$2,649,748	\$ 7,917,918	103.54%
2001	\$ 8,565,339	\$6,279,986	\$2,756,657	\$ 9,036,643	105.50%
2002	\$10,422,711	\$4,680,192	\$2,988,364	\$ 7,668,556	73.58%
2003	\$12,449,509	\$6,282,061	\$3,220,593	\$ 9,502,654	76.33%
2004 *	\$13,010,011	\$7,670,865	\$3,454,568	\$11,125,433	85.51%

*per examination

REINSURANCE

ICRMP retains up to \$500,000 on individual losses, per various coverages described in "Ceded Business" and cedes the excess coverages to a number of reinsurers. The coverages provided for ICRMP are classified in general categories as follows:

(1) Casualty	(4) Crime and Fidelity
(2) Property (including Business Interruption)	(5) Aviation and Airport
(3) Boiler and Machinery and Hazardous Substances Coverage	

The reinsurance agreements generally have a one-year duration, which corresponds with the maximum one-year policy period of the business written by ICRMP. As of December 31, 2004, ICRMP was party to five reinsurance agreements. Scheduled below is a summary of ceded business with comments on various items noted during the review of the agreements.

Ceded Business

(1) Reinsurer: General Reinsurance Company, Hartford CT

Policy Effective Dates/Periods: October 1, 2004 to October 1, 2005.

Ceded Coverage and Limits: General Liability, Law Enforcement Liability, Automobile Liability, Uninsured/Underinsured Motorists/No Fault, and Errors and Omissions, Employee Dishonesty, Employee Benefit Liability.

Limits: \$2,000,000 per occurrence to \$3,000,000 in aggregate annually per non-school member and \$3,000,000 per occurrence to \$3,000,000 in aggregate annually per school member.

Annual Premium: The policy is considered as a split limit policy having different limits for action the would be covered under the State of Idaho Tort limits and those federal actions not covered under the State of Idaho Tort Limits. The premium is therefore broken down as follows:

1. For those members with policy limits up to an including \$2,000,000 each occurrence/each claim per member:
 - a. For all members invoking the Idaho State Tort Cap of Idaho Code Title 6, Chapter 9
 - i. For General Liability, net annual rate of \$1.28 per \$1,000 of estimated \$436,167,404 payroll with a minimum premium of \$550,000.
 - ii. For Automobile Liability, net annual rate of \$7.24 per power unit of estimated 9,836 with a minimum premium of \$70,000.
 - b. For all members rejecting the Idaho State Tort Cap of Idaho Code Title 6, Chapter 9
 1. For General Liability, net annual rate of \$1.91 per \$1,000 of estimated \$76,975,428 payroll with a minimum premium of \$145,000.
 2. For Automobile Liability, net annual rate of \$72.39 per power unit of estimated 1,219 with a minimum premium of \$75,000.
2. For those members with policy limits in excess of \$2,000,000 each occurrence/each claim per member
 - a. For all member invoking the Idaho State Tort Cap of Idaho Code Title 6, Chapter 9
 - i. For General Liability, net annual rate of \$0.23 per \$1,000 of estimated \$172,554,540 payroll with a minimum premium of \$39,000.
 - ii. For Automobile Liability, net annual rate of \$1.59 per power unit of estimated 2,374 with a minimum premium of \$3,500.
 - b. For all members rejecting the Idaho State Tort Cap of Idaho Code Title 6, Chapter 9
 - i. For General Liability, net annual rate of \$0.34 per \$1,000 of estimated \$56,005,415 payroll with a minimum premium of \$19,000.
 - ii. For Automobile Liability, net annual rate of \$15.89 per power unit of estimated 445 with a minimum premium of \$7,000.

The total premium for this reinsurer is \$934,348.

Comments: This agreement included the appropriate provisions for inspections of records, insolvency, cancellation, appraisal, and errors and omissions.

(2) Reinsurer: Allianz Global Risks US Insurance Company, Burbank CA

Policy Effective Dates/Periods: October 1, 2004 to October 1, 2005

Ceded Coverage and Limits: Commercial Property including Business Interruption

Limits: \$200,000,000

Annual Premium: \$1,302,998

Comments: Does not include insolvency clause or arbitration clause.

(3) Reinsurer: Zurich American Insurance Company, Schaumburg, IL

Policy Effective Dates/Periods: October 1, 2004 to October 1, 2005

Ceded Coverage and Limits: Boiler and Machinery coverage: 100 percent of property damage up to a maximum of \$100,000,000; \$13,240,545 business income and extra expense; \$2,500,000 utility interruption; \$1,000,000 spoilage; \$1,000,000 ammonia contamination, and \$2,500,000 water damage.

Annual Premium: \$198,027

Comments: This agreement included provisions for insolvency, arbitration, and errors and omissions.

(4) Reinsurer: Travelers Casualty and Surety Company of America, Hartford CT

Policy Effective Dates/Periods: October 1, 2004 to October 1, 2005

Ceded Coverage and Limits: \$500,000

Annual Premium: \$423,558

Comments: The insurance company provided ICRMP with a Cover Note only, which did not include the insolvency, errors and omission, and arbitration/appraisal clauses. The Cover Note should have been replaced with a signed agreement, containing all necessary clauses, sometime during the effective period of the Cover Note/Agreement and not utilized as a substitute for a signed agreement.

(5) Reinsurer: Ace Property and Casualty Insurance Company, Philadelphia, PA

Policy Effective Date/Periods: October 1, 2004 to October 1, 2005

Ceded Coverage and Limits: Various limits based on the individual airport covered

Annual Premium: \$239,723

Comments: This agreement included provisions for insolvency, arbitration, and errors and omissions.

All of the previously listed insurance companies are authorized to do business in the State of Idaho.

As noted in the foregoing review of the reinsurance agreements in effect as of December 31, 2004, there were several contracts which did not contain insolvency or arbitration clauses. It is recommended that these reinsurance agreements be amended to include an insolvency clause, and that all future reinsurance agreements contain all necessary clauses. Additionally, again, it was noted that ICRMP received only a cover note for one of the agreements. In 2005 ICRMP decided to self-insure this portion of coverage pertaining to the cover note. Therefore a correction will not be necessary. However, it is recommended that, in the future, if only a cover note is received from the reinsurer that a signed agreement is promptly requested to replace the issued cover note.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

ICRMP utilizes comprehensive public entity and school districts multi-lines policies, along with a public entity weed spraying liability policy for its insurance coverages. ICRMP also has an airport liability policy that is 100 percent reinsured. A review of the policy forms revealed that they contained the usual standard provisions, descriptions, limits of coverage and deductibles. The policy forms have been filed with the Idaho Department of Insurance.

Independent agents throughout the state, who are under contract with ICRMP, produce the business. The agents submit new and renewal applications to ICRMP and maintain the property values and listings of equipment via the internet. The agents also provide consultation and assistance to subscribers and potential subscribers, but do not have authority to bind or execute contracts on behalf of ICRMP.

For the 2004 policy period ICRMP had self-insured retention limits of \$100,000 for property lines and \$500,000 for casualty lines.

Treatment of Policyholders (Members)

Claims

A representative sampling of open and closed claims incurred during 2004 was reviewed during the course of the examination, under the direction of the examination's consulting actuary, Michael Lamb, FCAS, MAAA. The Monetary Unit Sample of claims was extracted from ICRMP claims database by utilizing ACL audit software. The review indicated that, in general, the claims are being recorded accurately with corresponding reserves established. It appears that the recording, handling, processing of claims and the associated payments are made in a reasonable and timely manner.

Complaints

Beginning in 1997, a complaint log was established and associated ICRMP files were maintained, which included copies of correspondence between the Idaho Department of Insurance and ICRMP regarding written complaints that had been submitted to the Consumer Affairs division of the Idaho Department.

A review of the 2000 through 2004 complaint log and associated files indicates that ICRMP was in compliance with Section 41-1330, Idaho Code.

During the 2000 through 2004 examination period nine complaints were filed with the Idaho Department of Insurance and were reviewed during the examination. The complaints were varied and mostly consisted of ICRMP's denial of coverage or a disputed claim payment amounts that the insured thought they should receive. The overall review of ICRMP's handling of the complaints appeared to be justified or resolved to the insured's satisfaction.

Advertising and Sales Materials

ICRMP, through its Support/Services agreements, advertises in the Idaho Association of Counties and the Association of Idaho Cities organizations' publications and directories, which are made available to ICRMP's subscribers and potential subscribers as part of an overall marketing strategy.

A sample of the advertisements placed with the Associations was reviewed during the examination. The advertisements appeared to be in compliance with Sections 41-1303 and 41-1304, Idaho Code.

ACCOUNTS AND RECORDS

General Accounting

ICRMP's accounting records are maintained at its home office located at Boise, Idaho.

ICRMP currently utilizes Micron and DTK workstations operated by SBS Software version 4.5 and a DTK Pentium 700 server with a Hewlett Packard DAT Drive for backup purposes. ICRMP utilizes Cougar Mountain for Windows accounting software consisting of a general ledger and supporting journals and records maintained on an accrual basis.

ICRMP compiled its annual statement utilizing Best ESP version 9.1 software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual.

Independent Accountants

The annual independent audits of ICRMP for years 2000 through 2004 were performed by:

Shores, Tagman & Company, P. A.
Certified Public Accountants
255 S. Orange Ave., Suite 1250
Orlando, Florida 32081-3465

The 2000 through 2004 auditor's reports were reported in accordance with statutory accounting principles. The December 31 audited balance sheets and financial statements for the examination years were provided to the Idaho Department of Insurance in compliance with IDAPA 18.01.62.

The CPA's workpapers were relied upon in some instances and noted accordingly in respective Department workpapers.

Actuarial Opinion

The unpaid claims reserves and related liabilities were calculated by ICRMP and reviewed by Mujtaba Dato, consulting actuary with ARM Tech, of Lake Forrest California. The Board of Directors approved ARM Tech as ICRMP's actuary on March 25, 2005. The actuary, using standard actuarial procedures, then determined the incurred loss reserves and issued a statement of opinion. The opinion stated that the amounts of the reserves:

- a. meet the requirements of the insurance laws of Idaho;
- b. are computed in accordance with accepted reserving standards and principles; and
- c. make a reasonable provision for all unpaid loss and loss expense obligations of ICRMP under the terms of its policies and agreements.

The identified actuarial items are listed as follows:

Loss Reserves

A. Reserve for Unpaid Losses (Page 3, Line 1)	\$6,958,090
B. Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	\$4,198,825
C. Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$10,739,000
D. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	\$6,655,000
E. The Page 3 write-in item reserve, “Retroactive Reinsurance Assumed”	\$0
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (List Separately)	\$0

Premium Reserves

G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
H. Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (List Separately)	\$0

The following Loss Reserve Disclosures were also included:

A. Materiality Standard expressed in \$US	\$4,300,000
B. Statutory Surplus	\$12,851,499
C. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$0
D. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	\$0
E. The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$0
F. The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.*	
1) Asbestos, as disclosed in the Notes to Financial Statements	\$0
2) Environmental, as disclosed in the Notes to Financial Statements	\$0
G. The total claims made extended loss and expense reserve (Schedule P Interrogatories).	
1) Amount reported as loss reserves	\$0
2) Amount reported as unearned premium reserves	\$0
H. Other items on which the Appointed Actuary is providing relevant Comment (list separately)	\$0

* The reserves disclosed in item F above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for discussion of the Department's examining actuary's analysis.

Evaluation of Controls and Information Systems

An offsite, limited EDP desk audit exam was conducted by Jenny Jeffers, Certified Information Systems Auditor (CISA) and Automated Examination Specialist (AES) of ICRMP on behalf of the Idaho Department of Insurance. The examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in the Information Systems (IS) Questionnaire of the NAIC *Financial Condition Examiners Handbook*.

Scope

- Review the NAIC Information Systems (IS) Questionnaire responses from ICRMP and follow up on any issues.
- Analyze the information regarding the major system through which ICRMP data is processed
- Evaluate the logical and physical system controls in place as described by the ISQ Responses and attachments
- Review the Disaster Recovery Plan

Procedures

The procedures included:

- Interviews with personnel as indicated
- Review of all evidence provided by ICRMP as attachments to the ISQ
- Additional research including web site review and investigation regarding service providers
- Review the NAIC IS Questionnaire responses from ICRMP and follow up on any issues.

Again, the ISQ was reviewed offsite – no onsite visit was deemed necessary for this exam.

Analyze the information regarding the major systems through which ICRMP data is processed

ICRMP systems are summarized as follows:

- Claims processing - RiskMaster - This CSC claims processing system is widely used in the industry and proven to have adequate controls.
- Peachtree Accounting - Peachtree Accounting for G/L
- eAgent - developed by MicroNet - this web based database is used to track property of members, develop quotes and renewals.
- USP - Underwriting
- Member Contact Database - developed by MicroNet

All systems run on Windows XP and NT Servers, which are housed at the ICRMP main offices in Boise, Idaho.

Evaluate the logical and physical system controls in place as described by the ISQ Responses and attachments

Overall, the IT environment at ICRMP depends heavily on MicroNet Systems. The systems are on location at ICRMP. Onsite assistance is provided by ICRMP personnel. Development as well as software and hardware modifications and updates are done by or in cooperation with MicroNet Systems.

Several **medium** level exceptions were found:

Section D - Software Development

Tracking of development processes and progress is done on Outlook task list.

It is recommended that the tracking be performed and documented to provide audit evidence that ICRMP monitors outside provider development.

Section I - Logical and Physical Security

Section I - 9 - Passwords are assigned.

It is recommended that passwords should be changed by the users to avoid systems personnel having knowledge of the passwords.

Section I - 11 - Passwords are not required to be changed.

It is recommended that passwords require change at least every 90 days.

Section I - 12 - No official forms are used to approve access to electronic assets

It is recommended that access add, change and delete forms be developed.

Section I - 13 - Access is reviewed by the IT Assistants, however o access is not validated periodically by management of each business unit.

It is recommended that access be reviewed periodically by managers for appropriateness.

Review the Disaster Recovery Plan

One **high** risk exception was found:

Section J and L - No Business Continuity and no Disaster Recovery Plans are in effect at ICRMP.

The IS Specialist confirmed that a contingency and a Disaster Recovery plan are currently in the development process and will be implemented in the coming year

Conclusion

ICRMP has a secure environment for the data assets of ICRMP with the exceptions noted above. The risk assessment would be medium reliance on the data. The conclusions in this report are based on a desk review of the responses to the ISQ, attachments provided and follow up with ICRMP, web site review and research on service providers. No on site observation or testing were deemed necessary for this exam

SUBSEQUENT EVENTS

As noted above under "Bylaws of the Board of Trustees", ICRMP amended its JPSA in 2005. This was not submitted to the Idaho Department of Insurance. A further explanation and recommendation was noted above in this section of the report regarding this matter.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements and exhibits:

Assets as of December 31, 2004

Liabilities, Surplus and Other Funds as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ending December 31, 2004

Capital and Surplus Account for the Year Ending December 31, 2004

Reconciliation of Capital and Surplus, December 31, 2000, through December 31, 2004

ASSETS

As of December 31, 2004

	<u>Ledger</u> <u>Assets</u>	<u>Assets not</u> <u>Admitted</u>	<u>Examination</u> <u>Adjustments</u>	<u>Admitted</u> <u>Assets</u>
Bonds (Note 1)	\$20,480,668	\$ 0	\$ 0	\$20,480,668
Stocks:				
Preferred stocks	0	0	0	0
Common stocks	0	0	0	0
Real estate:				
Properties occupied by the company (Note 2)	3,231,767	0	0	3,231,767
Properties held for sale	0	0	0	0
Cash and short-term investments	1,538,359	0	0	1,538,359
Interest income due and accrued	257,307	0	0	257,307
Uncollected premiums in course of Collection	892,970	0	0	892,970
Deferred premiums booked but deferred and not yet due	7,186,106	0	0	7,186,106
Amounts recoverable from reinsurers	628,587	0	0	628,587
Funds held by or dep. w/ reinsurance co.	0	0	0	0
Other amounts receivable - reinsurance	0	0	0	0
Current federal income tax recoverable	0	0	0	0
Net deferred tax asset	0	0	0	0
Guaranty funds receivable or on deposit	0	0	0	0
Electronic data processing equipment	25,851	0	0	25,851
Furniture and equipment	63,671	0	0	63,671
Receivable from parent	0	0	0	0
Other assets nonadmitted	0	0	0	0
Leasehold improvements	0	0	0	0
Other assets (Note 3)	<u>142,278</u>	<u>142,278</u>	<u>0</u>	<u>0</u>
 Total Assets	 <u>\$34,447,564</u>	 <u>\$142,278</u>	 <u>\$ 0</u>	 <u>\$34,305,286</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2004

	<u>Examination Adjustments</u>	
Losses (Note 4)		\$ 6,958,090
Loss adjustment expenses (Note 4)		4,198,825
Commissions payable, contingent commissions		740,288
Other expenses		50,943
Taxes, licenses and fees		0
Unearned premiums		9,476,488
Amounts withheld or retained by company as agent or Trustee		<u>29,153</u>
Total Liabilities		<u>\$21,453,787</u>
Unassigned funds (surplus)		<u>\$12,851,499</u>
Total Capital and Surplus		<u>\$12,851,499</u>
Total Liabilities, Surplus and Other Funds		<u>\$34,305,286</u>

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ending December 31, 2004

	<u>Per</u> <u>Examination</u>
UNDERWRITING INCOME	
Premiums earned	<u>\$13,010,011</u>
Losses incurred	5,839,813
Loss expenses incurred	1,831,052
Other underwriting expenses incurred	3,454,568
Other expenses	<u>0</u>
Total underwriting deductions	11,125,433
Net underwriting gain or (loss)	<u>\$ 1,884,578</u>
INVESTMENT INCOME	
Net investment income earned	1,045,896
Net realized capital gains (losses)	<u>(6,434)</u>
Net investment gain or (loss)	1,039,462
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	0
Finance and service charges not included in premiums	0
Miscellaneous income	<u>12,674</u>
Total other income	12,674
Net income before dividends to policyholders and federal income taxes	\$ 2,936,714
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders but before federal income taxes	\$ 2,936,714
Federal income taxes	<u>0</u>
Net income	<u>\$ 2,936,714</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2004

	<u>Per Examination</u>
Surplus as regards policyholders, December 31, previous year	<u>\$ 9,892,378</u>
Net income	\$ 2,936,714
Change in net unrealized capital gains or (losses)	0
Change in net deferred income tax	0
Change in nonadmitted assets	22,407
Change in provision for reinsurance	0
Capital changes:	
Paid in	0
Surplus adjustments:	
Paid in	0
Aggregate write-ins for gains and losses in surplus:	
Effect of 2002 and 2003 reinsurance adjustments for change in surplus	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$ 2,959,121</u>
Surplus as regards policyholders, December 31, current year	<u>\$12,851,499</u>

RECONCILIATION OF CAPITAL AND SURPLUS

December 31, 2000 through December 31, 2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Surplus as regards policyholders, December 31, previous year	\$ <u>835,240</u> *	\$ <u>908,497</u>	\$ <u>2,811,067</u>	\$ <u>6,080,639</u>	\$ <u>9,892,378</u>
Net income	403,994	39,803	3,278,966	3,954,178	2,936,714
Change in net unrealized capital gains or (losses)	(436,923)	0	0	0	0
Change in nonadmitted assets	32,929	(11,167)	(9,394)	(142,439)	22,407
Aggregate write-ins for gains and losses in surplus:					
Building Exclusion:	(1,091,503)	1,873,934	0	0	0
Prior year statutory exam adjustment(s) booked in current year	<u>1,164,760</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders for the year	<u>73,257</u>	<u>1,902,570</u>	<u>3,269,572</u>	<u>3,811,739</u>	<u>2,959,121</u>
Surplus as regards policyholders, December 31, current year	\$ <u>908,497</u>	\$ <u>2,811,067</u>	\$ <u>6,080,639</u>	\$ <u>9,892,378</u>	\$ <u>12,851,499</u> *

*per examination

NOTES TO FINANCIAL STATEMENTS

Bonds (Note 1) \$20,480,668

As of December 31, 2004, ICRMP used the NAIC designation of "1" on all of its bonds. During review, the examiner discovered that several of the bonds should be designated as "1FE" as according to the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO). It is recommended that in the future ICRMP use the proper designations for all of its securities as required by the SVO.

Real Estate (Note 2) \$3,231,767

As of December 31, 2004, ICRMP owned its home office building. According to the NAIC Practices and Procedures Manual, in order for a company to show the home office building in the annual statement as Real Estate - Properties occupied by the company, the company has to occupy at least 50% of the building. ICRMP does not occupy more than 50% of its building. It is therefore recommended that ICRMP show its home office building as Real Estate - Properties held for the production of income in future annual statements.

Other Assets (Note 3) \$0

ICRMP properly non-admitted its other assets which consisted of prepaid services, prepaid workers compensation and prepaid leasing commissions.

Loss Reserves (Note 4) \$6,958,090

Loss Adjusting Expenses (LAE) Reserves (Note 4) \$4,198,825

The actuarial portion of the examination was conducted for the Idaho Department of Insurance by Michael Lamb, FCAS, MAAA of the firm Michael Lamb, LLC. The primary conclusion is that reserves stated by ICRMP as of December 31, 2004, are moderately redundant estimates of its loss, loss expense, and premium liabilities. Further, the run off results through the latest available quarterly statement demonstrate that the year end reserves remain adequate to discharge these liabilities. The primary recommendation is that the latest quarterly run-off of reserves for March 31, 2006, be accepted as the examination result. Therefore, there were no recommended adjustments to ICRMP's booked loss and LAE reserves.

ICRMP's potential liability for premium deficiency reserves was also reviewed based on the estimates of ultimate losses and LAE. A review of historical loss and expense ratios did not indicate that such a reserve should be established.

The 2004 examination's actuarial recommendations were as follows:

1. ICRMP accountants should make more rigorous accounting identification of "Adjusting and Other" expenses. The claim processes described in the "Claims Policy and Procedures Manual" suggest that a portion of personnel, space, and other apportioned claims function overhead is appropriately classified as "adjusting and other" expense. Accounting studies should likely associate elements of these costs with new claim reports, maintenance of open claims, and claim closings. Actuaries engaged by ICRMP should be able to assist with designing the study and subsequent A&O reserving methods.

2. Differences in paid amounts in Schedule P between calendar years do not reasonably reconcile with paid expenses in the loss adjustment expense column on page 11 of the annual statement. Schedule P shows no paid amounts for adjusting and other expenses. Page 11 shows no ceded expenses. ICRMP should complete all relevant portions of Schedule P and achieve consistency with accounting for loss adjustment expenses throughout its financial statements.
3. ICRMP needs to provide a response to General Interrogatories, Part 2, Item 6.2, regarding how it has estimated its exposure to catastrophic loss. This item does not relate to workers' compensation only, as does Item 6.1.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The examination disclosed that, as of December 31, 2004, ICRMP had admitted assets of \$34,305,286, liabilities of \$21,453,787, and unassigned funds (surplus) of \$12,851,499; for a total surplus as regards policyholders of \$12,851,499. This amount met the minimum requirements pursuant to Section 41-313, Idaho Code.

Comments and Recommendations

<u>Page</u>	<u>Description</u>
8	<u>Management and Control</u> - It is recommended that ICRMP provide biographical affidavits for the current trustees that have not been previously submitted to the Idaho Department of Insurance.
8	<u>Conflict of Interest</u> – It is recommended that ICRMP have all of its Board of Trustees, officers and other key employees complete a conflict of interest statement annually.
12	<u>Bylaws of the Board of Trustees</u> – It is recommended that ICRMP file changes to its Joint Powers Subscriber Agreement each time the document is changed and approved by the Board of Trustees with the Idaho Department of Insurance.
12	<u>Minutes of Meetings</u> – . It is recommended that the minutes of the ICRMP Board reflect the review and acceptance of the Department of Insurance examination in the future.
13	<u>Territory and Plan of Operation</u> - It is recommended that ICRMP review its current listing of appointed agents with the Department of Insurance web site annually.
17	<u>Reinsurance</u> – It is recommended that the reinsurance agreements be amended to include an insolvency clause, and that all future reinsurance agreements contain all necessary clauses.
17	<u>Reinsurance</u> - it is recommended that, in the future, if only a cover note is received that a signed agreement is promptly requested to replace the issued cover note.
22	<u>Evaluation of Controls and Information Systems</u> - It is recommended that the tracking be performed and documented to provide audit evidence that ICRMP monitors outside provider development.
22	<u>Evaluation of Controls and Information Systems</u> - It is recommended that passwords should be changed by the users to avoid systems personnel having knowledge of the passwords.
22	<u>Evaluation of Controls and Information Systems</u> - It is recommended that passwords require change at least every 90 days.
22	<u>Evaluation of Controls and Information Systems</u> - It is recommended that access add, change and delete forms be developed.
22	<u>Evaluation of Controls and Information Systems</u> – It is recommended that access be reviewed periodically by managers for appropriateness.
30	<u>Bonds</u> - It is recommended that in the future ICRMP use the proper designations for all of its securities as required by the SVO.

30 Real Estate - It is recommended that ICRMP show its home office building as Real Estate – Properties held for the production of income in future annual statements.

30 Loss Reserve and Loss Adjustment Expenses (LAE) Reserves - The 2004 examination’s actuarial recommendations were as follows:

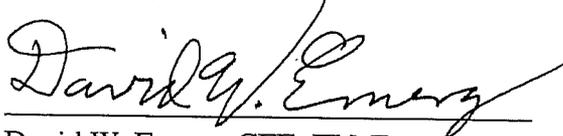
1. ICRMP accountants should make more rigorous accounting identification of “Adjusting and Other” expenses. The claim processes described in the “Claims Policy and Procedures Manual” suggest that a portion of personnel, space, and other apportioned claims function overhead is appropriately classified as “adjusting and other” expense. Accounting studies should likely associate elements of these costs with new claim reports, maintenance of open claims, and claim closings. Actuaries engaged by ICRMP should be able to assist with designing the study and subsequent A&O reserving methods.
2. Differences in paid amounts in Schedule P between calendar years do not reasonably reconcile with paid expenses in the loss adjustment expense column on page 11 of the annual statement. Schedule P shows no paid amounts for adjusting and other expenses. Page 11 shows no ceded expenses. ICRMP should complete all relevant portions of Schedule P and achieve consistency with accounting for loss adjustment expenses throughout its financial statements.
3. ICRMP needs to provide a response to General Interrogatories, Part 2, Item 6.2, regarding how it has estimated its exposure to catastrophic loss. This item does not relate to workers’ compensation only, as does Item 6.1.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation of ICRMP's officer and employees in conducting the examination.

In addition to the undersigned, Michael Lamb, FCAS, MAAA (actuary) of Michael Lamb, LLC; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "David W. Emery". The signature is written in black ink and is positioned above a horizontal line.

David W. Emery, CFE, FLMI

Examiner-in-Charge

State of Idaho, Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

David W. Emery, 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 the Idaho Counties Risk Management Program, Underwriters (ICRMP) for the period from January 1, 2000 through December 31, 2004, including subsequent events, 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 the report are based on the facts disclosed in the examination.

David W. Emery
David W. Emery, CFE, FLMI
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 27th day of June, 2006, at Boise, Idaho



Cheryl Karnowski
Notary Public

My commission Expires: 9/12/2009

EXHIBIT B

State of Idaho
DEPARTMENT OF INSURANCE

JAMES E. RISCH
Governor

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

SHAD PRIEST
Acting Director

WAIVER

In the matter of the Report of Examination as of December 31, 2004, of the:

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS
(ICRMP)

3100 VISTA AVENUE, SUITE 300
BOISE, IDAHO 83705

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 27th day of June 2006, 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.

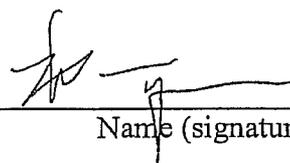
By executing this Waiver, the Company also hereby waives:

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 27th day of June, 2006

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS
(ICRMP)

Richard D. Ferguson, Executive Director
Name (print)


Name (signature)