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FILED

FEB 21 2008

**Department of Insurance
State of Idaho**

Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:)	
)	
Idaho Surveying and Rating Bureau, Inc.)	ORDER ADOPTING
)	REPORT OF EXAMINATION
Department of Insurance License # : 2028)	AS OF DECEMBER 31, 2006
)	
)	Docket No. 18-2446-08
)	
)	
)	

The Report of Examination as of December 31, 2006 (Report) of the Idaho Surveying and Rating Bureau, Inc. (Bureau) was completed by an examiner of the Idaho Department of Insurance (Department), signed the 1st day of February 2008 by the Examiner-in-Charge, Lois Haley, CPA, CFE, and a verified copy was filed with the Department effective February 1st, 2008. A draft copy of the Report was delivered to the Bureau previously, and the verified Report was transmitted to the Bureau electronically

(PDF file, via e-mail) on February 1st, 2008 to Mr. Alfred C. Frieze, Secretary-General Manager. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Frieze on February 15, 2008 and received by the Department on February 15, 2008 (PDF file, via e-mail). Based upon the Waiver/Exhibit B, this is a final order, and the Bureau has waived its rights to seek reconsideration and judicial review of this order.

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 21st day of February 2008.



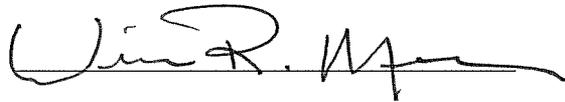
William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of February 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Alfred C. Frieze	<u> X </u>	certified mail
Secretary-General Manager	<u> </u>	first class mail
Idaho Surveying and Rating Bureau, Inc.	<u> </u>	hand delivery
1871 South Cobalt Way	<u> </u>	Facsimile
Meridian, Idaho 83642-4465	<u> </u>	
e-mail: AFrieze@isrb.com	<u> X </u>	e-mail

Georgia Siehl, CPA, CFE	<u> </u>	certified mail
Bureau Chief / Chief Examiner	<u> </u>	first class mail
Idaho Department of Insurance	<u> X </u>	hand delivery
700 W. State St., 3 rd Floor	<u> </u>	facsimile
Boise, Idaho 83720-0043	<u> </u>	
e-mail: Georgia.Siehl@doi.idaho.com	<u> X </u>	e-mail



William R. Michels, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

IDAHO SURVEYING AND RATING BUREAU, INC.
(a non-profit cooperative association)

as of

December 31, 2006

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
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WILLIAM W. DEAL
Director

Meridian, Idaho
February 1, 2008

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 41-1427(1), Idaho Code, and in accordance with generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

Idaho Surveying and Rating Bureau, Inc.
1871 South Cobalt Point Way
Meridian, Idaho 83642-4465

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

SCOPE OF EXAMINATION

This examination covered the period January 1, 2002, through December 31, 2006, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Section 41-1427(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation 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 *Financial Condition Examiners Handbook*. Verification and valuation of assets and the fund balance, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

There was some reliance on the 2006 independent Certified Public Accountant's audit report and workpapers in this examination.

A letter of representation attesting to the Bureau'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 financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1997 through December 31, 2001. There were no material adjustments, recommendations or comments noted in the prior examination report.

HISTORY AND DESCRIPTION

The Bureau was organized in 1923 to establish an independent Board of Fire Underwriters and became incorporated as a non-profit cooperative association on November 28, 1947. The Bureau received its first license on January 2, 1948 pursuant to Chapter 246 of the 1947 Sessions Law. On January 1, 1962, the Bureau received its first license under the provisions of Title 41, Chapter 14, Idaho Code. The Bureau is regulated as an independent rating organization authorized for property business in the State of Idaho. The Bureau was organized to provide member and subscriber insurance companies with fire insurance examinations and ratings under the Idaho Code.

The incorporators of the Bureau set forth in the Articles of Incorporation were as follows:

Fireman's Fund Insurance Company, San Francisco, California
Great American Insurance Company, New York, New York
Manhattan Fire & Marine Insurance Company, New York, New York
Springfield Fire & Marine Insurance Company, Springfield, Massachusetts
Glens Falls Insurance Company, Glens Falls, New York

MANAGEMENT AND CONTROL

Article VI of the Bylaws provided that the business, property and affairs of the Bureau shall be directed and controlled by a Board of Directors consisting of nine persons. The Articles of Incorporation required that each Director must be either (a) a corporate officer, (b) a manager or assistant manager reporting directly to the head office or to the United States Manager or (c) a general agent reporting directly to the head office or to the United States Manager of an insurance company that is a member of the Bureau. Each Director shall hold office for a term of three years or until their successors are elected and qualified.

The Annual Meeting of the Members shall be held in the State of Idaho sometime between June 1 and October 31 in each calendar year, the time and place of such meeting to be fixed by the Board of Directors. At such meeting, there shall be an election of officers for the ensuing year. The Secretary-General Manager was appointed by the Board of Directors and was responsible for the administration of the business affairs and services of the Bureau.

Special Meetings of the Members may be called by the Board of Directors or on written request of any ten Members.

[The rest of this page was purposely left blank.]

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2006:

<u>Name</u>	<u>Principal Occupation</u>
Jeffery A. Maple	Pacific Northwest Middle Market Manager, Fireman's Fund Insurance Company
Eric Nelson, CPCU, CIC, ARP	Vice President – Underwriting, Mutual of Enumclaw
Kevin J. Gilronan, CPCU, CIC	NW Region Agribusiness Regional Vice President St. Paul Travelers Insurance Company
Brian E. Henman	President & Chief Executive Officer United Heritage Property & Casualty Company
Phillip R. Joslin	Executive Vice President & Chief Executive Officer Farm Bureau Mutual Insurance Company of Idaho
Jeffery R. Dehn, CPCU	Vice President Commercial Lines Unigard Insurance Group
Ronald Macpherson	Manager Commercial Lines Underwriting Liberty Northwest Insurance Corporation
Don Huston	Assistant Vice President Continental Western Group
Dennis J. Prindiville, CPCU, AU	Resident Vice President EMC Insurance Companies

Officers

The following persons were serving as officers of the Bureau at December 31, 2006:

Jeffery A. Maple	President, Director
Eric Nelson, CPCU, CIC, ARP	Vice-President, Director
Alfred C. Frieze, CPCU	Secretary/Treasurer – General Manager

Committees

Pursuant to Article VII of the Bylaws, the Bureau's President is authorized to appoint three members of the Board of Directors to serve as a Nominating Committee. Candidates for president, vice president, and members of the Board of Directors who are to be elected at the next Annual Members' Meeting are nominated by the Committee. After the Nominating Committee has reported its actions to the Annual Meeting, additional nominations may be made from the floor.

The following Board members were serving on the Nominating Committee as of December 31, 2006:

Brian E. Henman, Chairman Kevin J. Gilronan, CPCU, CIC Jeffery A. Maple

Conflict of Interest

During the examination period, the Bureau had a policy in place that required directors and officers to annually complete a disclosure statement of any conflicts or possible conflicts with the performance of their duties and responsibilities.

The statements completed during the period January 1, 2002 through December 31, 2006 appeared to appropriately disclose any possible or probable conflicts of interest.

Contracts and Agreements

The Bureau had the following agreements and/or arrangements in effect at December 31, 2006:

Agreement for Provision of Commercial Fire Advisory Rate Information

An agreement was made with ISO Telecommunications, Inc. (ISOTEL) whereby the Bureau delivers all advisory rates it has developed for commercial fire by electronic transmission. The agreement was effective June 1, 1987 and is currently in force. Under the agreement, there are no charges to either party; however, each party is responsible for charges made to their respective users.

Licensing Agreement: Optional Services

The Bureau executed a license agreement with ISO Commercial Risk Services, Inc. in 1992 whereby certain optional services, such as underwriting survey reports were provided. Under this agreement, the Bureau received 75 percent of fees set forth in the agreement for providing such optional survey reports. The Bureau also pays a fee for receiving replacement cost valuations. The term of the agreement is three years and is automatically renewed for successive additional three year terms unless written notice is provided ninety days prior to expiration. The agreement may be terminated by either party for reasons specified in the agreement.

Agreement for Electronic Distribution

An agreement was made on July 13, 1992 with Insurance Services Organization, Inc. (ISO) and ISO Telecommunications, Inc. Under the agreement, the Bureau agrees to allow ISO to distribute machine readable copy of all Bureau information currently being distributed by ISO in paper form in an electronic form over the ISOTEL network and via tape. The agreement was effective July 1, 1992 and can be terminated with 90 days prior written notice. There are no charges to either party; however, each party is responsible for charges made to their respective users.

Agreement for Electronic Distribution Through Inclusion in Geographic Underwriting System (GUS)

The Board of Directors approved an agreement with ISO in which it may distribute certain of the Bureau's geographic based information through ISO's Geographic Underwriting System (GUS). GUS allows an insurer to enter an address and have returned to them a series of underwriting information about that address. The agreement was effective September 15, 1993 and may be terminated by either party with 120 days prior written notice. No charges are made by or to either party under this agreement. The Bureau is responsible for any charges it makes to its members and subscribers.

This agreement does not include the distribution of Public Protection information. In Idaho, the Bureau is the entity that develops such information, which is considered proprietary. Distribution of Public Protection information is discussed below.

Non-Exclusive License Agreement For Electronic Distribution of Bureau Information (GUS)

ISO included Idaho's Public Protection information developed by the Bureau in the GUS system. To provide for this, a non-exclusive license agreement was executed with ISO allowing ISO to electronically distribute the Bureau's Public Protection based information over the GUS system. No charges are made to either party for services rendered in incorporating Idaho's Public Protection information into the GUS system. However, the Bureau has access to the Idaho Public Protection information electronically from ISO for \$1.35 per transaction, plus applicable line charges. The agreement was effective January 23, 1995 and may be terminated by either party with 120 days prior written notice.

Licensing Agreement: Building Code Effectiveness Grading Schedule

The Board of Directors approved a contract with ISO Commercial Risk Services Inc. which licensed the Bureau to develop, publish and distribute building code effectiveness classifications for communities in the State of Idaho. The agreement was made on January 2, 1996 and remains in force until terminated. The annual fee set forth in the agreement is \$1,500, subject to amendment.

ISONet License Agreement

This license agreement executed on October 22, 2003 with ISO allows the Bureau to access the ISONet delivery system for manuals, forms, GUS, and specific property information. The agreement remains in force until terminated, with 30 days prior written notice. Access to ISONet is at no charge, unless additional user IDs are requested.

Web Hosting Agreement

An agreement was executed with Washington Surveying and Rating Bureau (WSRB), whereby WSRB provides hosting services for the ISRB Protection Class Web Service (see RATING SCHEDULES AND PLANS for additional comments). The agreement had a one-year trial period after which the Bureau shall pay WSRB an annual hosting fee. The agreement is effective July 15, 2005 and remains in effect for sixty months, unless terminated pursuant to terms described in the contract. Either party may terminate the agreement with or without cause upon 45 days prior written notice. The prorated amount

of the annual hosting fee will be due upon termination and all ISRB Web Service software programs, content and user activity tracking data must be returned within 14 days of termination.

Office Lease

During 2006 the Bureau entered into a new five-year office lease agreement that commenced on September 1, 2006 and will expire on August 31, 2011. The operating lease is non-cancelable, with an option to extend for two, five-year periods. Rent will be at the then fair market rate. The new lease calls for monthly payments of \$5,259 for the first year, \$5,469 for the second year, \$5,688 for the third year, \$5,916 for the fourth year, and \$6,152 for the fifth year. For the year ended December 31, 2006, total expenses related to the office lease were \$56,046. The Board of Directors authorized the Bureau to execute the lease at a special meeting held on May 9, 2006.

Service Purchase Agreements

The Bureau granted permission for the use of its materials and information to service purchasers through service purchase agreements. These third party vendors are not assessed a fee, but are restricted by the terms of the agreements to provide services only to those producers which are licensed in Idaho and insurance companies who are members or subscribers to the Bureau. As of December 31, 2006, there were ten service purchase agreements in force. Subsequent to the examination date, an additional six service purchase agreements were executed. The agreements are continuous and have various execution dates.

Membership and Subscriber Agreements

Membership in the Bureau is limited to those companies with a certificate of authority issued by the Idaho Department of Insurance and doing property insurance business. The member companies elect the Board of Directors and only employees of the member companies can be elected as directors. The Board of Directors approves all new members of the Bureau.

Subscribership in the Bureau is open to all companies doing property insurance business in Idaho. Subscribing companies do not have a voice in the management of the Bureau.

The agreements authorize the Bureau to make filings on behalf of the members and subscribers, as may be required by law. The Bureau provided a listing of its members and subscribers to the Department in compliance with Section 41-1420, Idaho Code.

SERFF Agreement with NAIC (Third Party Filer License Agreement)

Subsequent to the examination date, the Bureau executed a third party filer license agreement with the NAIC on September 5, 2007. The agreement is a license to access and use the NAIC's electronic rate and form filing product, System for Electronic Rate and Form Filing (SERFF). The agreement is in force until cancelled or terminated without cause upon thirty days written notice. Fees are specified in the contract.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Bureau's records indicated that the Articles of Incorporation were not amended during the period under examination. In 2005, the Bylaws were amended to include a new paragraph under Article XI whereby all membership and subscribership agreements would continue in force until terminated by written notice or expulsion pursuant to the Bylaws. Article XVII was also changed to modify the method of making future changes to the Bylaws. The Board of Directors and Members of the Bureau approved the changes at their respective meetings on August 16, 2005. The Bureau submitted the amended Bylaws to the Department of Insurance in compliance with Section 41-1420, Idaho Code on August 19, 2005. In a letter to the Bureau dated March 6, 2006, the Department acknowledged receipt of the Bylaws, as amended.

Minutes of Meetings

A review of the minutes of the meetings of the member companies and the Board of Directors for the examination period and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to annual meeting dates, election and/or appointment of directors and officers, and the transaction of corporate business. Specifically, the Board approved new member companies, quarterly assessments, and annual business plans and budgets, among other things. This review of the minutes also indicated that a quorum was present at the annual membership meetings and at all Board of Directors' meetings.

The minutes of the Board of Directors' meeting held March 17, 2003 indicated that the Report of Examination as of December 31, 2001 had been accepted by the Directors.

Operating Rules of the Idaho Surveying and Rating Bureau, Inc.

Effective September 1, 2006, the operating rules of the Bureau were updated to reflect current operations. Specifically, the rules were revised to automatically affiliate companies listed in a group on the report of premiums and to establish a non-affiliate fee structure. The revisions were approved by the Board of Directors on June 15, 2006. However, the Bureau did not submit the revised operating rules to the Department in accordance with past practice or in compliance with Section 41-1420, Idaho Code. Subsequent to the examination date, the Bureau submitted the revised operating rules on November 26, 2007.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Bureau have been maintained throughout the period under examination. Coverages in effect as of December 31, 2006 included commercial property, including general liability and commercial umbrella liability

coverages and automobile; non-profit organization director and officer liability; employee dishonesty coverage; a fidelity blanket bond for the pension and 401(k) savings plans as required by the Employee Retirement Income Security Act (ERISA); and workers' compensation insurance.

The Bureau maintained employee dishonesty coverage in an amount that met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Employees of the Bureau were provided a number of group insurance and retirement plans. The major programs which were available included medical care, dental care, life insurance, disability insurance, a defined benefit retirement plan, a 401(k) plan and a flexible spending account plan. In addition, the Bureau's employees were eligible for other standard benefits, including paid time off. Retirees were eligible for a post-retirement medical plan. In addition, all current retirees were provided with a fully paid up whole life policy for a level similar to a plan discontinued in approximately 1998. Retirees after that date do not have continuing life insurance.

Additional information regarding the defined benefit retirement plan is discussed in Note (2) to the Financial Statements.

TERRITORY AND PLAN OF OPERATION

The Bureau is licensed by the Idaho Department of Insurance to operate as a rate making organization in the State of Idaho. Generally, the Bureau's function was to do all things necessary to operate as an independent rating organization authorized for property business as discussed under its Articles of Incorporation and Bylaws. The Bureau had maintained its office in Boise, Idaho from 1923 up through 2006. During 2006, the Bureau relocated its offices to Meridian, Idaho. All operations of the Bureau are currently performed at this location.

GROWTH OF THE BUREAU

The Bureau's growth for the years indicated, as taken from the prior examination report and its independent audit reports, is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Fund Balance</u>	Excess (Deficiency) of <u>Receipts over</u> <u>Disbursements</u>
2001*	\$237,622	\$0	\$237,622	\$ (37,512)
2002	235,992	0	235,992	(1,630)
2003	236,724	0	236,724	732
2004	263,960	0	263,960	27,236
2005	293,581	0	293,581	29,621
2006*	189,637	0	189,637	(103,944)

The deficiency of receipts over disbursements in 2006 was due to primarily to relocation expenses and additional pension liability payments.

*As determined by Examination.

RATE MAKING

Pursuant to Section 41-1402, Idaho Code, the purpose of Title 41, Chapter 14, is to promote the public welfare by regulating insurance rates and to authorize and regulate cooperative action among insurers in rate making. As an independent rating organization, the Bureau utilized property insurance statistical data compiled by the ISO. ISO developed and maintained statistical coding plans to collect premium and loss information by line of business. After review, the Bureau may modify ISO's indicated changes taking into consideration local and state economic conditions, market availability through moderate but adequate rates, premium volume in Idaho for type of coverage losses occurring outside the period used by ISO, and the effects of past rate changes. Final advisory loss costs were determined in compliance with Section 41-1405(1), Idaho Code.

In 1993, the Bureau and ISO began filing advisory loss costs rather than rates with the Idaho Department of Insurance. Under the loss cost system, only the costs of losses and loss adjustment expenses are considered. It is the responsibility of each individual company using those loss costs to determine final rates by using a multiplier and filing such rates with the Department.

The Bureau maintained advisory loss cost systems for dwelling, farm, and commercial property. Changes to the advisory loss costs were based on periodic experience reviews of the adequacy of premium developed to pay claims and loss adjustment expenses. The statistical data reviewed five and ten years for fire losses and extended coverage,

respectively. The statistical data made no distinction based on type of insurer. The following loss experience adjustments were made during the examination period:

Dwelling Policy Program

As a result of experience reviews, five changes were made to the dwelling policy program loss costs during the examination period. The most recent change used statistical data for the period ending December 31, 2004. The overall positive 7.8 percent change consisted of an 8 percent increase in fire coverage and a 7.7 percent increase in extended coverage. The change was filed with the Department of Insurance on August 2, 2006.

Monoline Farm Program

Experience reviews of the monoline farm policy program resulted in two changes during the examination period and one change subsequent thereto. The most recent change during the examination period used statistical data for the period ending December 31, 2002. The overall positive change of 4.3 percent included changes in the inland marine and liability sections, which are the jurisdiction of the ISO. The Bureau filed changes of a 3.2 percent increase for dwelling and household personal property, a 2.4 percent increase for outbuildings, and 4.3 percent increase for farm personal property. The change was filed with the Department on January 10, 2005.

A subsequent filing was made on January 8, 2007 for an overall decrease of 13.4 percent. This change used statistical data for the period ending December 31, 2004. The filings included a 12.4 percent decrease for dwelling and household personal property, a 15.6 percent decrease for outbuildings, and a 13.4 percent decrease for farm personal property. The filing was submitted to the Department on January 8, 2007.

Monoline Commercial Fire and Allied Lines Program

Experience reviews of the monoline commercial fire and allied lines policy program resulted in five changes during the examination period. The most recent change used statistical data for the period ending December 31, 2005. The overall negative change of 5.9 percent included a decrease of 8.0 percent for Group I (class rated and specifically rated properties), a 0.0 percent change in Group II, and a 3.6 percent decrease in special causes of loss. The filing was submitted to the Department on December 8, 2006.

Commercial Property Earthquake Policy Program

There were no changes to the commercial property earthquake policy program during the examination period. Changes are based on the review for earthquake based on the Risk Management Solutions, Inc. (RMS) earthquake model for Idaho. This model estimates the potential losses from earthquake in a geographic area and develops loss costs by zip code for the area under review.

The filings noted above were submitted to the Department in compliance with Bulletin No. 91-1, issued January 2, 1991. The Bulletin requires that licensed rating organizations file all rates and supplementary rate information and all changes and amendments thereto for use in Idaho within thirty days after the effective date.

RATING RULES AND POLICY FORMS

Another function of the Bureau's independent rating program is the filing of forms, policies or contracts, riders, rules, and endorsements resulting in changes, modifications or renewals issued on risks in Idaho. The Bureau submitted filings to the Idaho Department of Insurance on behalf of both the member and subscriber companies of the ISRB that have authorized the Bureau to do so. As previously reported, this listing of affiliated companies was submitted to the Department annually in compliance with Section 41-1420, Idaho Code. The majority of the forms and rules were filed in conjunction with ISO.

During the examination period, there were no complaints filed against the Bureau.

RATING SCHEDULES AND PLANS

Pricing Systems

The Bureau utilized two pricing systems to develop advisory loss costs: class rating and schedule rating. As previously stated, loss costs are the component of the rate that are used to cover the expected losses and loss adjustment expenses. Pricing systems for the various programs are summarized below:

Dwelling Policy Program

The pricing system used in the dwelling policy program is a class rating system. The pricing points are: (1) the coverage form to be purchased, (2) the construction of the insured building, (3) the insured value, and (4) the Public Protection Classification at the risk.

Monoline Farm Program

The pricing system used in Division Four-Farms of the Commercial Lines Manual is a class rating system. For the dwelling structures on a farm, the monoline coverages predominately track the system used in the Dwelling Policy Program, while the multi-line coverages predominately track the system used in the homeowners manual. The outbuildings, barns, stables, cellars, packing sheds, and so forth use pricing points that cover the construction of the building by major features of that construction, as well as the Public Protection Classification.

Monoline Commercial Fire and Allied Lines Program

The pricing system used for commercial fire is a combination of class rating and schedule rating. The main elements used to determine which system is applicable are size, construction, occupancy, and protection.

The class rating system utilizes three primary pricing points. These include the occupancy code of the building, the construction of the building, and the Public

Protection Classification. If a building is eligible for this rating system, class rating is applicable even if a scheduled rate or loss cost is published.

The schedule rating system utilizes the ISO's *Specific Commercial Property Evaluation Schedule*. This schedule is used country-wide; however, Idaho has maintained one major exception to the current edition of the schedule for the 1982 edition, covering separate evaluation of buildings with unacceptable passageways. In addition, the Bureau utilizes the *Schedule for Rating Electric Generating Stations*. This schedule applies to property used in the generation and distribution of electrical energy.

Both the class and schedule rating systems use a detail evaluation of the building features including the construction, occupancy, internal as well as external protection, and the external exposures to develop an advisory loss cost.

A random sample of twenty-two Commercial Property Evaluation surveys was initially taken based upon sampling guidance and criteria from the NAIC *Financial Condition Examiners Handbook*. The sample was reviewed to determine the accuracy and propriety of the advisory loss costs developed by the Bureau. Based on this review, one published loss cost was incorrectly calculated. For this reason, the scope of review was expanded to include an analysis of twenty additional surveys. No exceptions were noted in this expanded review. The incorrectly calculated loss cost was subsequently corrected by the Bureau and the revised loss cost was published.

Commercial Property Earthquake Policy Program

In 1998, RMS' earthquake models were adopted and the territory assignments were changed to correspond with zip codes published by the United States Postal Service.

Building Code Effectiveness Grading Schedule

In 1997, the Bureau began providing information to affiliated companies on the enforcement of building codes. The tool used to develop this information is the *Building Code Effectiveness Grading Schedule*. This schedule is used to review available public building code enforcement agencies and provide a Building Code Effectiveness Classification for insurance underwriting information and rating purposes. In this connection, surveys for the various jurisdictions participating in the program are prepared approximately every five years. If an agency did not participate in this voluntary program, it received a classification of ten. A judgmental sample of gradings prepared by the Bureau during the examination period was reviewed, with nothing exceptional noted.

Public Protection Grading

One of the Bureau's important services is to evaluate the fire suppression delivery systems of jurisdictions in Idaho. The result of these reviews is a classification number that is distributed to insurers. When the grading is completed, the Bureau provides a summary of the protection grading results and other appropriate information to representatives of the jurisdiction evaluated.

From its program on public protection grading, the Bureau used a numerical class of rating utilizing specific criteria from the ISO publication, *Fire Suppression Rating Schedule* (FSRS), and the Bureau's *Minimum and Supplemental Criteria*. Additionally, these publications may refer to standards of the National Fire Protection Association (NFPA). The grading process involved an evaluation of three areas: receiving and handling of fire alarms, the fire department, and the water system. The fire suppression rating schedule developed a Public Protection Classification on a relative scale between 1 and 10, with 10 representing less than minimum criteria.

A judgmental sample of public protection gradings was reviewed without exception. Based on the public protection grading review, the Bureau's procedures were consistent with Sections 41-1415 and 41-1436, Idaho Code.

ISRB Protection Class Calculator Web Services

Affiliated parties use the Public Protection Classification information to help establish fair premiums for fire insurance.

To assist companies in understanding and applying the rules used by the Bureau as they are applicable to a specific property, the ISRB Protection Class Calculator Web Services was developed. This is an on-line, password-protected geographical information system that permits the Bureau's members and subscribers to obtain risk classifications for specified Idaho addresses and parcels. Farm Bureau Mutual Insurance Company of Idaho, a member company, developed the databases which serve as data components underlying the ISRB Protection Class Calculator Web Services. As previously reported, Washington Surveying and Rating Bureau provides hosting services for the Bureau's Protection Class Calculator under the terms of a web hosting agreement.

Enhanced Services

During the examination period, The Bureau began providing enhanced services to its affiliated companies. In the course of their field work, representatives of the Bureau collect such additional information specifically for an individual insurer over a wide range of lines of business. These services are offered on a fee basis.

ACCOUNTS AND RECORDS

General Accounting

The Bureau prepared and maintained its accounting records on a cash basis. This method of accounting recognizes revenues when received and expenses when paid. Generally, accounts receivable and accrued liabilities are not recognized under this method of accounting. Accordingly, the financial statements presented were not in accordance with generally accepted accounting principles (GAAP) or statutory accounting principles (SAP).

The Bureau's computer network consisted of a domain server to control user access to files stored on the machine as well as the normal server function; a server that is used for testing the Geographic Information System application for the Protection Class Calculator; and the domain server for twelve workstations that are used by staff, seven of which are laptops and the remaining are desktops.

Quickbooks is used for all accounting functions such as accounts payable, payroll disbursement and for the cash balance tracking. All software utilized by the Bureau is purchased, except for the ISRB Protection Class Calculator Web Services, which is custom software.

Based on the review of such record maintenance, the Bureau was in compliance with Section 41-1439, Idaho Code.

The Bureau maintains a Disaster Recovery Plan. The Plan was developed at the direction of the Board of Directors in 1985 and was revised in 2006. The Plan outlines the steps in case of disaster to allow the Bureau to continue to provide services to affiliated companies. The original plan was developed with the assistance of the Idaho Department of Emergency Planning and the North Pacific and Safeco Insurance companies. The 2006 revisions maintain the same basic format and directions with an emphasis on updating equipment needs, names and contact information, and corporate structure.

Independent Accountants

The annual independent audits of the Bureau for the years 2002 through 2006 were performed by Harding & Co., P.A. Certified Public Accountants, Meridian, Idaho. The financial statements in each report were prepared on the cash basis of accounting. There was some reliance on the audit reports and the 2006 workpapers in this examination of the Bureau.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Assets and Fund Balance – Cash Basis as of December 31, 2006

Comparative Statements of Cash Receipts, Disbursements and Changes in Fund Balance – Cash Basis, 2002 through 2006

Statement of Assets and Fund Balance – Cash Basis
As of December 31, 2006

ASSETS

	<u>Per Bureau</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
<u>Assets</u>			
Cash in checking	\$ 44,699	\$ 0	\$ 44,699
Certificates of deposit and/or savings	<u>144,938</u>	<u>0</u>	<u>144,938</u>
Total	<u>\$189,637</u>	<u>\$ 0</u>	<u>\$189,637</u>
 <u>Liabilities</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>
 <u>Fund Balance – unrestricted</u>	 <u>\$189,637</u>	 <u>\$ 0</u>	 <u>\$189,637</u>

Comparative Statements of Cash Receipts, Disbursements and
Changes in Fund Balance – Cash Basis, 2002 through 2006

	<u>Per Bureau and Examination</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Revenues:</u>					
Assessments	\$ 760,792	\$ 850,777	\$ 870,937	\$ 968,597	\$ 855,468
Optional service income	30,477	35,637	28,550	39,862	47,788
Settlement proceeds (Note 1)	0	0	0	0	45,761
Interest	6,035	2,744	3,057	5,117	3,998
Minor Bureau service	2,660	1,013	545	585	320
Total	<u>\$ 799,964</u>	<u>\$ 890,171</u>	<u>\$ 903,089</u>	<u>\$1,014,161</u>	<u>\$ 953,335</u>
<u>Disbursements:</u>					
Salaries and payroll taxes	\$ 384,586	\$ 408,262	\$ 410,341	\$ 407,859	\$ 432,556
ISO assessments	138,926	146,066	144,404	156,156	165,514
Capital expenditures	36,967	71,755	44,124	51,839	85,876
Employee benefits – insurance	60,384	74,596	81,587	76,871	80,839
Rent, utilities and maintenance	47,026	46,869	47,731	48,862	57,227
Travel and travel expense items	43,610	43,398	41,499	53,413	51,782
Employee benefits – pension and savings (Note 2)	3,693	3,802	12,804	15,366	36,603
Optional service expense	21,090	23,561	21,640	34,378	34,207
Geographic Information System project (Note 3)	0	0	0	60,663	31,167
Insurance	13,846	16,287	15,660	16,985	18,998
Office expense, printing and microfilming	10,111	12,181	10,538	11,699	13,763
Automobile operations and maintenance	7,919	7,704	9,548	13,660	12,085
Dues and subscriptions	6,260	6,951	8,011	8,487	9,509
Professional services	6,322	6,200	6,400	6,250	6,600
Staff relations	5,036	7,077	6,660	7,678	5,120
Postage	7,099	5,980	6,971	5,945	4,463
Moving costs (Note 4)	0	0	0	0	4,384
Telephone	4,995	5,163	5,302	5,724	3,653
Equipment rental and maintenance	1,936	1,728	1,035	1,036	1,030
Property taxes (personal property)	618	682	519	641	758
Bank charges	670	677	579	528	645
Licenses and fees	500	500	500	500	500
Total	<u>\$ 801,594</u>	<u>\$ 889,439</u>	<u>\$ 875,853</u>	<u>\$ 984,540</u>	<u>\$1,057,279</u>
Excess (Deficiency) of Receipts over Disbursements	\$ (1,630)	\$ 732	\$ 27,236	\$ 29,621	\$(103,944)
Fund balance, beginning of year	<u>\$ 237,622</u>	<u>\$ 235,992</u>	<u>\$ 236,724</u>	<u>\$ 263,960</u>	<u>\$ 293,581</u>
Fund balance, end of year	<u>\$ 235,992</u>	<u>\$ 236,724</u>	<u>\$ 263,960</u>	<u>\$ 293,581</u>	<u>\$ 189,637</u>

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Settlement Proceeds \$45,761

The settlement proceeds represent payments received under a combined class action and policyholder derivative lawsuit against Allied Mutual Insurance Company, Des Moines, Iowa. The Bureau owned a policy issued by Allied Mutual during the period of time covered by the lawsuit.

Note (2) – Employee Benefits – Pension and Savings \$36,603

The unfunded defined benefit pension liability was \$52,530 at December 31, 2006. This liability, however, was not recorded in the financial statements as of December 31, 2006. As mentioned earlier in this Report, the Bureau utilizes a cash basis method of financial reporting which is not in conformance with GAAP or SAP. Both GAAP and SAP prescribe adherence to Financial Accounting Standards Board (FASB) Statement No. 87, *Employers' Accounting for Pensions* (FAS 87). Briefly, FAS 87 (paragraph 35) states: "If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation."

The Bureau made its normal pension payment in 2006 as well as an additional payment of \$10,000 towards the unfunded pension liability. Subsequent to the examination date, the Board authorized that the settlement proceeds discussed in Note (1) be applied to the unfunded pension liability. Therefore, an additional payment of \$45,761 was applied to the unfunded pension liability in 2007.

Note (3) – Geographic Information System Project \$31,167

As previously reported, the Bureau developed the ISRB Protection Class Calculator Web Services. The above amount represents payments made in 2006 for development and implementation of this project.

Note (4) – Moving Costs \$ 4,384

As previously reported, the Bureau moved its operations from Boise to Meridian, Idaho in 2006. In this connection, the Bureau established an account with Washington Mutual Bank to segregate funds needed to relocate. The account was closed in 2007 and the balance transferred to the operating cash account.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2006, the Bureau had total assets of \$189,637 and the fund balance was \$189,637. There are no minimum fund balance requirements for surveying and rating organizations regulated under Title 41, Chapter 14, Idaho Code.

The examination did not make any adjustments to the balance sheet accounts. Therefore, the fund balance reported by the Bureau was not changed by the examination.

Comments and Recommendations

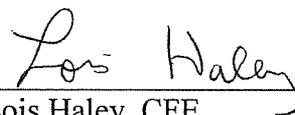
Page

- 8 The Bureau did not submit the revised operating rules to the Department in accordance with past practice or in compliance with Section 41-1420, Idaho Code. Subsequent to the examination date, the Bureau submitted the revised operating rules on November 26, 2007.
- 13 A random sample of Commercial Property Evaluation surveys was reviewed to determine the accuracy and propriety of advisory loss costs developed by the Bureau. Based on this review, one published loss cost was incorrectly calculated. The incorrectly calculated loss cost was subsequently corrected and published by the Bureau.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Bureau's Secretary-General Manager and staff in conducting the examination.

Respectfully submitted,

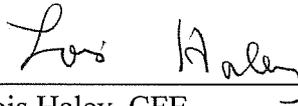


Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Idaho Surveying and Rating Bureau, Inc. for the period from January 1, 2002, through December 31, 2006, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.



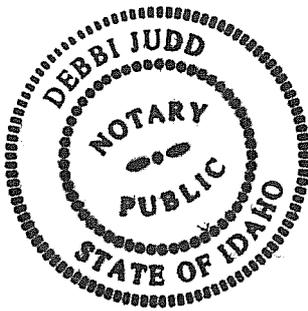
Lois Haley, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 1st day of February, 2008 at Boise, Idaho.



Notary Public

My Commission Expires: 7/30/2010



State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2006, of:

Idaho Surveying and Rating Bureau, Inc.
1871 South Cobalt Point Way
Meridian, Idaho 83642-4465

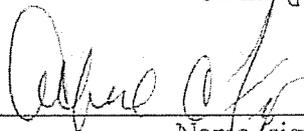
By executing this Waiver, the Bureau hereby acknowledges receipt of the above-described examination report, verified as of the 1st day of February 2008, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without 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 15 day of February, 2008

Alfred C. FRIEZE
Name (print)


Name (signature)

Secretary General Manager
Title

EXHIBIT

B