

LAWRENCE G. WASDEN
Attorney General

EDITH L. PACILLO, ISB No. 5430
Lead Deputy Attorney General
State of Idaho
Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Telephone: (208) 334-4204
Facsimile: (208) 334-4298
edith.pacillo@doi.idaho.gov

FILED
SEP 05 2019 *AM*
Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

GEM STATE INSURANCE COMPANY

Certificate of Authority No. 1647
NAIC No. 18457

Docket No. 18-3687-19

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2016**

The State of Idaho, Department of Insurance (“Department”), having conducted an examination of the affairs, transactions, accounts, records, and assets of Gem State Insurance Company (“Gem State”), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Gem State Insurance Company as of December 31, 2016 (“Report”), as filed.

FINDINGS OF FACT

1. Gem State is an Idaho-domiciled insurance company licensed to transact property insurance, marine and transportation insurance, and casualty insurance, excluding workers’

compensation, in Idaho under Certificate of Authority No. 1647.

2. The Department completed an examination of Gem State pursuant to Idaho Code § 41-219(1) on or about August 1, 2019. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on August 1, 2019, and a copy of such verified Report was transmitted to Gem State on August 2, 2019. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about August 29, 2019, the Department received a Waiver signed by Adrian Celaya, Manager of Gem State. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, Gem State consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

CONCLUSIONS OF LAW

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

6. Having fully considered the Report, the Director concludes that Gem State appears to meet the minimum capital and deposit requirements set forth in Idaho Code §§ 41-313(1) and 41-316A.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Gem State Insurance Company as of December 31, 2016 is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

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

IT IS SO ORDERED.

DATED and EFFECTIVE this 4th day of September, 2019.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

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

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

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 5th day of September, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2016 to be served upon the following by the designated means:

Gem State Insurance Company
333 Main Street
Gooding, ID 83330
adriancelaya@cableone.net

☐ first class mail
☒ certified mail
☐ hand delivery
☒ email

Nathan Faragher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
nathan.faragher@doi.idaho.gov

☐ first class mail
☐ certified mail
☐ hand delivery
☒ email

Hermoliva Abejar
Chief Deputy Examiner
Idaho Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720-0043
hermoliva.abejar@doi.idaho.gov

☐ first class mail
☐ certified mail
☐ hand delivery
☒ email

Edith L. Pacillo
Lead Deputy Attorney General
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
edith.pacillo@doi.idaho.gov

☐ first class mail
☐ certified mail
☐ hand delivery
☒ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

GEM STATE INSURANCE COMPANY
(A Domestic Mutual Insurance Company)
(NAIC Company Code: 18457)
As of

December 31, 2016



Table of Contents

SCOPE OF EXAMINATION	4
<i>Period Covered</i>	4
<i>Examination Procedures Employed</i>	4
<i>Status of Prior Examination Findings</i>	5
SUMMARY OF SIGNIFICANT FINDINGS	5
SUBSEQUENT EVENTS.....	5
COMPANY HISTORY	5
<i>General</i>	5
<i>Dividends and Capital Contributions</i>	6
<i>Mergers and Acquisitions</i>	6
<i>Surplus Debentures</i>	6
CORPORATE RECORDS.....	6
MANAGEMENT AND CORPORATE GOVERNANCE	7
FIDELITY BONDS AND OTHER INSURANCE.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	9
TERRITORY AND PLAN OF OPERATION.....	9
GROWTH OF THE COMPANY	10
LOSS EXPERIENCE.....	11
REINSURANCE	11
<i>Assumed</i>	11
<i>Ceded</i>	11
ACCOUNTS AND RECORDS	12
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS	14
NOTES TO FINANCIAL STATEMENTS	18
SUMMARY OF RECOMMENDATIONS.....	18
ACKNOWLEDGEMENT	19

August 1, 2019

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

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code § 41-219(1), 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, 2016, of the financial condition and corporate affairs of:

GEM STATE INSURANCE COMPANY
333 Main Street
Gooding, ID 83330

Hereinafter referred to as the “Company”, at its offices in Gooding, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our single-state examination of Gem State Insurance Company. The last exam was completed as of December 31, 2011. This examination covers the period of January 1, 2012, through December 31, 2016.

Examination Procedures Employed

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* ("Handbook") to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance ("Department"). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with Statutory Accounting Principles (SSAPs and Annual Statement Instructions) as governed and prescribed by Idaho law.

The Company retained the services of a certified public accounting firm, Deagle, Ames & Co., to audit its financial records for the years under examination. The firm allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

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

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

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

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department, which covered items that were not included in the Report due to materiality threshold,

items that were related to proprietary/operational issues, as well as minor accounting and/or Annual Statement reporting corrections.

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

Status of Prior Examination Findings

Our examination included a review to determine the current status of the one exception condition commented upon in our preceding Report of Examination, dated April 30, 2013, which covered the period from January 1, 2007, to December 31, 2011. We determined that the Company had satisfactorily addressed the exception condition.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

The management agreement between the Company and the Locke Agency (Locke) was updated on October 10, 2018, to state that "Locke shall have authority to make withdrawals from funds held by or on behalf of Gem State in trust. The Board of Directors shall review such transactions semiannually". The new agreement also changed the time required for either party to terminate the contract from ninety (90) days to a full year.

At the Board of Directors meeting on April 17, 2019, the Board approved an increase to the Company's catastrophic reinsurance program limit of liability of the reinsurer from \$1.25 million to \$2 million in excess of the \$500,000 retention. This increase was effective July 1, 2018.

COMPANY HISTORY

General

The Company was incorporated on March 12, 1910, as the Grange Mutual Co-Operative Fire Insurance Company of Idaho, and commenced operations in July of 1910. The initial purpose of

the Company was to provide fire, lightning, hail, tornado and windstorm coverages for all “Patrons of Husbandry” (Grange members) who were affiliated with the subordinate Grange in the State of Idaho.

In 1984, the Company was experiencing serious problems with loss of policyholders due to declining Grange membership, and the inability of the Company to provide liability coverage with the property policies it was writing. At that time, the Company had adequate assets and surplus to convert from a county mutual to a domestic property & casualty mutual insurance company, which would allow writing personal and farm and ranch liability insurance. That was accomplished and in 1985, the Company began writing those additional liability lines, along with property coverage, for all eligible property owners in Idaho with no Grange membership requirement. By amendment to the Articles of Incorporation, the name of the Grange Mutual Fire Insurance Company of Idaho was adopted effective March 3, 1986. Effective January 1, 1998, the name of the Company was changed to its present name, Gem State Insurance Company.

Dividends and Capital Contributions

The Company did not declare or pay out any dividends during the examination period, nor did the Company receive any capital contributions.

Mergers and Acquisitions

The Company had no mergers or acquisitions during the examination period.

Surplus Debentures

The Company had no surplus debentures during the examination period.

CORPORATE RECORDS

The meetings of the Board of Directors (“Board”) were conducted on a semiannual basis for all the years under examination. A review of the meeting minutes of the Board for the examination period, and subsequent thereto, indicated compliance with the bylaws and Articles of Incorporation with respect to the election of the Directors and Officers. The review of the minutes also indicated that a quorum was present at all Board meetings held during the examination period. The minutes reflected discussion of relevant operational performance, review and approval of the independent auditor’s reports, and the investment transactions.

The annual meetings of the policyholders are held at the same location and time as the annual meeting of the Board on the third Wednesday of April. Special meetings of the Board may be called by the President or upon the petition of any three board members, in accordance with the provisions in the Company’s Bylaws.

The Company's Bylaws provided for an Executive Committee consisting of three policyholders, including the President of the Company. The committee shall act in compliance with the instructions of the Board and within the limits of such power as may be transferred to, or withheld from the committee. A Compensations Committee and an Investment Committee were also established by the Board.

MANAGEMENT AND CORPORATE GOVERNANCE

As of December 31, 2016, the Company had one Management Agreement in place with the Locke Agency, an insurance agency of Gooding, Idaho. The Agreement was effective April 28, 1999, and provides for one-year renewal periods upon the mutual consent of the parties and upon terms and conditions agreed by the parties. In October of 2018, the Agreement was amended to state that Locke could make withdrawals from funds held by Gem State in trust, the Board would review those transactions semiannually, and the termination terms were updated from ninety (90) days to a full year (see details under caption SUBSEQUENT EVENTS).

The Agreement authorizes the Locke Agency: to serve as manager for the Company in accordance with the policies and directives of the Board, to receive and accept proposals for contracts of insurance, to receive premiums, and to deliver policies of insurance to agents of the Company. The Agreement also states that the Locke Agency shall supervise and manage the insurance business for the Company including underwriting, servicing policies, processing claims, investments, reinsurance and all related functions. The Locke Agency, per the Agreement, shall maintain a fidelity bond covering all employees transacting insurance business for the Company. This requirement was met through fidelity coverage obtained by the Company (see details under caption FIDELITY BONDS AND OTHER INSURANCE). Additionally, the Agreement states that Locke Agency shall furnish sufficient office space, office equipment and personnel to adequately transact the business in an efficient manner.

The Agreement states that the Locke Agency shall receive a monthly fee to be mutually determined annually, by the Locke Agency and the Compensation Committee of the Board of the Company, as compensation for its services. The fee is to be determined based on income and expense data provided to the Board within ninety (90) days after the expiration of each calendar year, including all amounts received and expended during the calendar year. The annual management fee in 2016 was \$367,204. The agreement appears fair and reasonable for the services provided. No Director and/or Officer of the Company had any interest in the Locke Agency.

The Bylaws of the Company indicated the number of directors may be five individuals chosen from the members (policyholders) of the Company.

The following persons served as directors of the Company as of December 31, 2016:

<u>Name</u>	<u>Residence Address</u>	<u>Principal Occupation</u>
Gene Guilfooy	Moscow, Idaho	Retired Insurance Agent
Tom Jones	Gooding, Idaho	Investment Advisor; Gem State Investment Advisors
Keith Skaar	Idaho Falls, Idaho	Retired Farmer
Doug McEwan	Boise, Idaho	Retired Banker
Jim Waters	Emmett, Idaho	Retired Insurance Agent

The Company's Bylaws authorize the Board to establish Compensation and Investment Committees. The following persons were serving on the Committees as of December 31, 2016:

<u>Executive Committee</u>	<u>Investment Committee</u>	<u>Compensation Committee</u>
Gene Guilfooy	Gene Guilfooy	Gene Guilfooy
Tom Jones	Doug McEwan	Keith Skaar
Keith Skaar	Bob Locke*	Doug McEwan

*Not a Director

In 2017, Adrian Celaya, not a Director, replaced Bob Locke on the Investment Committee.

The Company's Bylaws provide for principal officers to consist of a President, Vice President, Treasurer and Secretary. The following person served as officers of the Company as of December 31, 2016:

<u>Name</u>	<u>Position</u>
Gene Guilfooy	President
Keith Skaar	Vice President
Tom Jones	Secretary/Treasurer

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$150,000. As of December 31, 2016, the Company had sufficient fidelity bond coverage subject to a loss limit of \$250,000. It was noted from a review of the policy that the Locke Agency employees, acting on behalf of the Company, would also be covered by the Company's fidelity bond. The Company was also covered for Director's and Officer's Liability Insurance. The insurance companies providing coverage to the Company were authorized insurers of the State of Idaho as of the examination date.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees except the President who received a small amount of annual compensation from the Company.

The Company purchased a preferred whole life insurance policy (\$100,000 death benefit) from Jackson Life Insurance Co., in Lansing, Michigan on July 10, 1998, for Bob Locke, manager until April 20, 2016. The Board approved to sign over the life insurance policy to Bob Locke on October 18, 2016.

The Company purchased a thirty (30) year renewable level benefit level term life insurance policy from American General Life Insurance Company, in Houston, Texas on May 14, 2008, for manager Adrian Celaya. The death benefit for the policy is \$250,000 and the Company is the beneficiary.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed in Idaho as a domestic property and casualty insurer, and the business writing was primarily comprehensive homeowners policies (including small farming operations), and rental dwellings.

Operations of the Company were conducted on an agency basis with approximately sixty-five (65) agencies under contract. The commission schedule in current use appeared to be reasonable. A bonus plan based on experience had been in effect since 1990.

The Company has maintained its home office in Gooding, Idaho, since 1918, and all insurance operations and record keeping functions are performed at that location.

GROWTH OF THE COMPANY

The following represents the Company's premium activity and its relationship to surplus over the period of our examination:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Written Premium	\$3,834,861	\$3,505,580	\$3,132,025	\$2,948,872	\$2,822,523
Policyholder Surplus	\$8,957,069	\$8,107,783	\$7,848,936	\$7,381,613	\$6,599,365
Net Written Premium to Policyholder Surplus Ratio	43%	43%	40%	40%	43%

For the examination period, the Company's Net Written Premiums and Policyholder Surplus grew on average by approximately \$250,000 & \$589,000 each year, respectively. Additionally, the Company maintained an average 42% ratio between Net Written Premiums to Policyholder Surplus.

LOSS EXPERIENCE

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Premiums Earned	\$3,671,350	\$3,314,381	\$2,994,774	\$2,890,863	\$2,782,943
Losses Incurred	1,700,060	1,919,876	1,716,382	1,455,547	1,350,382
Loss Adjustment Expenses Incurred	182,606	246,541	191,742	169,199	152,018
Other Underwriting Expenses Incurred	1,184,760	1,097,337	1,020,295	979,777	939,339
Total Losses & Expenses	<u>\$3,067,426</u>	<u>\$3,263,754</u>	<u>\$2,928,419</u>	<u>\$2,604,523</u>	<u>\$2,441,739</u>
Total Loss and Loss Adjustment Expenses Incurred to Net Premiums Earned	84%	98%	98%	90%	88%

The Company has experienced an increase in Premiums Earned and Total Losses & Expenses for every year in the examination period. The Company experienced a decrease in Total Losses and Expenses in 2016 when compared to the previous years in the examination period.

REINSURANCE

Assumed

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

Ceded

The Company had the following ceded reinsurance contracts in effect as of December 31, 2016:

<u>Agreement Type</u>	<u>Reinsurer</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
First Excess of Loss; Personal Liability Business	General Reinsurance Corporation	\$100,000	\$900,000 per risk; maximum of \$1,000,000 per occurrence

Second Excess of Loss; Personal Property Business	General Reinsurance Corporation	\$100,000	\$1,150,000 per risk; maximum of \$3,450,000 on all risks per occurrence
Catastrophe Coverage (Property Business)	General Reinsurance Corporation	\$400,000*	Limit of \$1,250,000 to each loss event and \$2,500,000 to all loss events during the contract term**

**Effective January 1, 2016; Company's Retention increased to \$500,000*

***Effective July 1, 2018; Reinsurer's Limits increased to Limit of \$2,000,000 to each loss event and \$3,000,000 to all loss events during the contract term*

The Company's reinsurer, General Reinsurance Corporation, a Delaware domiciled company, is authorized to transact business in the State of Idaho.

The examiner's review of the above reinsurance contracts concluded that the contracts did include adequate transfer of risk in compliance with Statement of Statutory Principle (SSAP) No. 62R, paragraph 12.

ACCOUNTS AND RECORDS

The Company utilized accounting software, Automatic Policy Processing System (APPS), maintained by IMT Computer Services, to generate accounting and financial information.

The annual independent audits of the Company for years 2012 through 2016 were performed by Deagle, Ames & Co.

The independent auditor's reports were based on statutory accounting principles and reflected an unqualified opinion for calendar years 2012 through 2016. Throughout the examination, reliance was placed on the auditor's workpapers where deemed appropriate.

STATUTORY DEPOSITS

Pursuant to Idaho Code § 41-316A, the Company was required to maintain a deposit in an amount equal to \$1,000,000. The examination confirmed the Company maintained a statutory deposit with the State of Idaho with a total par value of \$1,010,000, which was adequate to cover the required deposit.

The special deposits maintained by or through regulatory agencies on the policyholders' behalf as of December 31, 2016, were as follows:

<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>	<u>Par Value</u>
Idaho Hsg & Fin Assn Antic BDS	\$105,406	\$110,549	\$100,000
Palmdale Calif Wtr Dist Pub Fing	51,712	56,810	50,000
Bonneville Co Dist #091	100,968	99,802	100,000
Cark Co Nv School	49,531	56,265	50,000
Idaho BD BK Auth Revenue Series D	100,881	93,317	100,000
Idaho Health Ref	105,126	108,737	100,000
Idaho Health Ref-Hosp	104,275	108,517	100,000
Idaho House -1-1-40	51,881	55,325	50,000
New Jersey St Hsg	35,595	37,225	35,000
St. Peters MO	50,006	50,090	50,000
Washoe Cnty Nev Hwy Rev	103,570	108,802	100,000
GCB Genworth Fin	74,994	73,875	75,000
Progressive Corp Ohio	101,506	97,750	100,000
	<u>\$1,035,451</u>	<u>\$1,057,064</u>	<u>\$1,010,000</u>

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet, as of December 31, 2016

Statement of Income, For the Year Ending December 31, 2016

Reconciliation of Surplus, December 31, 2012, through December 31, 2016

BALANCE SHEET
As of December 31, 2016

ASSETS

	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$6,318,863
Preferred stocks (stocks)	329,784
Common stocks (stocks)	3,240,215
Cash & cash equivalents	1,985,740
Investment income due and accrued	83,829
Deferred premiums and not yet due	105,004
Total assets	<u>\$12,063,435</u>

LIABILITIES, CAPITAL AND SURPLUS

Losses	\$513,073
Loss adjustment expenses	80,498
Commissions payable	158,466
Other expenses	31,394
Taxes; licenses and fees	9,027
Current federal income taxes	118,059
Unearned premiums	2,020,028
Ceded reinsurance premiums payable	175,918
Amounts withheld or retained by company for account of others	(97)
Total liabilities	<u>3,106,366</u>
Unassigned funds (surplus)	<u>8,957,069</u>
Surplus as regards policyholders; December 31 current year	<u>8,957,069</u>
Total liabilities, surplus and other funds	<u>\$12,063,435</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Premiums earned	\$3,671,350
Losses incurred	<u>\$1,700,060</u>
Loss adjustment expenses incurred	182,606
Other underwriting expenses incurred	<u>1,184,760</u>
Total underwriting deductions	<u>\$3,067,426</u>
Net underwriting gain (loss)	<u>\$603,924</u>
Net investment income earned	413,749
Net realized capital gains (losses) less capital gains tax of \$0	<u>96,662</u>
Net investment gain (loss)	<u>\$510,411</u>
Federal and foreign income taxes incurred	<u>344,199</u>
Net income	<u><u>\$770,136</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
December 31, 2012 through December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Prior year surplus, December 31	<u>\$8,107,783</u>	<u>\$7,848,936</u>	<u>\$7,381,613</u>	<u>\$6,599,365</u>	<u>\$5,935,513</u>
Net income	770,136	415,051	395,739	536,132	479,589
Change in unrealized gains (losses)	79,150	(177,035)	92,415	246,116	184,262
Change in net deferred income tax	0	20,831	(20,831)	0	0
Change in surplus for the year	<u>\$849,286</u>	<u>\$258,847</u>	<u>\$467,323</u>	<u>\$782,248</u>	<u>\$663,851</u>
Current year surplus, December 31	<u><u>\$8,957,069</u></u>	<u><u>\$8,107,783</u></u>	<u><u>\$7,848,936</u></u>	<u><u>\$7,381,613</u></u>	<u><u>\$6,599,365</u></u>

NOTES TO FINANCIAL STATEMENTS

Lewis & Ellis Actuaries and Consultants, were retained by the Department to review the above actuarial liabilities and reserves as of December 31, 2016. Based on the actuaries' review, it appears that the assumptions and methodologies used by the Company's actuary were accurate and appropriate.

SUMMARY OF RECOMMENDATIONS

The results of the examination disclosed that as of December 31, 2016, the Company had admitted assets of \$12,063,435, liabilities of \$3,106,366, and surplus as regards policyholders of \$8,957,069. There were no examination adjustments made on the financial statements and the Company was in compliance with the "capital funds required" criteria for a property & casualty mutual insurer found in Idaho Code § 41-313.

ACKNOWLEDGEMENT

Glenn Tobleman and Valerie Hanley of Lewis & Ellis Actuaries and Consultants performed the actuarial phases of the examination. Hermoliva Abejar, Deputy Chief Examiner of the Idaho Department of Insurance, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



Jessie L. Adamson
Examiner-in-Charge
Insurance Financial Examiner
Idaho Department of Insurance



Hermoliva B. Abejar, CFE
Supervising Examiner
Deputy Chief Examiner
Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

Idaho
Ada County

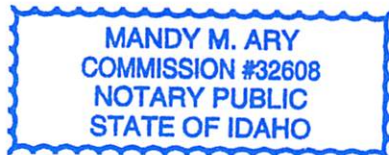
Jessie L. Adamson, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Gem State Insurance Company for the period from January 1, 2012, through December 31, 2016, 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 information.

Jessie Adamson

Jessie L. Adamson
Insurance Financial Examiner
Idaho Department of Insurance

Subscribe and sworn to before me the 1st day of August, 2019, at Boise, Idaho.

Mandy M. Ary
Notary Public



My Commission Expires: 7/24/24

BRAD LITTLE
Governor

State of Idaho
DEPARTMENT OF INSURANCE

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

DEAN L. CAMERON
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2016, of the:

**GEM STATE INSURANCE COMPANY
333 MAIN STREET
GOODING, IDAHO 83330**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 1st day of August 2019, 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 29 day of August, 2019

GEM STATE INSURANCE COMPANY

Adrian Celaya
Name (print)

Adrian Celaya
Name (signature)

Manager
Title

