

**FILED**  
**SEP 30 2020** *By*  
Department of Insurance  
State of Idaho

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

**STATE OF IDAHO**

In the Matter of:

ASSOCIATED LOGGERS EXCHANGE

Certificate of Authority No. 1245  
NAIC No. 37370

Docket No. 18-3815-20

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2018**

The State of Idaho, Department of Insurance (“Department”), having conducted an examination of the affairs, transactions, accounts, records, and assets of Associated Loggers Exchange (“ALE”), an Idaho-domiciled reciprocal insurer, pursuant to Idaho Code § 41-219(1) and (5), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Associated Loggers Exchange as of December 31, 2018 (“Report”), as filed.

**FINDINGS OF FACT**

1. ALE is an Idaho-domiciled insurance company licensed to transact workers’ compensation insurance in Idaho under Certificate of Authority No. 1245.
2. The Department completed an examination of ALE pursuant to Idaho Code § 41-219(1) and (5) on or about September 2, 2020. 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 September 2, 2020, and a copy was transmitted to ALE on September 24, 2020. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about September 28, 2020, the Department received a Waiver from ALE signed by John Graham, President and Attorney-in-Fact. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, ALE consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

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

#### **ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Associated Loggers Exchange as of December 31, 2018, is hereby ADOPTED

as filed, pursuant to Idaho Code § 41-227(5)(a).

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

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, ALE shall file with the Department's 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 30 day of September, 2020.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
DEAN L. CAMERON  
Director

### **NOTIFICATION OF RIGHTS**

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

Any such motion for reconsideration shall be served on the Director of the Idaho Department of Insurance, addressed as follows:

Dean L. Cameron, Director  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
P.O. Box 83720  
Boise, ID 83720-0043

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order or orders previously issued in this case may file a petition for judicial review in the district court of the county in which:

- i. A hearing was held;
- ii. The final agency action was taken;
- iii. The party seeking review of the order resides, or operates its principal place of business in Idaho; or
- iv. The real property or personal property that was the subject of the agency action is located.

A petition for judicial review must be filed within twenty-eight (28) days of: (a) the service date of this final order, (b) the service of an order denying motion for reconsideration, or (c) the failure within twenty-one (21) days to grant or deny a motion 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. Idaho Code § 67-5274.

### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 30<sup>th</sup> day of September, 2020, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2018 to be served upon the following by the designated means:

Associated Loggers Exchange  
John Graham, President and Attorney-in-Fact  
3380 W. Elder Street  
Boise, ID 83705

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

Eric Fletcher  
Chief Examiner, Company Activities Bureau Chief  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
P.O. Box 83720  
Boise, ID 83720-0043  
[eric.fletcher@doi.idaho.gov](mailto:eric.fletcher@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, 3<sup>rd</sup> Floor  
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☐ first class mail  
☐ certified mail  
☐ hand delivery  
☒ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

ASSOCIATED LOGGERS EXCHANGE  
A Domestic Reciprocal Insurer

NAIC Company Code: 37370

As of

December 31, 2018

**EXHIBIT**

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exhibitsticker.com

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Boise, Idaho  
April 22, 2020

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, 2018, of the financial condition and corporate affairs of:

Associated Loggers Exchange  
3380 Elder Street  
Boise, Idaho 83705

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

## **SCOPE OF EXAMINATION**

### *Period Covered*

We have performed our full-scope, risk-focused coordinated examination of the Exchange. The Exchange is a multi-state insurer that writes business in Idaho and Montana. The previous examination of the Exchange was completed as of December 31, 2014. This examination covers the period of January 1, 2015, through December 31, 2018.



### *Examination Procedures Employed*

The examination was conducted in accordance with the risk-focused examination process pursuant to the NAIC *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance ("Department"). The examination process required that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Exchange, including management and governance, identifying and assessing inherent risks within the Exchange, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance Statutory Accounting Principles (SSAPs and Annual Statement Instructions when applicable to domestic state regulations).

The Exchange retained the services of the certified public accounting firm, Presnell Gage, PLLC, in Moscow, Idaho, to audit its financial records for the years under examination. The firm provided 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 Exchange were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Exchange's financial statements.

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

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

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

### *Status of Prior Examination Findings*

There were no exception conditions reported in the prior Report of Examination, dated December 31, 2014, which covered the period from January 1, 2011, to December 31, 2014.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### Advance Receivable - Associated Loggers Management Corporation

According to the September 9, 2016 Board of Governors' meeting minutes, the Exchange advanced \$70,000 to its wholly-owned subsidiary, Associated Loggers Management Corporation ("ALMC"). The purpose of the "advance" as stated in the minutes, was for ALMC to meet budgeted cash needs for the first part of 2016. Discussion of the "advance" was documented in the subsequent minutes of Board meetings held on December 6, 2016, September 8, 2017, and November 11, 2017. However, those minutes did not document the Board's approval or authorization of this investment. It should be noted that the Exchange's Board of Governors did approve a capital contribution of \$85,000 to ALMC at the November 11, 2017 meeting. The Exchange indicated that the "advance" did not involve a loan note that pertained to that transaction.

Pursuant to Idaho Code § 41-704, an insurer shall not make, sell, or exchange any investment or loan ("advance") unless the same is authorized or approved by its Board or by the Investment Committee. As the Board of Governors' and Investment Committee's meeting minutes did not record approval or disapproval, it appears the Exchange was not in compliance with Idaho Code § 41-704 with respect to the advance.

Furthermore, the Exchange did not make a written record of the advance showing authorization of the loan ("advance") pursuant to Idaho Code § 41-705(1). As to the loan, Idaho Code § 41-705(2)(a) specifies the written record should have included the name of the borrower, the amount of the loan, rate of interest, and terms of repayment.

Based on the foregoing, it appears the Exchange was not in compliance with Idaho Code §§ 41-704 and 705 with respect to the advance made to ALMC in 2016.

#### RECOMMENDATIONS:

It is recommended that in the future, the Exchange obtain approval from the Board of Governors when entering into all investment transactions, especially those with affiliates and/or related parties. Approval of any future investment should be obtained by the Board of Governors and such approval clearly documented in the Investment Committee and Board of Governors' meeting minutes.

It is also recommended that the Exchange maintain a written record of all loan and advance transactions. This record should contain all of the requirements set forth in Idaho Code § 41-705(2)(a).

#### SUBSEQUENT EVENTS

An outbreak of COVID-19 began in the United States including the state of Idaho during early 2020 while the examination team was completing their Phase 5 risk-focused procedures. The Department was unable to complete some on-site testing procedures, and it was not deemed feasible to complete these tests remotely. The effects of the outbreak are not currently known in relation to the financial solvency of the Exchange.

## **EXCHANGE HISTORY**

### *General*

The Exchange was organized as a Casualty-Workers' Compensation Only, Reciprocal Insurer under the laws of the State of Idaho. Pursuant to Idaho Code § 41-2909, the Certificate of Authority was issued through its Attorney-in-Fact, Associated Loggers Management Corporation, ALMC, in the name of the Exchange on July 24, 1979. On May 24, 1994, the Exchange purchased all of the outstanding capital stock of its corporate Attorney-in-Fact, ALMC. This transaction was approved by the Idaho Department of Insurance. On June 29, 2001, the Exchange obtained a Certificate of Authority from the State of Montana to write casualty business, limited to workers' compensation only. The Exchange started writing premium in the State of Montana in 2002.

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

### *Dividends and Capital Contributions*

During the examination period January 1, 2015, through December 31, 2018, and subsequent thereto, the Board of Governors declared and the Exchange paid the following premium returns (dividends) to subscribers of the Exchange:

<u>Date Declared</u>	<u>Date Approved</u>	<u>Date Paid</u>	<u>Distribution</u>
April 23, 2015	May 21, 2015	June 1, 2015	\$500,000
April 28, 2016	May 13, 2016	June 1, 2016	250,000
April 27, 2017	May 11, 2017	June 1, 2017	250,000
April 26, 2018	May 3, 2018	June 1, 2018	250,000
April 25, 2019	May 1, 2019	June 1, 2019	250,000

### *Mergers and Acquisitions*

There were no mergers and acquisitions during the examination period.

### *Surplus Debentures*

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

Redemption of surplus notes is dependent upon Board of Governor determination, certain surplus requirements, and Department of Insurance approval. During the examination period, the Exchange did not redeem any surplus notes. The balance at December 31, 2018 is \$47,474.

## **CORPORATE RECORDS**

The meetings of the Board of Governors were conducted on a quarterly basis for all the years under examination.

Investment transactions were approved by the Board of Governors, as required by Idaho Code § 41-704.

At the September 9, 2016 meeting, the Board of Governors accepted the Examination Report as of December 31, 2014.

Pursuant to Idaho Code § 41-2910, the rights and powers of the attorney of a reciprocal insurer shall be as provided in the power of attorney given it by the subscribers, which is contained in the workers' compensation and employers' liability insurance policy.

The Board of Governors provide oversight of the Exchange's operations. The following persons were the duly elected members of the Exchange's Board of Governors at December 31, 2018:

Jack Buell	JMF Co., Inc., St. Maries, Idaho
Tim Christopherson	Dabco, Inc., Kamiah, Idaho
Merle D. Colpron	Colpron & Associates, Inc., Boring, Oregon
Corby Finke	Finke Logging, Inc., Orofino, Idaho
Capella Ikola	G. Ikola, Inc., McCall, Idaho
Shawn Keough	Executive Director, Associated Logging Contractors, Inc., Coeur d'Alene, Idaho

John Larson	M. John Larson Logging, Orofino, Idaho
Mark Mahon	Tom Mahon Logging, Inc., Council, Idaho
G. Bruce McLaughlin, Jr.	McLaughlin Logging, Inc., Orofino, Idaho
Rick Smith	Smith Logging, Inc., Kalispell, Montana
Ron Streeter	Streetercorp, Inc., Dalton Gardens, Idaho
Ken Swanstrom	Skookum Timber Co., Inc., Kalispell, Montana

Ron Streeter's term expired in 2019. Richard A. Nordstrom of Richard A. Nordstrom Logging in Post Falls, Idaho, and Robert St. Onge of St. Onge Logging, Inc. in Kalispell, Montana, were named to the Board of Governors subsequent to the examination date. Ron Streeter termed off the Board and was named to the Alternate Board at the September 6, 2019 Board meeting. Merle Colpron is no longer on the Board.

The Exchange also has an Alternate Board. Prospective Governors are drawn from this pool of members/subscribers when there are Board vacancies. The following persons were the duly appointed members of the Exchange's Alternate Board of Governors at December 31, 2018:

Rex Anderson	Bob Danielson
Diana Henderson	Frank Howerton
Greg Kelso	Bill Lowry
Rich Nordstrom	Bob St. Onge
Norman Tomlinson	

Frank Howerton passed away on May 1, 2019. Richard Nordstrom and Bob St. Onge were named to the Board subsequent to the examination date. Wayne Earling was added to the Alternate Board of Governors on March 1, 2019, while Richard Kienke was also appointed. Ron Streeter termed off the Board and was named to the Alternate Board at the September 6, 2019 Board meeting. Bill Lowry resigned from the Alternate Board.

The following persons were serving as officers of the Exchange at December 31, 2018:

Capella Ikola	Chairman of the Board
Ron Streeter	Vice Chairman of the Board
Shawn Keough	Secretary

As previously noted, Ron Streeter's term expired in 2019. Ken Swanstrom was named new Vice at the September 6, 2019 Board of Governors meeting.

The Exchange has an Advisory Committee, which is a non-active committee that exists to permit retired Board members to attend Board meetings and observe. The following persons were serving on the Advisory Committee at December 31, 2018:

Dave Johnson	Kelly Kelso
Robert Peterson	Tom Ray
Steve Sherich	

The following persons were serving on the Audit Committee of the Exchange at December 31, 2018:

Capella Ikola	Chairman of the Board, Committee Chairman
Jack Buell	Member
Merle Colpron	Member
Tim Christopherson	Alternate Committee Member
Mark Mahon	Alternate Committee Member

Subsequent to the examination date, Merle Colpron is no longer on the Audit Committee.

The following persons were serving on the Investment Committee of the Exchange at December 31, 2018:

Capella Ikola	Chairman of the Board
Ron Streeter	Vice Chairman of the Board
Shawn Keough	Secretary
Chad Neptune	ALE Accountant
John Graham	ALMC President, ALE Attorney-in-Fact
Jack Buell	ALMC Chairman of the Board
Merle Colpron	ALMC Secretary
Tim Christopherson	Member
Mark Mahon	Member
John Larson	Member
Scott Brassey	Representative from Selway Asset Management

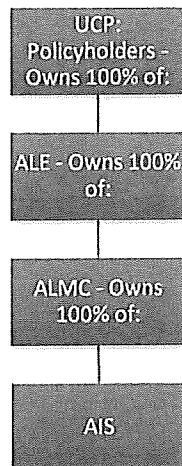
As previously noted, Ron Streeter's term expired in 2019. Ken Swanstrom was named new Vice at the September 6, 2019 Board of Governors meeting. Merle Colpron is no longer on the Investment Committee.

## **MANAGEMENT AND CORPORATE GOVERNANCE**

The Exchange, a reciprocal insurer organized under Chapter 29, Title 41, Idaho Code, is controlled by its subscribers. The Exchange wholly owns its attorney-in-fact, Associated Loggers

Management Corporation (“ALMC”). In turn, ALMC wholly owns Associated Insurance Services, LLC (“AIS”), a captive insurance agency.

The following organizational charts show the relationships of the policyholders, the Exchange, ALMC, and AIS as of December 31, 2018:



### *Affiliated Contracts*

#### Management Agreement

Under the terms of a management agreement, ALMC, agreed to act as Attorney-in-Fact for the Exchange and its subscribers. Pursuant to the agreement, the Attorney-in-Fact is responsible for production, underwriting, and servicing of insurance, as well as servicing and handling insurance claims and losses. In consideration for these services, the Attorney-in-Fact received 10.75 percent and 13.50 percent of the Exchange's gross paid premium written in the states of Idaho and Montana, respectively. The Exchange is responsible for expenses including, but not limited to: losses and claim payments; loss prevention expenses; governmental charges; taxes, audit and attorney fees; board fees and expenses; reinsurance premiums; investment counsel fees; officers' expenses, and subscriber meeting expenses. The management agreement was effective July 1, 2018 through June 30, 2019, and may be terminated by either party for reasons specified therein. The Board of Governors approved the agreement on September 7, 2018.

#### Policy Services Agreement

A policy services agreement was executed between ALMC and AIS. Under the terms of this agreement, ALMC appointed AIS as its exclusive agent for workers' compensation insurance in Idaho written with the Exchange. AIS was authorized to act as ALMC's agent in connection with the administration of the Exchange's business. For the services rendered, ALMC agreed to pay AIS 3.0 percent of the Exchange's gross paid premium from business written in Idaho. This 3.0 percent is included in the 10.75 percent which the Exchange agreed to pay ALMC under the aforementioned management agreement. The term of this agreement was January 1, 2018, through December 31, 2018, and may be cancelled by either party with ninety days prior written notice. The Board of Governors approved the agreement on November 17, 2017. The agreement was

renewed under the same terms and conditions effective January 1, 2019. The Board of Governors approved the renewal on November 16, 2018. Tim Christopher, Board member of the Exchange, signs this agreement in his capacity of Director of AIS.

#### Lease and Sub-Lease Agreements

The Exchange, ALMC, and AIS previously rented office space from Associated Logging Contractors, Inc. In 2018, the Exchange purchased this rental property for its statutory home office. The Exchange and ALMC entered into a lease agreement on May 1, 2018. Monthly rent of \$2,816.67 is paid by ALMC to the Exchange. The lease is automatically renewed each year on May 1<sup>st</sup>, unless terminated by either party with at least 60 days prior written notice. Under the agreement, the Exchange allows ALMC to sublet to AIS. In this connection, a sublease agreement was executed between ALMC and AIS effective May 1, 2018. The sublease renews automatically at the end of each lease term unless terminated by either party with at least 30 days written notice. Sublease payments are \$1,000 per month, adjusted to reflect current market conditions or a change in office space sublet by AIS.

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

The minimum fidelity coverage suggested by the NAIC for an insurer of the Exchange's size and premium volume is not less than \$250,000. As of December 31, 2018, the Exchange had sufficient fidelity bond coverage of \$1,000,000.

The Exchange also carried commercial property, general liability, business auto, umbrella, workers' compensation, errors and omissions, directors and officers liability, and cyber security coverage.

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

The Exchange does not have any employees and therefore, does not have any pension, stock ownership, or insurance plans.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2018, the Exchange was licensed to write workers' compensation and employers' liability insurance in Idaho and Montana. Operations of the Exchange were conducted from its main administrative office located in Boise, Idaho. In addition, offices to administer claims were maintained in Coeur d'Alene, Idaho and Missoula, Montana.



Business was written on behalf of the Exchange through two policy service agreements. One agreement is with affiliate AIS, as previously discussed. The other policy services agreement was with MLA Services, Inc. ("MLA"), a Montana corporation.

## **GROWTH OF THE COMPANY**

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

	2018	2017	2016	2015
Gross Written Premium	\$14,571,933	13,421,845	13,268,869	13,333,134
Policyholder Surplus	\$13,791,984	14,322,997	14,088,102	13,343,721
Gross Written Premium to Policyholder Surplus Ratio	106%	94%	94%	100%

## **LOSS EXPERIENCE**

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

	2018	2017	2016	2015
<b>Net Premium Earned</b>	<b>\$12,630,249</b>	<b>11,907,095</b>	<b>11,715,759</b>	<b>11,877,743</b>
Claims Incurred	\$ 9,966,561	8,767,112	7,915,048	7,998,686
Loss Adjustment Expenses Incurred (LAE)	\$ 987,847	1,272,524	1,082,464	891,912
<b>Total Claims and LAE</b>	<b>\$10,954,408</b>	<b>10,039,636</b>	<b>8,997,512</b>	<b>8,890,598</b>
Total Claims and LAE to Net Premium Earned Ratio (Loss Ratio)	87%	84%	77%	75%

## **REINSURANCE**

### *Assumed*

The Exchange did not assume any reinsurance business during or subsequent to the examination date.

## *Ceded*

Workers compensation and employers' liability business is ceded to subscribing reinsurers under an excess of loss reinsurance contract. The reinsurance contracts in force during the examination period and subsequent thereto, are written and administered by Aon Benfield, the Exchange's reinsurance intermediary. The contracts are renewed on an annual basis. There are four layers to the agreement: \$4,000,000 excess of \$1,000,000 with the Exchange participating in 15 percent, \$6,000,000 excess of \$5,000,000 with no Exchange participation in the excess layer, \$10,000,000 excess of \$11,000,000 with no Exchange participation in the excess layer, and \$10,000,000 excess of \$21,000,000 with no Exchange participation in the excess layer. The reinsurance affords recovery up to \$12,000,000 per term for the 1<sup>st</sup> layer, \$12,000,000 per term for the 2<sup>nd</sup> layer, \$20,000,000 per term for 3<sup>rd</sup> layer, and \$20,000,000 per term for 4<sup>th</sup> layer. The 3<sup>rd</sup> and 4<sup>th</sup> layers have a per person limit of \$16,000,000.

The reinsurance agreement contained acceptable provisions for inspection of records, arbitration, termination, and insolvency clauses. All reinsurers were authorized pursuant to Idaho Code § 41-511. Agreements provided for transfer of risk and no apparent surplus relief treaties existed at December 31, 2018.

## **ACCOUNTS AND RECORDS**

The annual independent audits of the Exchange for the years 2015 through 2018 were performed by Presnell Gage, PLLC, in Moscow, Idaho. Their audit reports were made available for the examination.

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

## **STATUTORY DEPOSITS**

As of December 31, 2018, the examination confirmed with the Idaho Department of Insurance that the Exchange had made provision for the following deposits to be held in trust for the protection of all policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, in compliance with Idaho Code § 41-316A.

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Idaho:			
<i>Deposits for the Benefit of All Policyholders:</i>			
Caterpillar, 2.6%, 6/26/2022	\$ 250,000	\$ 243,755	\$ 245,445
Pepsico, Inc., 2.75%, 3/5/2022	250,000	247,480	251,190

Precision Castparts Corp., 2.5%, 1/15/2023	275,000	267,399	271,217
Stanley Black Mtn., 2.9%, 11/2/2022	<u>250,000</u>	<u>245,523</u>	<u>253,027</u>
Subtotal:	<u>\$1,025,000</u>	<u>\$1,004,157</u>	<u>\$1,020,879</u>

Idaho Industrial Commission:

*All Other Special Deposits:*

Blaine Cnty ID Sch, 4.25%, 8/1/2020	\$ 250,000	\$ 255,315	\$ 255,961
Bonneville ID, 4%, 9/15/30	225,000	244,017	256,836
Idaho Bond Bank Auth, 4%, 9/15/29	200,000	213,330	221,040
Idaho Energy Resources Auth Rev, 2.772%, 9/1/26	125,000	118,734	119,737
Idaho Energy, 2.9%, 9/1/2028	500,000	469,285	487,778
Idaho Hsg Fin Assn, 5.379%, 7/15/20	300,000	308,484	336,414
Idaho Hsg Fin Assn, 6.5%, 1/1/25	100,000	106,642	108,621
Idaho St Bond Bank Auth Rev, 4.35%, 9/15/19	250,000	252,678	254,213
Idaho St Bldg Auth Rev, 3.27%, 9/1/25	55,000	54,851	53,771
Idaho St Bldg Auth, 3.38%, 9/1/29	215,000	209,242	218,883
Idaho St Bldg Auth, 3.981%, 9/1/32	190,000	192,637	191,221
Cash	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Subtotal:	<u>\$2,415,000</u>	<u>\$2,430,215</u>	<u>\$2,509,475</u>

Montana

*All Other Special Deposits:*

US Treasury Note, 2.5%, 5/31/20	<u>\$ 250,000</u>	<u>\$ 249,775</u>	<u>\$ 250,025</u>
Total	<u>\$3,690,000</u>	<u>\$3,684,147</u>	<u>\$3,780,379</u>

## FINANCIAL STATEMENTS

Balance Sheet as of December 31, 2018

Statement of Income, for the Year Ending December 31, 2018

Reconciliation of Surplus, December 31, 2015, through December 31, 2018

Analysis of Changes in Financial Statements Resulting From Examination

Balance Sheet  
As of December 31, 2018

ASSETS

Bonds	\$29,565,351
Common stocks	3,179,862
Properties occupied by the company (less \$0 encumbrances)	<u>431,057</u>
Cash (\$2,492,067), cash equivalents (\$498,735) and short-term investments (\$0)	<u>2,990,801</u>
<b>Total Invested Assets</b>	<b>\$36,258,070</b>

Investment income due and accrued	\$347,691
Uncollected premiums and agents' balances in the course of collection	(340,852)
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$0) earned but unbilled premiums)	1,618,082
Amounts recoverable from reinsurers	22,453
Current federal and foreign income tax recoverable and interest thereon	143,939
Net deferred tax asset	332,452
*Aggregate write-ins for other-than-invested assets	<u>89,893</u>
<b>Total Assets</b>	<b><u><u>\$38,471,729</u></u></b>

\*Premium tax deposits: \$89,893.

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## LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 1)	\$ 21,093,162
Loss adjustment expenses (Note 1)	1,788,242
Other expenses	332,170
Taxes, licenses and fees	151,800
Ceded reinsurance premiums payable	621,820
Funds held by company under reinsurance treaties	4,288
Amounts withheld or retained by company for account of others	419,514
**Aggregate write-ins for liabilities	268,750
<b>Total Liabilities</b>	<b>\$24,679,745</b>
Surplus notes	\$47,474
Unassigned funds (surplus)	13,744,510
<b>Surplus as regards policyholders</b>	<b>\$13,791,984</b>
<b>Total Liabilities and Surplus</b>	<b>\$38,471,729</b>

\*\*Reserve for retrospective premium: \$268,750

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Statement of Income  
As of December 31, 2018

Premiums earned		<u>\$12,630,249</u>
Total Income		\$12,630,249
Losses incurred	\$9,966,561	
Loss adjustment expenses incurred	987,847	
Other underwriting expenses incurred	2,653,061	
		<u>\$13,607,469</u>
Total underwriting deductions		<u>\$13,607,469</u>
Net underwriting gain (loss)		\$(977,220)
Net investment income earned	\$ 835,130	
Net realized capital gains/(losses)	<u>(169,023)</u>	
Net investment gains (losses)	\$ 666,107	
		<u></u>
Net income (loss) before dividends to policyholders, after capital gains tax and before all other federal income taxes		\$ (311,113)
Dividends to policyholders	\$250,000	
Net income (loss) after dividends to policyholders, after capital gains tax and before all other federal income taxes		\$ (561,113)
Federal and foreign income taxes incurred	\$ 19,325	
Net Income (Loss)		<u><u>\$ (580,438)</u></u>

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Reconciliation of Surplus  
December 31, 2015, through December 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus prior reporting year	\$14,322,997	\$14,088,103	\$13,343,721	\$12,794,389
Net income or (loss)	(580,438)	(68,036)	732,882	638,276
Change in net unrealized capital gains (losses)	(182,154)	232,016	112,097	(144,717)
Change in net deferred income tax	792,266	(31,084)	(160,364)	(19,579)
Change in nonadmitted assets	(560,687)	101,998	59,767	75,352
Rounding	0	0	0	0
Net change in surplus	\$(531,013)	\$ 234,894	\$ 744,382	\$549,332
Surplus end of reporting period	<u>\$13,791,984</u>	<u>\$14,322,997</u>	<u>\$14,088,103</u>	<u>\$13,343,721</u>

Analysis of Changes in Financial Statements Resulting From Examination

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

## NOTES TO FINANCIAL STATEMENTS

Note (1)	Losses	\$21,093,162
	Loss adjustment expenses	\$1,788,242

Glenn Tobleman, FSA, FCAS, MAAA, of Lewis & Ellis, Inc. performed the actuarial review of the Exchange. He reviewed the actuarial report and concluded that the net loss and loss adjustment expense reserves for the Exchange were reasonably stated as of December 31, 2018.

## SUMMARY OF RECOMMENDATIONS

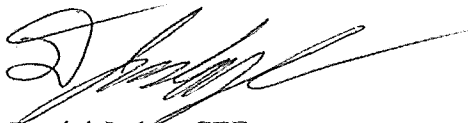
It is recommended that in the future, the Exchange obtain approval from the Board of Governors when entering into all investment transactions, especially those with affiliates and/or related parties. Approval of any future investment should be obtained by the Board of Governors and such approval clearly documented in the Investment Committee and Board of Governors' meeting minutes.

It is also recommended that the Exchange maintain a written record of all loan and advance transactions. This record should contain all of the requirements set forth in Idaho Code § 41-705(2)(a).

### **ACKNOWLEDGEMENT**

Hermoliva Abejar, CFE, Deputy Chief Examiner, of the Idaho Department of Insurance, supervised the examination through Phase 4. Nathan Faragher, CPA AFE, Chief Examiner, supervised the examination from Phase 5 to Phase 7. Lois Haley, CFE was the EIC from Phase 1 through Phase 4. Daniel Judge, CFE, took over as EIC from Phase 5 through Phase 7. The IT portion of the examination was performed by Jenny Jeffers, AES, CISA, CFE and Joanna Latham, AES, CISA, CPA, CFE, CRISC, of Jennan Enterprises, LLC. The actuarial portion of the examination was performed by Glenn Tobleman, FSA, FCAS, MAAA and Valerie Haney, Actuarial Associate, of Lewis and Ellis. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'D. Judge', with a long horizontal flourish extending to the right.

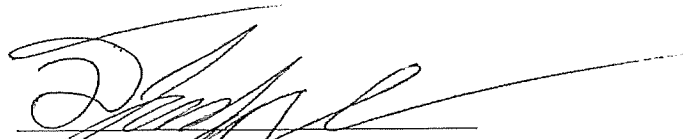
Daniel Judge, CFE  
Examiner-in-Charge  
Insurance Financial Examiner  
Idaho Department of Insurance



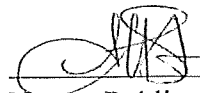
## AFFIDAVIT OF EXAMINER

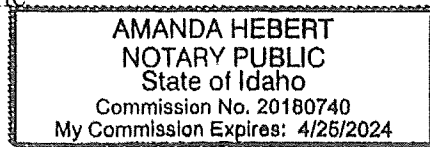
Idaho  
Ada County

Daniel Judge, CFE, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Associated Loggers Exchange for the period January 1, 2015, through December 31, 2018, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

  
Daniel Judge, CFE  
Examiner-In-Charge  
Idaho Department of Insurance

Subscribe and sworn to before me the 2 day of Sept, 2020, at Boise, Idaho.

  
Notary Public



My Commission Expires: 4-25-2024

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, 2018 of the:

**Associated Loggers Exchange**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 2<sup>nd</sup> day of September 2020, 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 28<sup>th</sup> day of September, 2020

**Associated Loggers Exchange**

John Graham  
Name (print)  
John Graham  
Name (signature)  
Pres./Att-in-Fact  
Title

**EXHIBIT**

B

exhibitsricker.com