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FILED *PM*
SEP 09 2019
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:

WORKERS COMPENSATION
EXCHANGE

Certificate of Authority No. 565
NAIC No. 34576

Docket No. 18-3689-19

**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 Workers Compensation Exchange (“WC Exchange”), 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 Workers Compensation Exchange as of December 31, 2016 (“Report”), as filed.

FINDINGS OF FACT

1. WC Exchange is an Idaho-domiciled reciprocal insurer licensed to provide workers’ compensation insurance to its subscribers under Certificate of Authority No. 565.

2. The Department completed an examination of WC Exchange pursuant to Idaho Code § 41-219(1) on or about August 20, 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 20, 2019, and a copy of such verified Report was transmitted to WC Exchange on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about August 23, 2019, the Department received a Waiver signed by Todd Blake, Attorney-in-Fact for WC Exchange. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, WC Exchange 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 WC Exchange appears to meet the minimum financial requirements set forth in Idaho Code § 41-313A.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Workers Compensation Exchange 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, WC Exchange 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 17th day of September, 2019.

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).

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 9th 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:

Workers Compensation Exchange
1901 Idaho Street
Lewiston, ID 83501
todd@wcompex.com

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

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Chief Examiner, Company Activities Bureau Chief
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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

WORKERS COMPENSATION EXCHANGE
Reciprocal Insurer

(NAIC Company Code: 34576)

As of

December 31, 2016



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August 20, 2019

The Honorable Dean 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:

Workers Compensation Exchange
1901 Idaho Street
Lewiston, ID 83501

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

SCOPE OF EXAMINATION

Period Covered

We have performed our single-state examination of Workers Compensation Exchange. 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 Exchange by obtaining information about the Exchange including corporate governance, identifying and assessing inherent risks within the Exchange, 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, management's compliance with Statutory Accounting Principles (SSAPs and NAIC Annual Statement Instructions) as governed and prescribed by Idaho law.

The Exchange retained the services of Potlatch Corporation's internal audit department, a Subscriber to the Exchange, to audit its financial records for the years under examination. The examiners were allowed access to requested workpapers prepared in connection with the audits. The external audit work was not relied upon as the engagement auditors were not available to present the audit work.

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

The examination determined the risks associated with identified key functional areas of the Exchange's operation 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.

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

In addition to the Report of Examination, a Management Letter was issued to the Exchange 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 workpapers.

Status of Prior Examination Findings

Our examination included a review to determine actions taken by the Exchange with regard to comments and recommendations made by the Department in the prior examination report. We determined that the prior examination report contained no exceptions.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

The Exchange retained the services of Eide Bailey to audit its financial records for the year ending 2017. The examiners were allowed access to requested workpapers prepared in connection with the audit. The external audit work was relied upon where deemed appropriate.

Effective December 28, 2018, the Idaho Department of Insurance granted the Exchange, per the Exchange's request, a one-time exemption from filing the 2018 Statement of Actuarial Opinion and Actuarial Opinion Summary pursuant to the NAIC Annual Statement Instructions and IDAPA 18.01.76.021.01. As of 6/30/19, this rule number changed to IDAPA 18.07.09.021.01.

EXCHANGE HISTORY

General

The Exchange was organized as a reciprocal insurer under Title 41, Chapter 29, Idaho Code and commenced operations on August 1, 1918.

The Exchange was founded for the purpose of providing workers' compensation insurance for the employees of an association of businesses that engage in the forest products industry in the State of Idaho. The businesses for which coverage is provided are known as "Subscribers". The Subscribers formed the Exchange, and operate it as a not-for-profit insurance exchange.

The following businesses were Subscribers to the Exchange as of December 31, 2016:

PotlatchDeltic Corporation (*formerly* Potlatch Corporation)
Bennett Lumber Products, Inc.
J.I. Morgan, Inc.
Idaho Forest Group, LLC
Clearwater Paper Corporation

The Exchange is managed by an Attorney-in-Fact with authority granted under powers of attorney executed by each Subscriber.

Each Subscriber is independent of the others and is responsible for its own losses up to \$200,000 for an injury to any one person. All of the Subscribers and Ex-Subscribers, as a group, are responsible for losses between \$200,000 and \$1,250,000 for injury to any one person. The Subscribers are subject to additional assessments of funds needed to meet the obligations of the Exchange. Each Subscriber agrees to indemnify each of the other Subscribers for all losses incurred.

The Subscribers' premiums are based on their pro rata share of the payroll of all the Subscribers as of the calendar year prior to the year of the incurred losses.

Dividends and Capital Contributions

There were no dividends and/or capital contributions during the examination period.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

Surplus Debentures

There were no surplus debentures during the examination period.

CORPORATE RECORDS

The Exchange operates as a reciprocal insurer and as such, provides insurance through an Attorney-in-Fact. As a reciprocal insurer, the Exchange has no articles of incorporation or bylaws. The general policies, procedures and guidelines typically included in the articles of

incorporation or bylaws are provided to the Exchange through its Power of Attorney and Subscriber Agreement.

Effective April 1, 2014, the Subscribers approved an increase to the collective group retention from \$1,000,000 to \$1,250,000. The Subscribers also approved an increase to the reinsurance agreement retention limit from \$1,000,000 to \$1,250,000. The reinsurance agreement limits were increased effective April 1, 2014. These changes were formally made in the Subscriber Agreement on September 5, 2016.

Effective January 1, 2015, Stimson Lumber Company (Stimson) signed an exit agreement with the Exchanges' Attorney-in-Fact to withdraw as a Subscriber from the Exchange. Stimson agreed to defend, hold harmless and indemnify the Exchange against all claims for workers' compensation benefits made by or on behalf of their Idaho-based employees. Stimson warranted to the Exchange that no Idaho-based employees had suffered a compensable accident, injury or occupational disease, which was not reported in writing to the Exchange. The Exchange agreed to pay Stimson the sum of their contributed surplus, \$86,064, prior to August 1, 2015. The Exchange also agreed to pay Stimson their Incurred But Not Reported (IBNR) Reserve over a five-year period beginning in 2016.

Effective June 5, 2015, the Exchange amended the Power of Attorney Agreement to read that the agreement may be revoked by the Subscribers at any time by providing the Attorney-in-Fact one-hundred and eighty (180) days written notice prior to the date of revocation.

Effective September 5, 2016, the Exchange amended their Subscriber Agreement to state that Ex-Subscribers of the Exchange will be responsible for group losses. The method for calculating each Subscriber responsibility was amended to more clearly state that it be based upon each Subscriber's pro rata share of the payroll of all of the Subscribers as of the calendar year prior to the year of the incurred loss.

The meetings of the Board of Trustees (Board) were conducted on an annual basis for all the years under examination. A review of the Board meeting minutes indicated that the Trustees discussed the operations and finances of the Exchange, secured the audit of the Exchanges' accounts and records, and determined the compensation of the Attorney-in-Fact and employees of the Exchange. The Board also approved investment transactions of the Exchange and the meeting minutes indicated that a quorum was present at all meetings for the years under examination. The review also noted that the President of the Board proposes a slate of officers, Trustees, Actuary, and Attorney-in-Fact for the coming year and the Board passes a motion to approve the President's proposals.

The Prior Examination Report as of December 31, 2011, was distributed and reviewed at the Board of Trustees meeting on June 12, 2014.

MANAGEMENT AND CORPORATE GOVERNANCE

Management and control of the Exchange is guided by an advisory committee known as the “Trustees” of the Exchange. The Trustees consist of six persons, appointed by the Subscribers. Each Subscriber is entitled to one vote for a Trustee for each \$100,000 of annual payroll, of the Subscriber they represent, based upon the calendar year next preceding the year in which the vote is taken. The Trustees agreed to meet annually during the second week of June.

The basic duties of the Trustees, which comply with Idaho Code § 41-2920, are set forth in the Subscriber agreement as noted below:

- Supervise the finances and investments of the Exchange.
- Supervise the operations of the Exchange to the extent necessary to assure conformity with the Amended Subscriber Agreement and Power of Attorney between each Subscriber and the Attorney-in-Fact.
- Provide an office and personnel with any other assistance needed by the Attorney-in-Fact to carry out the duties and operations of the Exchange.
- Secure the audit of the accounts and records of the Exchange and of the Attorney-in-Fact.
- Determine the compensation to be paid to the Attorney-in-Fact and the other employees of the Exchange.

The following persons served as Trustees of the Exchange as of December 31, 2016:

As of December 31, 2016, the Trustees of the Exchange were as follows:

<u>Name/City, State</u>	<u>Principal Occupation/Company</u>
Scott Atkinson Coeur d'Alene, Idaho	President Idaho Forest Group, LLC
Kevin Esser Coeur d Alene, Idaho	Chief Financial Officer Idaho Forest Group, LLC
Scott Corbitt, Esq. Lewiston, Idaho	Senior Human Resource Manager Clearwater Paper
John Hertz Spokane, Washington	Chief Financial Officer Clearwater Paper
Sean Hoagland Spokane, Washington	Director Benefits and Compensation PotlatchDeltic Corp. (f.k.a. Potlatch Corp)
Teresa Quimby Princeton, Idaho	Human Resource Manager Bennett Lumber Products

Effective June 12, 2018, two new Trustees were added as follows:

Rob Dammerll Spokane, Washington	VP, Corporate Controller and Principal Accounting Officer Clearwater Paper
Cheryl Murdock Athol, Idaho	Controller Idaho Forest Group

Effective during April 2019, John Hertz was no longer a Trustee.

The following persons were serving as officers of the Exchange as of December 31, 2016:

<u>Name</u>	<u>Position</u>
Scott Atkinson	President
Todd Blake	Secretary, Attorney-In-Fact

Effective June 13th, 2017 the President of the Exchange was as follows:

Scott Corbitt, Esq.	President
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During April, 2018 Scott Corbitt was no longer a Trustee.

Effective June 12, 2018 the President of the Exchange was as follows:

Sean Hoagland	President
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The Board of Trustees also serves as the Exchange's Audit Committee pursuant to IDAPA 18.01.62.010.03. As of 6/30/19, this rule number changed to IDAPA 18.07.04.010.03. The Exchange has no other committees.

The Exchange adopted a conflict of interest policy on June 12, 1997, that required the Trustees and the Attorney-in-Fact to complete a statement listing any conflicts or possible conflicts with the performance of their duties and responsibilities. The statements completed during the examination period appeared to appropriately disclose any conflicts or possible conflicts of interest.

FIDELITY BONDS AND OTHER INSURANCE

Insurance coverages for the protection of the Exchange were maintained during the period covered by the examination. Coverages in effect as of December 31, 2016, included blanket crime and surety bond policies.

The Attorney-in-Fact is covered by a surety bond in the amount of \$25,000 in accordance with Idaho Code § 41-2912. The Exchange is covered by a surety bond in an amount in accordance with Idaho Code § 41-313A. Under Idaho Code § 41-313A, domestic reciprocal insurers with fewer than seven subscribers are required to meet the security for payment of compensation standards set forth in Idaho Code § 72-301.

The protection of the blanket crime policy met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Exchange obtained health, dental, disability and life insurance coverages from Idaho domiciled insurers during the examination period. The Exchange offers access to a 401(k) plan, contributes five percent (5%) of the employee's annual salary to the account and will match up to 50% of the first 10% of contributions made by the employee. The employee(s) were eligible for severance benefits, offered vacation, and received paid holidays.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Exchange was licensed in the State of Idaho as a domestic reciprocal insurer with business written being limited exclusively to workers' compensation insurance.

Only firms that are exclusively engaged in the forest product industry in the State of Idaho are eligible for admission to the Exchange as a "Subscriber". Potential Subscribers must demonstrate an active participation in industry support groups, have adequate safety programs for their workers, have adequate financial capacity and stability and have access to a resource base which will provide for future financial stability.

According to the Subscribers Agreement, new Subscribers can be admitted to the Exchange only upon the unanimous vote of all existing Subscribers, and upon terms and conditions agreed to by the new Subscriber, all of the existing Subscribers and the Attorney-in-Fact. Currently, the Exchange is not seeking new Subscribers.

The Exchange has maintained its home office in Lewiston, Idaho since its inception. All insurance operations are performed at that location.

GROWTH OF THE EXCHANGE

The Exchange's growth for the years indicated, as taken from its Annual Statements, is shown in the following schedule:

	2012	2013	2014	2015	2016
Gross Written Premium	\$1,453,778	\$2,243,387	\$2,609,157	\$2,366,400	\$2,629,401
Subscriber Surplus	\$668,149	\$682,539	\$697,851	\$526,913	\$519,871
Gross Written Premium to Subscriber Surplus Ratio	218%	329%	374%	449%	506%

Per Idaho Code § 41-313A, the Exchange is not subject to minimum surplus requirements. During the examination period, the Exchange, as a reciprocal insurer, assessed its Subscribers an amount equal to \$0.00 net income.

LOSS EXPERIENCE

The ratios of claims and underwriting expenses incurred to premiums earned shown in the following schedule were derived from amounts reported in the Exchange's Annual Statements:

<u>Year</u>	<u>Premium Earned</u>	<u>Losses Incurred</u>	<u>Losses and Underwriting Expenses Incurred</u>	<u>Ratio of Losses and Underwriting Expenses to Premiums Earned</u>
2012	\$1,232,410	\$867,942	\$544,792	114.63%
2013	1,966,109	1,466,514	734,965	111.97%
2014	2,357,593	1,788,118	699,248	105.50%
2015	2,147,121	1,677,258	372,547	95.47%
2016	2,420,997	1,632,438	1,059,019	111.17%

REINSURANCE

Assumed

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

Ceded

Pursuant to the Subscribers Agreement, each Subscriber is responsible for the first \$200,000 of loss for an injury to any one person. The Subscribers and Ex-Subscribers collectively as a group are responsible for losses between \$200,000 and \$1,250,000 for injury to any one person, with each Subscriber's responsibility to be based upon its pro rata share of the payroll of all the Subscribers and Ex-Subscribers. The Exchange shall obtain commercial reinsurance for losses above \$1,250,000 per accident.

In this connection, the Exchange obtained specific excess workers' compensation employers' liability insurance through an agreement with Safety National Casualty Corporation, in St. Louis, Missouri. The agreement provided coverage on losses in excess of \$1,250,000. The maximum limit of indemnity for workers' compensation was \$25,000,000 per occurrence and \$1,000,000 per employers' liability.

The agreement is renewed annually on April 1st with previous versions in force starting on April 1, 2006. The agreement may be canceled by either party with written notice not less than ninety days prior to the cancellation date, except for the non-payment of premium; cancellation shall become effective ten days after notice is dispatched.

ACCOUNTS AND RECORDS

The Power of Attorney grants the Attorney-in-Fact to write workers' compensation insurance contracts under the laws of the State of Idaho, among other things. The Power of Attorney, therefore, serves as the "basic policy" of the Exchange. The policy period is indeterminate and not associated with any specific policy period. As previously stated, the Subscribers policies are fully assessable.

The Exchange maintains a complaint register in compliance with Idaho Code § 41-1330. The Exchange also has a fraudulent claim procedure in place in compliance with Idaho Code § 41-

290. According to the Attorney-in-Fact, there were no fraudulent claims identified during the examination period.

The Exchange requested and received from the Idaho Department of Insurance an exemption from filing CPA audited financial reports for all years during the examination period. The exemption granted the Exchange permission to submit to the Department the internal audit report and management letter as performed by Potlatch Corporation's internal audit staff. In 2017, the Exchange did not request an exemption and retained the services of Eide Bailly to audit their 2017 financial reports.

The Exchange also requested and received from the Idaho Department of Insurance permission to deem the Attorney-in-Fact qualified by the Department to sign the Statement of Actuarial Opinion for the examination period. The Board of Trustees appointed the Attorney-in-Fact as the Exchange's actuary for the examination period. The Exchange requested and received from the Idaho Department of Insurance a one-time exemption from filing the 2018 Statement of Actuarial Opinion and Actuarial Opinion Summary pursuant to the NAIC Annual Statement Instructions and IDAPA 18.01.76.021.01. As of 6/30/19, this rule number changed to IDAPA 18.07.09.021.01.

STATUTORY DEPOSITS

As of December 31, 2016, 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 its policyholders/subscribers and/or creditors through the office of the Director of Insurance, State of Idaho, in compliance with Idaho Code §§ 41-316A, 41-803 and 41-804.

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

<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
U.S. Treasury Note, 1.5%, 5/31/2020	\$253,335	\$249,238
U.S. Treasury Note, 1.125%, 6/30/2021	504,787	483,925
Idaho Health Facilities Authority, 4.5%, 12/1/2037	501,595	519,080
Total	<u>\$1,259,717</u>	<u>\$1,252,243</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>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net</u> <u>Admitted</u> <u>Assets</u>
Bonds	\$3,008,455	\$0	\$3,008,455
Common stocks (stocks)	875,526	0	875,526
Properties occupied by the company (less \$0 encumbrances) (real estate)	17,179	0	17,179
Cash \$3,711,849; cash equivalents \$0 and short-term investments \$0	3,711,849	0	3,711,849
Investment income due and accrued	17,613	0	17,613
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	355,824	0	355,824
Amounts recoverable from reinsurers (reinsurance)	10,821	0	10,821
Net deferred tax asset	125,903	125,903	0
Electronic data processing equipment and software	2,941	0	2,941
Totals	<u>\$8,126,111</u>	<u>\$125,903</u>	<u>\$8,000,208</u>

LIABILITIES, CAPITAL AND SURPLUS

Losses	\$5,815,839
Loss adjustment expenses	1,378,477
Other expenses (excluding taxes; licenses and fees)	977
Taxes; licenses and fees (excluding federal and foreign income taxes)	28,370
Net deferred tax liability	13,726
Aggregate write-ins for liabilities	242,948
Total liabilities	<u>7,480,337</u>
Subscriber Deposit	523,260
Unassigned funds (surplus)	(3,389)
Surplus as regards subscribers	<u>519,871</u>
Total liabilities, surplus and other funds	<u>\$8,000,208</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

	Per Examination and <u>Per Exchange</u>
Premiums earned	\$2,420,997
Losses incurred	1,632,438
Loss adjustment expenses incurred	739,136
Other underwriting expenses incurred	319,883
Total underwriting deductions	<u>\$2,691,457</u>
Net underwriting gain (loss)	<u>(\$270,460)</u>
Net investment income earned	\$103,075
Net realized capital gains (losses) less capital gains tax of \$0	<u>167,385</u>
Net investment gain (loss)	<u>\$270,460</u>
Net income	<u><u>\$0</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2012 Through December 31, 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and Surplus, December 31, previous year	\$614,981	\$668,149	\$682,539	\$697,851	\$526,913

GAINS AND (LOSSES) IN SURPLUS

Net Income	\$0	\$0	\$0	\$0	\$0
Change in net unrealized capital gains or (losses)	37,694	8,621	54,315	(61,999)	6,684
Change in net deferred income tax	(76,286)	(70,584)	(32,961)	(38,959)	6,497
Change in nonadmitted assets	91,976	68,967	(6,042)	15,978	(20,223)
Capital changes paid in	(216)	0	0	0	0
Surplus adjustments: transferred from capital	0	0	0	(85,958)	0
Aggregate write-ins for gains and losses in surplus	0	7,386	0	0	0
Change in surplus as regards subscribers for the year	\$53,168	\$14,390	\$15,312	(\$170,938)	(\$7,042)
Surplus as regards subscribers, December 31, current year	\$668,149	\$682,539	\$697,851	\$526,913	\$519,871

NOTES TO FINANCIAL STATEMENTS

The results of this examination disclosed that as of December 31, 2016, the Exchange had admitted assets of \$8,000,208, liabilities of \$7,480,337 and total surplus as regards subscribers of \$519,871. Therefore, the Exchange's total capital and surplus is in compliance with the minimum capital and surplus requirements of Idaho Code §§ 41-313A and 41-2930.

SUMMARY OF RECOMMENDATIONS

The results of this examination did not produce any recommendations for inclusion into this report.

ACKNOWLEDGEMENT

Glenn A. Toblemann and Valerie Hanley of Lewis & Ellis Actuaries and Consultants performed the actuarial phases of the examination. Hermoliva B. 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 the Attorney-in-Fact, Trustees, officers, employees, and representatives of the Exchange.

Respectfully submitted,



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

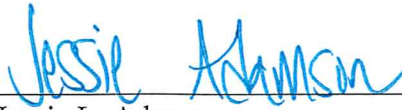


Hermoliva B. Abejar, CFE
Deputy Chief Examiner
Idaho Department of Insurance

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 Workers Compensation Exchange 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.

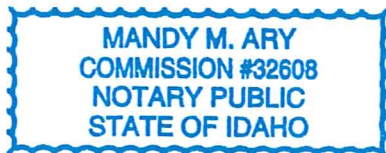


Jessie L. Adamson
Insurance Financial Examiner
Idaho Department of Insurance

Subscribe and sworn to before me the 20th day of August, 2019, at Boise, Idaho.



Notary Public



My Commission Expires: 7/24/24

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ID DEPT. OF INSURANCE
AUG 23 2019

State of Idaho
DEPARTMENT OF INSURANCE

BRAD LITTLE
Governor

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:

**WORKERS COMPENSATION EXCHANGE
1901 IDAHO STREET
LEWISTON, ID 83501**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 20th 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 20 day of August, 2019

WORKERS COMPENSATION EXCHANGE

Todd Blake

Name (print)

[Signature]

Name (signature)

Attorney-in-Fact

Title

