

LAWRENCE G. WASDEN
Attorney General

JUDY L. GEIER – ISB No. 6559
Deputy Attorney General
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
judy.geier@doi.idaho.gov

FILED
AUG 22 2018
Department of Insurance
State of Idaho *AM*

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

IDAHO STATE INSURANCE FUND

Certificate of Authority No. 1924
NAIC No. 36129

Docket No. 18-3533-18

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

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

FINDINGS OF FACT

1. For purposes of regulation, ISIF is deemed to be an Idaho-domiciled mutual insurance company, pursuant to Idaho Code § 72-901(4), and is authorized to transact workers’ compensation insurance in Idaho under Certificate of Authority No. 1924.

2. The Department completed an examination of ISIF pursuant to Idaho Code § 41-219(1) on or about July 5, 2018. 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 or about July 5, 2018, and a copy of such verified Report was transmitted to ISIF on July 11, 2018. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about July 30, 2018, the Department received a Waiver signed by Rick Ferguson, Fund Manager and CEO of ISIF, and dated July 26, 2018. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, ISIF acknowledged receipt of the Report, waived the right to examine the Report for up to thirty (30) days and consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications. Such Waiver also included ISIF's agreement to waive other statutory rights, to include waiver of the right to make a written submission or rebuttal to the Report; and waiver of rights to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals, pursuant to Idaho Code § 41-227(4), with respect to any matters contained in the Report were submitted to the Department by ISIF.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) 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.

7. Having fully considered the Report, the Director concludes that ISIF meets the minimum requirements set forth in Idaho Code § 41-313(1).

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Idaho State Insurance Fund as of December 31, 2016, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a), and a copy of this Order with all exhibits referenced herein, including the adopted Report, is hereby transmitted to the Governor of the State of Idaho, in accordance with Idaho Code § 72-914.

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 3, title 9, Idaho Code.

IT IS SO ORDERED.

DATED this 20 day of August, 2018.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 22nd day of August, 2018, 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:

Idaho State Insurance Fund
Attn: Rick Ferguson, Manager
1215 West State Street
Boise, ID 83720-0044
Rick.Ferguson@idahosif.org

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

The Honorable C.L. "Butch" Otter
Governor, State of Idaho
Idaho Statehouse
Boise, ID 83720

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

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



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

IDAHO STATE INSURANCE FUND
(a Property & Casualty entity)

(NAIC Company Code: 36129)

As of

December 31, 2016



Table of Contents

SALUTATIONS	3
SCOPE OF EXAMINATION	3
<i>Period Covered</i>	3
<i>Examination Procedures Employed</i>	3
<i>Status of Prior Examination Findings</i>	4
SUMMARY OF SIGNIFICANT FINDINGS.....	5
SUBSEQUENT EVENTS	5
FUND HISTORY	5
CORPORATE RECORDS.....	6
MANAGEMENT AND CORPORATE GOVERNANCE	6
FIDELITY BONDS AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	9
TERRITORY AND PLAN OF OPERATION.....	9
GROWTH OF THE FUND	10
LOSS EXPERIENCE	10
REINSURANCE	10
ACCOUNTS AND RECORDS	12
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS	13
NOTES TO FINANCIAL STATEMENTS.....	17
COMMENTS AND RECOMMENDATIONS	18
ACKNOWLEDGEMENT	18

Boise, Idaho
July 5, 2018

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:

Idaho State Insurance Fund
1215 West State Street
Boise, Idaho 83702

Hereinafter referred to as the "Fund." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope financial examination of the Fund using a risk-focused approach. The exam was completed as of December 31, 2016. This examination covers the period of January 1, 2012 through December 31, 2016, and subsequent.

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 prospective risks of the Fund, including management and governance, identifying and assessing inherent risks within the Fund, 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 with all applicable provisions within Title 41 of the Idaho Code.

The Fund retained the services of the certified public accounting firm, Deloitte & Touche LLP, Boise, Idaho, to audit its financial records for the years under examination. The firm provided the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Fund were considered during the examination process in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. 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 Fund's financial statements.

The examination determined the risks associated with identified key functional activities of the Fund's operations and considered mitigating factors. Interviews were held with the senior management of the Fund 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 Fund and its financial condition. There were other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to the Fund.

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 exception conditions noted in the Management Letters issued along with the Report of Examination dated December 31, 2011 and the Report of Limited Scope Market Conduct Examination dated December 31, 2011. Both reports covered the period from January 1, 2007 to December 31, 2011. The Fund had satisfactorily addressed the findings, except as noted in the current Management Letter.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Fund's reported surplus as regards policyholders.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this Report of Examination.

FUND HISTORY

General

The Fund was established by an act of the Legislature of the State of Idaho and was approved on March 16, 1917, in conjunction with the passage of the *Workmen's Compensation Act*, which became effective on January 1, 1918, pursuant to Idaho Code, Title 72, Chapter 9. The Fund Manager's office was organized effective July 1, 1917, in preparation for the establishment of the Workers' Compensation Act. The Fund was incorporated/organized on December 31, 1917, and commenced business on January 1, 1918. Under Idaho Code § 41-902, the Board of Directors appoints a manager of the Fund.

The Fund was founded for the purpose of providing Idaho employers a reliable source of workers' compensation insurance protection at a low cost. Workers' compensation coverage generally provides compensation for injuries sustained by the employees that are work related, including bodily injury, accidental death, occupational disabilities and disease.

On April 3, 1998, legislation was enacted relating to the Fund by amending Title 72, and to provide application of the Idaho Insurance Code, Title 41 for the purpose of regulation. The Fund is an independent body corporate politic. For purposes of regulation, the Fund is deemed to be a mutual insurer pursuant to Idaho Code § 72-901(4). The Fund operates under Certificate of Authority No. 1924, which was issued on April 3, 1998.

The Fund is operated exclusively from insurance premiums received from policyholders, is not tax supported, and the State of Idaho is not liable for any of its indebtedness. Pursuant to Idaho Code § 72-912, invested assets of the Fund are managed by the Idaho Endowment Fund Investment Board, with the direction and approval of the Fund Manager.

The Fund is not subject to federal income taxes or state and local property taxes. However, the Fund is required to pay premium taxes to the Department, pursuant to Idaho Code § 41-402. Under Idaho Code § 72-523, the Fund also pays a 2 percent premium tax to the Idaho Industrial Commission. Idaho Code § 72-523, allows a credit on the Idaho Department of Insurance

Premium Tax Return for the taxes paid to the Idaho Industrial Commission. During the examination period, the premium tax credit was 50 percent of the tax paid to the Industrial Commission or a minimum of \$75.

The *Idaho Insurance Guaranty Association Act*, which generally provides for limited coverage of policyholders in the event of a failure or liquidation of an insurance company, does not apply to the Fund. Therefore, there is no guaranty association coverage for Fund policyholders, nor are there any guaranty association assessments made on, or required of, the Fund.

Dividends to Policyholders

Dividends, which were funded by underwriting gains and investment earnings, were paid annually to policyholders. Amounts distributed as dividends represented how much premium could be safely returned to policyholders and were based on the Fund's future business needs, how much surplus it should retain, and future loss contingencies. Dividends are recognized as an expense in the period in which they are declared.

Dividends paid to policyholders for the five-year period under examination are shown below:

<u>Year</u>	<u>Amount</u>
2016	\$ 7,851,570
2015	9,531,150
2014	11,910,932
2013	7,276,352
2012	7,564,704

In 2014, the Fund declared and paid dividends of \$8,442,687. An additional dividend was declared in 2014 of \$3,468,245 which was paid in March 2015.

CORPORATE RECORDS

The meetings of the Board of Directors were conducted on at least a quarterly basis for all the years under examination. The Board of Directors' meeting minutes for all years under examination and subsequent thereto were reviewed by the examination.

MANAGEMENT AND CORPORATE GOVERNANCE

Oversight of management and operations of the Fund is controlled by the Board of Directors consisting of five directors. The Directors and the Chairman of the Board are appointed by the Governor pursuant to Idaho Code § 72-901 to serve four-year terms. Also under Idaho Code § 72-901, one member of the Board shall be a licensed insurance agent, one member shall represent businesses of the state, one member shall be a representative of labor, one member

shall be a member of the state senate, and one member shall be a member of the state house of representatives. The Board of Directors serving as of December 31, 2016, is shown below.

<u>Name</u>	<u>Position</u>
Rodney A. Higgins	Chairman of the Board & Licensed Insurance Agent
Max C. Black	Representative of Business
Terry F. Gestrin	Member of State House of Representatives
Todd M. Lakey	Member of State Senate
Steven C. Landon	Representative of Labor

The full Board of Directors also serves as the Fund's Audit Committee. The Fund does not have any other committees.

Executive management of the Fund as of December 31, 2016 is shown below.

<u>Name</u>	<u>Position</u>
Connie Barnett	Fund Manager
Paulette Boyle	Assistant Fund Manager – Claims
Chris Farnsworth	Assistant Fund Manager – Accounting & Finance
Randy Hoffman	Assistant Fund Manager – Policyholder Services
Neil Holmes	Assistant Fund Manager – Administration & Information Technology
Jaye B. Pierce	Assistant Fund Manager – Human Resources
George Parham	Chief Legal Counsel
Doug Garner	Division Chief, Petroleum Storage Tank Fund (IPCWTF)

Subsequent to the examination date, Paulette Boyle and George Parham retired. Those positions were filled by Mike Haxby, Vice President – Claims and Richard Burleigh, General Counsel. As of the date of this report, Richard Ferguson is the Manager/Chief Executive Officer.

Also subsequent to the examination date, the position titles for executive management were changed from "Manager", "Assistant Fund Manager", "Chief Legal Counsel", or "Division Chief" to the following.

<u>Name</u>	<u>Position</u>
Connie Barnett	Manager/Chief Executive Officer
Mike Haxby	Vice President – Claims
Chris Farnsworth	Chief Financial Officer
Randy Hoffman	Vice President – Policyholder Services
Neil Holmes	Vice President – Administration & Information Technology
Jaye B. Pierce	Vice President – Human Resources
Richard Burleigh	General Counsel
Doug Garner	Chief Operating Officer – IPCWTF

The Fund has a conflict of interest procedure in place for the Board of Directors and key employees. The executed conflict of interest statements indicated there were no conflicts.

Contracts

In 2003, the Fund was designated as the Administrator of Idaho Petroleum Clean Water Trust Fund (IPCWTF) pursuant to Idaho Code § 41-4904(2). IPCWTF shall be administered without liability on the part of the Fund or the State of Idaho beyond the amount of said trust fund pursuant to Idaho Code § 41-4905(6). IPCWTF operates through the Petroleum Storage Tank Fund, a division/department of the Fund and is managed pursuant to a management and administrative contract.

The exclusive management and administrative agreement was entered into between the Fund and IPCWTF in accordance with Idaho Code § 41-4905(5). The original contract was executed and approved by the Department on September 17, 1990 in accordance with Idaho Code § 41-4929(1). A modified version of the agreement was submitted to the Department on August 23, 2004. The Department approved this agreement on August 25, 2004.

Under the agreement, the Fund provides qualified personnel; accounting and record keeping; underwriting, actuarial, and legal services; claims handling; auditing and reporting; computer and data processing; computer programming, and all other managerial and administrative functions to IPCWTF.

The agreement also provides a cost allocation/reimbursement that applies to various items which are shared by the Fund and IPCWTF in their working arrangement such as equipment, office space, parking space, general office expenses, supplies, electronic data processing equipment and software.

Contract revenue from management services provided to IPCWTF during the examination period is as follows.

<u>Year</u>	<u>Contract Revenue from Management Services</u>	<u>Revenue from Rent and Parking</u>
2016	\$272,970	\$30,620
2015	272,600	30,920
2014	256,772	30,920
2013	234,875	30,920
2012	291,278	30,920

The agreement may not be amended by either party without written consent of the Director of the Department, except as may be required by duly enacted amendments to Idaho Code, Title 41, and Chapter 49.

FIDELITY BONDS AND OTHER INSURANCE

The Idaho State Office of Insurance Management of the Department of Administration arranges for comprehensive blanket coverages for all agencies of the State of Idaho, including the Fund. Insurance coverages in effect as of December 31, 2016, included employee bond and crime; property; comprehensive liability; auto physical damage; excess earthquake; boiler; inland marine, and cyber liability.

The minimum fidelity coverage suggested by the NAIC for an insurer of the Fund's size and premium volume is not less than \$1,250,001. As of December 31, 2016, the Fund had sufficient employee bond and crime coverage, subject to a loss limit of \$10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Fund's employees are required to participate in the Public Employee Retirement System of Idaho (PERSI). PERSI is a cost-sharing multiple-employer public retirement system, created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation. After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2 percent of the average monthly salary for the highest consecutive 42 months. The required contribution rate was 11.32 percent of covered payroll for the Fund and 6.79 percent for employees. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

The Fund's employees are eligible to participate in a voluntary deferred compensation plan offered by the State of Idaho. The plan was created in accordance with Internal Revenue Service Code Section 401(k). The plan permits deferral of an employee's compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The amount of deferred compensation under this plan, together with earnings thereon, for the Fund's employees is not separately available. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held by independent trustees, designated by the State, for the exclusive benefit of the participants and their beneficiaries.

TERRITORY AND PLAN OF OPERATION

The Fund is authorized to write workers' compensation insurance only, pursuant to Certificate of Authority No. 1924. The Fund is licensed only in the State of Idaho.

The Fund operates from its main administrative office located in Boise, Idaho, and has field offices located in Coeur d'Alene, Idaho Falls, and Twin Falls.

GROWTH OF THE FUND

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

	2016	2015	2014	2013	2012
Direct Written Premium	\$238,754,602	226,562,928	211,093,015	183,900,914	134,999,248
Policyholder Surplus	\$227,278,781	201,414,682	191,164,814	188,376,002	172,748,767
Direct Written Premium to Policyholder Surplus Ratio	105%	112%	110%	98%	78%

As the Idaho economy recovered from the recession and other carriers left the market, gross written premium increased as did policyholder surplus.

LOSS EXPERIENCE

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

	2016	2015	2014	2013	2012
Net Premium Earned	\$235,445,362	222,721,583	209,649,564	183,270,051	151,262,105
Claims Incurred	\$166,520,302	163,475,434	164,574,122	145,059,532	118,635,713
Claims Adjustment Expenses Incurred (AEI)	\$24,280,259	21,004,091	24,497,649	22,497,228	18,530,544
Total Claims and Claims AEI	\$190,800,561	184,479,525	189,071,771	167,556,760	137,166,257
Total Claims and Claims AEI to Net Premium Earned Ratio (Loss Ratio)	81.04%	82.83%	90.19%	91.43%	90.69%

REINSURANCE

Assumed

The Fund participates in the National Workers' Compensation Reinsurance Pool (NWCRP), administered by the National Council on Compensation Insurance (NCCI). The NCCI Pool provides workers' compensation insurance coverage to employers who are unable to obtain coverage through other sources.

The Fund participated on Idaho risks insured through the Pool and its participation was directly proportional to the percentage of its direct writings for all workers' compensation business written in the State of Idaho.

Ceded

The Fund ceded business classified as Statutory Workers' Compensation and Employers' Liability Business under the "Underlying Through Fourth Per Occurrence Excess of Loss Reinsurance Contract". The Subscribing Reinsurers signed Interests and Liabilities Agreements that set forth their share in the interest and liabilities pursuant to the contract.

The reinsurers are liable in respect of each loss occurrence for 100 percent of the ultimate net loss over and above the Fund's retentions, subject to a limit of liability to the reinsurers, for each loss occurrence as illustrated below.

Per Occurrence Excess of Loss

<u>Layer</u>	<u>Ultimate Net Loss</u>		<u>Aggregate Limit</u>
	Fund's Retention in Respect of Each Loss Occurrence	Reinsurer's Limit of Liability in Respect of Each Loss Occurrence	Reinsurer's Limit of Liability in the Aggregate as Respects All Claims Arising Hereunder
Underlying Excess	\$ 2,500,000	\$ 2,500,000	\$10,000,000
First Excess	\$ 5,000,000	\$ 5,000,000	\$15,000,000
Second Excess	\$10,000,000	\$10,000,000	\$20,000,000
Third Excess	\$20,000,000	\$30,000,000	\$60,000,000
Fourth Excess	\$50,000,000	\$25,000,000	\$50,000,000

Per Person Excess of Loss

Starting in 2015, the Fund obtained per person excess of loss coverage. The reinsurer is liable in respect of each loss, each person, for the ultimate net loss over and above an initial ultimate net loss of \$10,000,000 each loss, each person, subject to a limit of liability to the reinsurer of \$5,000,000 each loss, each person, and further subject to an aggregate limit of liability of \$10,000,000 as respects all claims arising hereunder.

As respects occupational disease, including cumulative trauma, suffered by an employee for which the employer is liable, such occupational disease shall not be covered unless as a result of a sudden and accidental event of not exceeding 72 hours duration.

NBCR Terrorism Excess of Loss

The Fund entered into an NBCR (nuclear, biological, chemical or radiological) Terrorism Excess of Loss Reinsurance Contract. Under the contract, the Fund is indemnified in respect of the liability that may accrue to it as a result of loss(es) arising from an NBCR Act(s) of Terrorism under policies classified as Statutory Workers' Compensation and Employers' Liability Business. The contract applies only to losses occurring entirely within the State of Idaho. The Fund's retention in respect of each loss occurrence is \$10,000,000. The reinsurer's limit of liability in respect of each loss occurrence is \$40,000,000.

The Fund obtained reinsurance coverages through intermediary, Guy Carpenter & Company, LLC, Seattle, Washington. The reinsurance contracts, effective July 1, 2015 through July 1, 2016, contained the clauses and termination provisions suggested in the NAIC *Financial Condition Examiners Handbook*.

ACCOUNTS AND RECORDS

The Fund uses the EAS Financial System for its enterprise accounting system for general ledger, budgeting, and financial reporting, among other things. Other major systems utilized by the Fund include PowerSuite for its policy administration and claims; iWorks for investment tracking; Aestiva for purchasing and expense tracking, and Cognos BI as its data warehouse.

As previously reported, the Fund retained the services of the certified public accounting firm, Deloitte & Touche LLP, Boise, Idaho, to audit its financial records for the years under examination. Their audit reports covering all years of examination were made available for the examination. Deloitte & Touche LLP also provided the examiners access to requested work papers prepared in connection with the 2016 statutory audit. The external audit work was relied upon where deemed appropriate.

The Fund maintains its home office records in accordance with Idaho Code § 41-2839. Document and information requests for the examination were generally made in writing via memoranda or e-mails. The Fund produced the accounts and records requested in a timely manner and in a form satisfactory to the examination.

STATUTORY DEPOSITS

As of December 31, 2016, the examination confirmed with the Idaho Department of Insurance that the Fund had made provision for the following deposit 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, § 41-803, and § 41-804.

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Bank Certificate of Deposit, .75%, due 5/19/2017			
CUSIP Number 0492251481	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>
Total	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>

As of December 31, 2016, the Fund had \$85,829,556 of unpaid outstanding awards for fatal, permanent partial, and permanent total claims. In this connection, the Fund deposited \$182,846,709 with the Idaho State Treasurer as required by the Idaho Industrial Commission under Idaho Code § 72-301 to cover the awards.

FINANCIAL STATEMENTS

Balance Sheet as of December 31, 2016

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

Reconciliation of Surplus, December 31, 2011, through December 31, 2016

Analysis of Changes in Financial Statements Resulting From Examination

Balance Sheet
As of December 31, 2016

ASSETS

Bonds	\$585,200,046
Common stocks	92,858,605
Properties occupied by the company	2,000,000
Cash (\$35,135,710) and short-term investments (\$3,702,894)	38,838,604
Receivables for securities	10,358,982
Total Invested Assets	<u>\$729,256,236</u>

Investment income due and accrued	\$ 3,405,834
Uncollected premiums and agents' balances in the course of collection	13,712,017
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$25,095,017 earned but unbilled premiums)	24,836,780
Amounts receivable from reinsurers	108,402
Funds held by or deposited with reinsured companies	239,910
Electronic data processing equipment and software	239,749
*Aggregate write-ins for other-than-invested assets	2,177,360
Total Assets	<u><u>\$773,976,287</u></u>

*Premium Tax Refund Rec: \$2,016,704; Due from Idaho Petroleum Clean Water Trust Fund: \$370; Claims Receivable: \$124,383, and Other Receivables: \$35,903.

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 1)	\$404,496,296
Loss adjustment expenses (Note 1)	49,241,179
Other expenses	6,141,044
Taxes, licenses and fees	2,656,836
Unearned premiums	17,298,100
Advance premium	6,071
Ceded reinsurance premiums payable	188,962
Funds held by company under reinsurance treaties	20,400
Amounts withheld or retained by company for account of others	692,555
Remittances and items not allocated	76,019
Provision for reinsurance	3,222
Payable for securities	13,968,266
** Aggregate write-ins for liabilities	51,458,592
Total Liabilities	<u>\$546,697,507</u>
Unassigned funds (surplus)	<u>\$227,278,781</u>
Surplus as regards policyholders	<u>\$227,278,781</u>
Total Liabilities and Surplus	<u><u>\$773,976,287</u></u>

**Credits Due Policyholders: \$3,096,830 and Deposit Premiums: \$48,361,762.

Statement of Income
As of December 31, 2016

Premiums earned		<u>\$235,445,362</u>
Total Income		\$235,445,362
Losses incurred	\$166,520,302	
Loss adjustment expenses incurred	24,280,259	
Other underwriting expenses incurred	<u>37,970,727</u>	
Total underwriting deductions		<u>228,771,289</u>
Net underwriting gain (loss)		\$ 6,674,073
Net investment income earned	\$ 13,762,234	
Net realized capital gains	3,698,884	
Net investment gains (losses)	\$ 17,461,118	
Net gain (loss) from agents' or premium balances charged off		\$ (356,172)
***Aggregate write-ins for miscellaneous income		<u>4,773</u>
Total other income		\$ (351,398)
Net income (loss) before dividends to policyholders, after capital gains tax and before all other federal income taxes		\$ 23,783,873
Dividends to policyholders	\$ 7,851,570	
Net income (loss) after dividends to policyholders, after capital gains tax and before all other federal income taxes		<u>\$ 15,932,223</u>
Net Income (Loss)		<u><u>\$ 15,932,223</u></u>

***Miscellaneous Income: \$4,773.

Reconciliation of Surplus

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Surplus prior reporting year	\$201,414,682	\$191,164,814	\$188,376,002	\$172,748,768	\$194,066,840
Net income or (loss)	15,932,223	9,618,516	7,086,973	(2,607,777)	(34,493,002)
Change in net unrealized capital gains (losses)	4,894,844	(4,460,101)	(9,356,795)	13,169,716	8,244,782
Change in nonadmitted assets	5,027,954	5,103,753	5,058,632	5,064,297	3,785,291
Change in provision for reinsurance	9,078	(12,300)	0	0	0
****Aggregate write-ins	0	0	0	0	1,144,857
Rounding	0	0	1	0	0
Net change in surplus	\$ 25,864,099	\$ 10,249,869	\$ 2,788,811	\$ 15,627,235	\$(21,318,072)
Surplus end of reporting period	\$227,278,781	\$201,414,682	\$191,164,814	\$188,376,003	\$172,748,768

****Correct Unearned Premium Prior Period Ending Balance:

\$1,144,857.

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	\$404,496,296
	Loss adjustment expenses	49,241,179

Lewis & Ellis, Inc., was retained by the Department to perform the actuarial review. This included a review of the Fund's actuarial report supporting the 2016 Statement of Actuarial Opinion. Based on its review, Lewis & Ellis concluded that the loss reserves and loss adjustment expenses reserve computations were performed correctly and the selected estimates were reasonable. Lewis & Ellis also reviewed the assumptions and methodology used by Milliman, Inc., the Fund's Appointed Actuary, and found them to be appropriate.

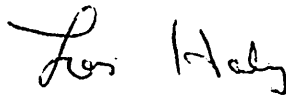
COMMENTS AND RECOMMENDATIONS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Fund's reported surplus as regards policyholders.

ACKNOWLEDGEMENT

Glenn Tobleman, F.S.A, F.C.A.S., M.A.A.A. and Natalie Grinnell, of Lewis & Ellis, Inc., performed the actuarial review. Joanna Latham, AES, CISA, CPA, CFE, CRISC, of Jennan Enterprises, LLC, performed the IT review. Hermoliva Abejar, CFE, 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 and representatives of the Fund.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lois Haley", written in a cursive style.

Lois Haley, CFE
Examiner-in-Charge
Representing the Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State of Oregon
County of Tillamook

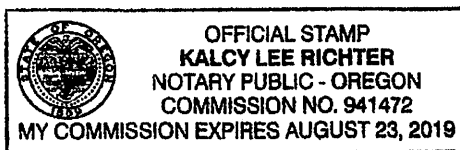
Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Idaho State Insurance Fund for the period from January 1, 2012 through December 31, 2016,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

Lois Haley
Lois Haley

On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 5 day of July 2018, at Tillamook, Oregon.

Kalcy Lee Richter
Notary Public



My Commission Expires: Aug. 23 2019

C.L. "BUTCH" OTTER
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
Website: <http://www.doi.idaho.gov>

DEAN L. CAMERON
Director

WAIVER

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

IDAHO STATE INSURANCE FUND
1215 W. State Street
Boise, ID 83702

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 5th day of July 2018, 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:

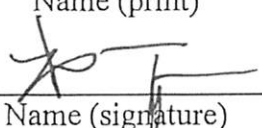
1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho 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 26th day of July, 2018

IDAHO STATE INSURANCE FUND

Rick Ferguson

Name (print)



Name (signature)

Fund Manager / CEO

Title

