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JAN 02 2007

Department of Insurance
State of Idaho

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Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:

Idaho State Insurance Fund

Idaho Certificate of Authority: 1924
NAIC Company Code: 36129

)
)
) ORDER ADOPTING
) REPORT OF EXAMINATION
) AS OF DECEMBER 31, 2006
)
) Docket No. 18-2437-07
)
)
)
)

The Report of Examination as of December 31, 2006 (Report) of the Idaho State Insurance Fund (Fund) was completed by examiners of the Idaho Department of Insurance (Department), signed the 10th day of December 2007 by the Examiner-in-Charge, David W. Emery, CFE, FLMI and a verified copy was filed with the Department effective December 10, 2007. A draft copy of the Report was delivered to the Fund previously, and the verified Report was transmitted to the Fund electronically (PDF file,

via e-mail) on December 10, 2007 to Mr. James M. Alcorn, Fund Manager. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Alcorn on December 14, 2007 and received by the Department on December 27, 2007 (hand delivered). Based upon the Waiver/Exhibit B, this is a final order, and the Fund has waived its rights to seek reconsideration and judicial review of this order.

TRANSMISSION OF EXAMINATION REPORT TO GOVERNOR'S OFFICE

As reflected in the Certificate of Service below, a copy of this Order (including all exhibits and specifically Exhibit A, the attached Report of Examination as required by § 72-914, Idaho Code) is being transmitted today to the Governor of the State of Idaho, the Honorable C.L. "Butch" Otter.

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

DATED and EFFECTIVE at Boise, Idaho this 2ND day of January 2008.


William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

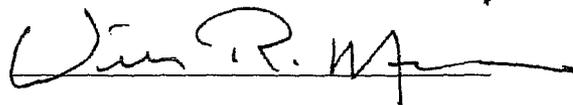
CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of January 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

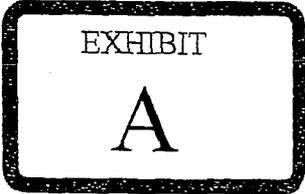
The Honorable C.L. "Butch" Otter	_____	certified mail
Governor	_____	first class mail
State of Idaho	_____	hand delivery
Idaho Statehouse	_____	Facsimile
Boise, Idaho 83720-0043	<u> X </u>	Statehouse Mail

James M. Alcorn	<u> X </u>	certified mail
Fund Manager	_____	first class mail
Idaho State Insurance Fund	_____	hand delivery
1215 West State Street	_____	Facsimile
Boise, Idaho 83720-0043	_____	
e-mail: JamesM.Alcorn@idahosif.org	<u> X </u>	e-mail

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



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



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

IDAHO STATE INSURANCE FUND

(NAIC Company Code 36129)

as of

December 31, 2006

FILED	<u>12/10/07</u>	<u>CS</u>
	date	initial
ADOPTED	<u>1/2/08</u>	<u>CS</u>
	date	initial
STATE OF IDAHO Department of Insurance		

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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Boise, Idaho
December 10, 2007

The Honorable William W. Deal
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 Section 41-219(1), Idaho Code, 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, 2006 of:

IDAHO STATE INSURANCE FUND

1215 WEST STATE STREET
BOISE, IDAHO 83720

hereinafter referred to as "the Fund," at its offices in Boise, Idaho. Also the Idaho Department of Insurance is hereinafter referred to as the "Department."

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2002, through December 31, 2006. The examination was conducted at the Boise, Idaho office of the Fund by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

A Letter of Representation was signed by the Fund attesting to the Fund's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Michael Lamb, LLC, consulting actuary for the Idaho Department of Insurance. A risk assessment review of the Fund's IT systems and controls was performed by Examination Resources, LLC (Atlanta, Georgia). There was some reliance placed on the 2005 and 2006 certified public accountant's statutory audit reports and work papers during the examination of the Fund.

In addition to the Report of Examination, a Management Letter was issued to the Fund by the Department which covered items that were not included in the Report, due to the materiality threshold or items that were related to proprietary operational issues.

PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1999 through December 31, 2001.

The Comments and Recommendations contained in that report and the Fund's response to those comments and recommendations are as follows:

1. Bonds and Common Stock. During the examination period, there was no approval process in place, which would document the Fund Manager's approval of the Fund's investments. It is recommended that the Fund Manager adopt an approval process, which will reflect the approval of the Fund's investment transactions.

Fund's Response – The Fund Manager shall review and initial the monthly report received from the custodian, presently Key Bank, regarding the investment transactions made by the Idaho Endowment Fund Investment Board.

HISTORY AND DESCRIPTION

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 founded for the purpose of providing Idaho employers a reliable source of workers compensation insurance protection at 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 State Insurance Fund by amending Title 72, and to provide application of the Idaho Insurance Code, Title 41 for the purpose of regulation. The Fund is a quasi-governmental organization, however it has many characteristics that are common to a mutual insurance company. The Fund operates under Certificate of Authority No. 1924, which was issued on April 3, 1998.

In accordance with Idaho Code Section 72-928(a) all Idaho public businesses with taxing authority may also insure with the Fund. 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. Invested assets of the Fund are managed by the Idaho Endowment Fund Investment Board, with the direction and approval of the Idaho State Insurance Fund Manager.

The Fund is not subject to federal income taxes or state and local property taxes. The Fund is required to pay premium taxes to the Department of Insurance, pursuant to Idaho Code Section 41-402, and also pays a 2.5% premium tax to the Idaho Industrial Commission. Idaho Code, Title 72, Chapter 5, allows licensed workers compensation insurers, including the Idaho State Insurance Fund, a credit on the Idaho Department of Insurance Premium Tax Return for the taxes paid to the Idaho Industrial Commission. The premium tax credit is equal to 1.3% of net written premiums.

Dividends to Policyholders

Dividends were paid annually to policyholders out of underwriting gains and investment earnings. The formula, which has been reviewed by the Fund's consulting actuaries, calculated the dividends by using the ratio of losses incurred to premiums earned for the year in which the dividend is declared. Policyholders were eligible for dividends after paying premiums for six months.

Dividends paid to policyholders for the five-year period under review were as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 4,000,552
2003	\$ 5,035,592
2004	\$ 5,992,392
2005	\$ 8,099,940
2006	\$15,459,013

Idaho Insurance Guaranty Association

Idaho Code Section 41-3603(9) exempts the Idaho State Insurance Fund from being a member of the Idaho Insurance Guaranty Association.

MANAGEMENT AND CONTROL

The management and control of the Fund is provided for under the authority of Section 72-901 and 72-902, Idaho Code, as amended April 3, 1998. The Governor appoints five persons to the board of directors of the State Insurance Fund. The members of the board then appoint a Manager of the Fund who serves at their pleasure along with such other officers and employees as may be required. It is the duty of the board of directors to direct the policies and operations of the Fund to assure that it is operated as an efficient insurance company. During the examination period, the Fund was subject to and complied with the provisions of the Idaho Insurance Code, Title 41. For the purposes of regulation, the Fund is deemed to be a mutual insurer. The State Insurance Fund Manager, subject to the direction and supervision of the board, conducts the business and administration of the Fund.

Directors

The following persons, appointed by the Governor, served as the Board of Directors as of December 31, 2006:

<u>Name and Location</u>		<u>Position</u>
William W. Deal, Chairman* Nampa, Idaho	-	Agents Representative
Gerald Geddes** Boise, Idaho	-	Labor Representative
John Goedde Coeur d Alene, Idaho	-	Senate Representative
Mark A. Snodgrass Meridian, Idaho	-	House of Representatives
Elaine Martin Meridian, Idaho	-	Business Representative

* Replaced by Rod Higgins on April 5, 2007. ** Resigned July 2007, not replaced during the examination.

Fund Manager and Assistant Managers

The Fund is subdivided into seven specific departments. Individuals serving as department managers at December 31, 2006 were as follows:

James M. Alcorn	-	Fund Manager
Linda Stewart	-	Assistant Fund Manager – Underwriting
Katy Hickman	-	Assistant Fund Manager – Auditing
Julie Cooper	-	Assistant Fund Manager – Claims
Francis Adams	-	Assistant Fund Manager – Risk Management
Connie Barnett	-	Assistant Fund Manager – Client Relations
Clark Barnett	-	Assistant Fund Manager – Administration & Finance
Steve Halladay	-	Petroleum Storage Tank Fund

Review of the Department's Corporate File indicated biographical affidavits for each Director and Fund Manager had been filed with the Idaho Department of Insurance.

Committees

There were no provisions, statutory or otherwise, for the appointment of any committees. During the review of the minutes of the Directors' meetings, there was no indication that any committees had been appointed.

Conflict of Interest

The Fund's policy with regard to conflicts of interest was covered under "212-Conflict of Interest," as revised August 15, 2003 and contained in the Idaho State Insurance Fund Employee Handbook. "212-Conflicts of Interest" stated in effect that employees would not profit, directly or indirectly, from any funds under their control, or from contracts or grants made by them on behalf of the Fund. Any Fund employee having a private interest in any discretionary matter coming before him/her in the course of official duties must report such conflict and withdraw himself/herself from making decisions upon such matter. State employees involved in business outside their employment at the Fund should not use their status with the Fund for the purpose of referring any business or client to themselves. Fund employees are not prohibited from becoming policyholders of the Fund and shall enjoy the usual rights so provided to policyholders. The Fund did not guarantee any personal financial obligation of any employee and the Fund Employees did not solicit in their official capacity any gift, gratuity or personal benefit from any person, business or organization.

Any employee of the Fund having a conflict of interest or potential conflict of interest promptly reported such to their assistant manager (in the case of assistant managers, to the Fund Manager), upon the form prescribed by the Fund for appropriate action.

The policies and procedures in place for all employees during the examination period, including management, were in compliance with Idaho Code Section 41-2837.

Contracts and Agreements

The Fund, by statute, was party to the following contracts as of December 31, 2006, and summarized as follows:

Exclusive Management and Administrative Contract for the Idaho Petroleum Clean Water Trust Fund

The Idaho Petroleum Clean Water Trust Fund (Tank Fund) was created by an Idaho Legislative Act in 1990. It was subject to the direction and supervision of the Board of Trustees of the Tank Fund pursuant to Idaho Code Section 41-4904(3). The administrator of the Tank Fund shall be the Fund unless replaced by the board of trustees with another person, in accordance with Idaho Code Section 41-4904(2).

On September 17, 1990, a contract was entered into by the Fund, through its Manager, with the Tank Fund. The agreement between the Fund and the Tank Fund was filed and approved by the Department on the same date, in accordance with the provisions of Idaho Code Section 41-4929(1). The contract will not be amended by either party without the prior written consent of the Director of Insurance.

On August 23, 2004, a modified version of the above agreement was submitted to the Idaho Department of Insurance for approval as a result of a board of trustees started directing the Tank Fund in 2003. This

contract was entered into by the Fund, through its Manager, and Tank Fund, through its Board of Trustees. The Idaho Department of Insurance approved this agreement on August 25, 2004.

Under the terms of the contract, the Fund agreed to provide the following services:

- (a) Administrative functions including hiring, payment of salaries and record keeping for the personnel hired.
- (b) Accounting of all receipts and disbursements.
- (c) Underwriting functions.
- (d) Claims handling and claim payments.
- (e) Auditing functions.
- (f) Actuarial functions.
- (g) Computer, data processing and programming functions.
- (h) Legal services.
- (i) Any and all other functions the Manager of the Fund, as Trustee, deems prudent and reasonable.

The agreement also provided a cost allocation/reimbursement, which applies to various items, which are shared by the Fund and the Tank Fund in their working arrangement, such as, equipment, office space, parking space, general office expenses, supplies, electronic data processing equipment and software. The administrator of the Tank Fund was required to furnish the Director with a written statement indicating the amounts received and expended under the contract during the calendar year; including the emoluments received by principal management personnel of the Fund involved with the affairs of the Tank Fund, and such other information as the Director may require. The Tank Fund had reimbursed the Fund the following during the period under examination: \$328,997 (2002), \$321,968 (2003), \$343,565 (2004), \$331,353 (2005) and \$349,682 for 2006. The contract appeared fair and adequate for the services and charges paid by the Tank Fund to the Fund.

Investment Management Agreement with Idaho Endowment Fund Investment Board

Pursuant to Idaho Code Section 72-912, the Endowment Fund Investment Board did, at the direction of the Fund Manager, invest any of the surplus or reserve funds belonging to the Fund in the same securities and investments authorized for Idaho insurance companies and were approved by the Fund Manager. The Fund was authorized to pay actual expenses of the Endowment Fund Investment Board, which the Endowment Board incurred in investing surplus or reserve funds of the Fund. Total expenses paid by the Fund to the Endowment Board for the years covered by this examination were as follows: \$141,400 (2002), \$154,400 (2003), \$150,300 (2004), \$168,800 (2005), and \$192,800 (2006).

The Endowment Board is compensated annually for its expenses on the ratio of the Fund's month-end assets for the prior year divided by the total month-end assets for all funds managed by the Endowment Board for the prior year.

In accordance with latest revised Investment Management Agreement between the Fund and the Endowment Board, effective February 27th, 2003, the investment of the Fund assets were in compliance with Idaho Code, Title 41, Chapter 7 and Title 72, Chapter 9.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Idaho State Insurance Fund was established by an act of the Idaho State Legislature (approved on March 16, 1917), in conjunction with the "Workmen's Compensation Act", which became effective

January 1, 1918; consequently, the Fund was not required to draft Articles of Incorporation or Bylaws, which are required for conventional insurance companies.

Minutes of Meetings

During the period covered by this examination, the Board of Directors met on a quarterly basis. There was no regulation, which specifies how often the Board of Directors should meet. The quarterly basis was determined to be reasonable by the Board. All of the board meetings were well attended by the directors. The Board of Directors were asked by the Fund manager whether they want to be involved in the investment policy of the Fund; the board declined to get involved. The Board authorized the salary of the Fund manager; it was recorded in the minutes.

FIDELITY BOND AND OTHER INSURANCE

The Fund was provided coverage under a public employee blanket bond and crime policy through the Idaho Department of Administration. The State of Idaho Office of Insurance Management arranged for comprehensive blanket coverages for all agencies of the State of Idaho, which included the Idaho State Insurance Fund.

The major coverages provided were as follows:

Public Employee Blanket Bond

The blanket bond provided for public dishonesty including faithful performance, computer fraud and wire transfer fraud up to maximum \$10,000,000 per loss. Forgery/alteration, robbery/safe burglary, and theft, disappearance and destruction carried maximum limits of \$1,000,000 per loss. Credit card forgery had a limit of \$100,000. All coverages had a deductible of \$100,000, with the exception of the credit card forgery, which had a deductible of \$500. The affected State agency was responsible for the first \$2,000.

The fidelity coverage meets the minimum standards suggested by the NAIC Financial Condition Examiners Handbook. A Fidelity Loss Certification was signed by the Fund Manager indicating no losses resulting from dishonest or fraudulent acts were reported by the Fund during the period covered by the examination.

Liability and Property Coverage

The self-insured public liability policy covered money damage claims as a result of negligent acts of the state agency or its personnel. The program covers general liability, personal injury liability, errors and omissions liability, auto liability and medical malpractice. Coverage includes protection for most claims allowed under the Idaho Tort Claims Act, up to the cap of \$500,000 set within that Act. An Excess Liability policy provides an additional \$10,000,000 above the self-insured liability limit of \$500,000. Although there are no elected Directors and Officers as found in a typical insurance company (see MANAGEMENT AND CONTROL section of this report for more detail), the Fund's Board and Manager, however, were covered under these policies.

The Fund's real property (Home Office) was covered under the State Master Property Policy. This policy contains a \$250 million per occurrence limit for all perils, including earthquake and flood. The Fund's deductible per occurrence was \$2,000. A schedule was provided that reflected the Fund's Home Office replacement coverage was \$10,993,314, the contents replacement value was \$4,393,751 and stock and

supplies was \$409,415. The property coverage appears adequate based on the reported book and market values of real property.

Other insurance policies provide self-insured programs to cover Auto Physical Damage, Inland Marine and Boiler and Machinery coverages.

The following is a summary of the Idaho State Insurance Fund insurance coverages:

Employee Bond & Crime Insurance	6/1/2005 – 6/1/2008	Fidelity & Deposit Company of Maryland	\$10,000,000 Per Loss \$2,000 Deductible
Master Property Coverage	7/1/2007 – 7/1/2008	The Travelers Indemnity Company	See descriptions mentioned above under the State Master Property Policy
Comprehensive Public Liability Coverage	7/1/2007 – 7/1/2008	State Retained Risk Fund	\$500,000 Per Occurrence No Deductible
Boiler & Machinery Insurance	7/1/2007 – 7/1/2008	Chubb Group of Insurance	\$50,000,000 \$5,000 Deductible
Automobile Physical Damage Coverage (Rental Car Only)	7/1/2007 – 7/1/2008	State Retained Risk Fund	Actual Cash Value \$500 Deductible Per Occurrence

Note: All Companies providing insurance coverage to the State of Idaho were authorized insurers with the Idaho Department of Insurance.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Management and employees of the Fund were provided a number of benefits, which are available to other employees of the State of Idaho. The major benefits and program provided at no cost or reduced cost include medical care and behavior health plan, dental care, life and AD&D insurance, and holiday, vacation and sick leave. Other benefits available to the employee at their expense were a vision program, tax deferred 401K and 457 plans, flexible spending accounts, supplemental life and AD&D. 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.

TERRITORY AND PLAN OF OPERATION

The Fund was authorized to write workers' compensation insurance only, pursuant to Certificate of Authority No. 1924. The fund was licensed only in the State of Idaho. Idaho Code Section 72-301 required every public employer and/or governmental entity (unless self-insured) to be insured with the Fund. The Fund also insured employers from the private sector, if their underwriting criteria were acceptable.

Effective January 1, 1997, Idaho agricultural workers, previously exempt from the worker's compensation law, were required to have coverage.

Producer Licensing

The Fund operates from its main administrative office located in Boise, Idaho, and has five (5) field offices located in the cities of Coeur d'Alene, Idaho Falls, Lewiston, Pocatello, and Twin Falls.

The Fund utilizes independent producers and agencies. As of May 1, 2007, there were 349 licensed and appointed producers and agencies.

The Fund provided copies of the procedures manual relative to the appointment and terminations of producers, including specimen copies of generalized notification letters. A specimen copy of the current producer contract was also provided for review.

Appointment Review

Lists of active and terminated producers and agencies were provided by the Fund and verified for compliance against the records in the Department licensing database and a listing of terminated producers provided by the Department. No exceptions were identified.

New Business Appointment Review

The new business issued sample was reviewed to determine whether all policies were issued through producers with active appointments. No exceptions were identified.

Active and Terminated Producer File Review

A statistical sample of 25 was selected from terminated producer files. It was noted that producer appointments and terminations were appropriately filed (electronically) with the DOI through National Insurance Producer Registry (NIPR), in accordance with Idaho Code 41-1019(1)-(2).

However, it appears that appointment termination letters were not uniformly sent to producers (notifications to terminated producers were not found in 23 of the sample files) pursuant to Idaho Code Section 41-1019(4)(a). Therefore, it is recommended that the Fund develop a standardized letter of notification to be consistently sent to the last known address of terminated producers/agencies, as specified in Idaho Code Section 41-1019(4)(a).

Commissions Paid Review

The commission rate during the scope period of the examination was nine (9) percent. A sample was randomly selected for the period January 1, 2006 through December 31, 2006. The commissions paid statements were reviewed for estimated premium, quarterly premium received, and accuracy of commissions paid. Analysis of the commissions paid sample determined that there were no exceptions. Additionally, no overrides, bonuses or other unusual commissions were found.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2006, the Fund had provided the following described deposits in trust for the State of Idaho, through the office of the Director of Insurance, for the protection of all policyholders and/or creditors of the Fund. Written confirmation from the Idaho Department of Insurance confirmed the holding of the following:

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Notes, 6.125%, Due 8/15/2007	\$ 1,000,000	\$ 1,006,330	\$ 1,005,576

The deposit was held by US Bank of Idaho and met the general requirements and provisions of Idaho Code Sections 41-316, 41-803 and 41-804.

GROWTH OF THE FUND

The following schedule reflects the growth of the Fund, as reported in the Fund's annual statements, for the respective years as indicated in the following schedule:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income (Loss)</u>
2002	\$321,760,489	\$253,707,469	\$ 68,053,020	\$ (1,431,513)
2003	\$367,559,455	\$284,621,621	\$ 82,937,834	\$ 4,677,288
2004	\$423,232,939	\$324,354,682	\$ 98,878,257	\$10,378,930
2005	\$497,390,720	\$376,522,723	\$120,867,997	\$28,836,111
2006	\$558,542,331	\$392,171,369	\$166,370,962	\$38,564,088

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Fund's annual statements are scheduled below:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses & LAE Incurred</u>	<u>Underwriting Expenses Incurred</u>	<u>Total Losses, LAE and Expenses</u>	<u>Ratio to Premiums Earned</u>
2002	\$130,433,006	\$121,428,742	\$21,871,373	\$143,300,115	109.9%
2003	\$155,279,783	\$133,895,237	\$24,986,299	\$158,881,536	102.3%
2004	\$187,367,492	\$156,170,878	\$28,561,307	\$184,732,185	98.6%
2005	\$216,404,719	\$163,964,437	\$31,249,950	\$195,214,387	90.2%
2006	\$238,013,436	\$170,629,077	\$32,088,481	\$202,717,558	85.2%

REINSURANCE

Assumed Business

The Fund participated in the National Workers' Compensation Reinsurance Pool (NWCRP), which is a voluntary, non-profit, unincorporated association and is administered by the National Council on Compensation Insurance (NCCI).

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 Business

At December 31, 2006, the Fund's retention limit was \$5,000,000 per occurrence and ceded the excess to various reinsurers in accordance with the allocation percentages stated in a first through fourth per occurrence excess of loss reinsurance agreement. The Fund obtained reinsurance through Guy Carpenter & Company, Inc., Seattle, Washington, (Intermediary) in the form of four layers of excess of loss catastrophe coverage, which were allocated to the reinsurers on a percentage basis. The Fund's reinsurance coverage was for a 12-month period of July 1, 2006 through June 30, 2007; with provisions for cut-off termination and the Fund has the option for run-off. Pursuant to the agreements an annual deposit premium of \$2,772,400 was required.

As of December 31, 2006, reinsurers participating in the Fund's reinsurance program were either licensed or acceptable to transact business in the State of Idaho, as required by Idaho Code Section 41-511. All reinsurance recoverable balances reflected on Schedule F, Part 3 were from companies authorized to transact business in Idaho.

As of December 31, 2006, there were 18 known claims with projected recoverables totaling \$9,950,985. Ceded premiums during 2006 were reported at \$3,096,239. The Fund's reinsurance Intermediary confirmed the loss and loss adjustment expense reserves ceded to the reinsurers' under the Fund's excess of loss coverage with minor differences being noted.

The agreements contain clauses for commutation, omissions and errors, inspection of records, arbitration and insolvency, which appeared standard and acceptable.

The coverage structure for the ceded business is summarized as follows:

Coverage Structure of Reinsurance Program
7/1/2006 – 6/30/2007

Type of Agreement	Reinsurer(s)	Fund's Retention	Reinsurers' Limits
First Through Fourth Per Occurrence Excess of Loss	Hannover Ruckversicherung AG (35%) MAX Re Ltd. (15%)* Lloyd's Underwriter Syndicates (35%) Aspen Insurance UK Limited (15%)	\$5,000,000	\$5,000,000 per occurrence
	AXIS Specialty Limited (15%)* Endurance Specialty Insurance Ltd (15%)* Hannover Ruckversicherung AG (20%) MAX Re Ltd. (10%)* Lloyd's Underwriter Syndicates (28.5%) Aspen Insurance UK Limited (11.5%)	\$10,000,000	\$10,000,000 per occurrence; \$5,000,000 max. any one life
	Ace Prop. and Cas. Insurance Co. (10%) AXIS Specialty Limited (10%)* Endurance Specialty Insurance Ltd (15%)* Hannover Ruckversicherung AG (20%) Lloyd's Underwriter Syndicates (32%) Aspen Insurance UK Limited (13%)	\$20,000,000	\$30,000,000 per occurrence; \$5,000,000 max. any one life
	Ace Prop. and Cas. Insurance Co. (10%) AXIS Specialty Limited (20%)* Endurance Specialty Insurance Ltd (15%)* Hannover Re (Bermuda) Limited (20%)* Aspen Insurance UK Limited (13%) Lloyd's Underwriter Syndicates (19.5%) British Insurance Limited (2.5%)*	\$50,000,000	\$25,000,000 per occurrence; \$5,000,000 max. any one life

*=Unauthorized reinsurer

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

Policy Forms and Filings

The State Insurance Fund offers only the standard workers' compensation coverage. The policy forms used as prescribed by the NCCI, are Form WC 00 00 00A (Ed. 4/92), the Workers Compensation and Employers Liability Insurance Policy, and Form SIF INFO ED 06/01, the Workers Compensation and Employers Liability Insurance Policy Information Page. The Fund also filed with the Department the required endorsement for compliance with the Terrorism Risk Insurance Act of 2002, NCCI Form B-1383.

Rate Deviations

The Fund filed for rate deviations with the Department for the five years covered by this examination. The approved deviations were -15% in 2002, -7% in 2003, -7% in 2004, -7% in 2005 and -7% in 2006. No exceptions were noted.

Underwriting Manual

The Fund provided a copy of the *Underwriting Procedures Manual*, which defined the process followed from the time an application is received through when the policy package is sent to the policyholder, and the specific timetables for cancellation/non-renewal notices, as well as reinstatement timeframes. The *Underwriting Guidelines* utilized by the underwriters to determine whether an applicant is a suitable risk is one page, which lists six circumstances under which a policy would be cancelled, non-renewed, or not written. The Fund underwriting policy is concise, however it does contain flexibility for judgment by individual underwriters.

New Business Review

A 2006 new business issued sample of 100 was reviewed to determine compliance with timely issuance of policies, proper NCCI classifications, proper premium rates charged, and proper underwriting documentation in files. The exceptions in the sample were within the acceptable NAIC tolerable limits.

Timeliness of Policy Issuance

The sample of new business was also reviewed as to timeliness of the issuance of the policy in accordance with Idaho Code Section 41-1824, which required the policy be delivered within a reasonable time. The Fund noted in the WCIS underwriting screens the date the Policy Packet was mailed. Packet mailing notations were found for all files reviewed. No exceptions were noted.

Declined Applications Review

A random sample of 50 declined applications for coverage in 2006 was selected using audit command language software (ACL). The declined business sample was reviewed for compliance with underwriting standards and timely notification of adverse decision. The sample reflected the following frequency distribution of reasons for declinations:

Reason for Declination	Count	Percent of Count
Claims Loss	1	2%
Multi-State Exposure	2	4%
Payment/Reporting History	4	8%
Previous History	12	24%
Unidentified Exposure	31	62%
Sample Totals	50	100%

No exceptions were noted during the review of declined applications.

Cancelled/Non-renewed Policy Review

A random sample of 100 cancelled/non-renewed policies for 2006 was selected using ACL software. The cancelled/non-renewed policy sample was reviewed to determine compliance with timely notification, final payroll audits, reasons for cancellation/non-renewal, and premium refunds (if applicable). The sample reflected the following frequency distribution of reasons for cancellation/non-renewal:

Reason for Cancellation	Count	Percentage Of Count
Flat Cancel	1	1%
Change Of Ownership (Prorata)	3	3%
No Employees	4	4%
Other Coverage Taken	4	4%
Sold (Prorate)	4	4%
Out Of Business (Prem. Waived)	6	6%
Ceased Operations (Prorata)	8	8%
Non-Payment	30	30%
No Report (System)	40	40%
Sample Totals	100	100%

No exceptions were noted during the review of cancelled/non-renewed policies.

Payroll Audit Review

Two forms of voluntary payroll audits were obtained by the Fund from employers. One was a Payroll Report requested on a monthly or quarterly basis and the other was a Renewal Payroll Report required at the end of the policy period. In addition, physical on-site audits are performed on a selective basis by Fund auditors. Physical audits were performed on-site at the employer's home office, normally after the expiration of the annual policy period. Increases or decreases in payroll, any changes in classifications, exempt employees in management and/or ownership, or other pertinent changes, etc. were noted and the employer was subsequently notified of the audit results. The physical audits performed on the new business written sample were reviewed electronically. No exceptions were noted.

Treatment of Policyholders

Complaints

The Fund maintained an Administrative Complaint Log pursuant to Idaho Code Section 41-1330. The log contained the complaint number, the date received, where the complaint was received from, the complainant's name, the nature of the complaint and the outcome, and the date of response made by the Fund. There were 70 complaints and/or inquiries recorded in the log for 2002 through 2006. A review of the information contained in the log was traced to supporting documentation with no exceptions noted.

Claims Manual

The Company provided access to the on-line claims procedures manual. The manual has instructions for initial claims handling, compensability review, investigations, acceptance/denial of claims, compensation, fraud, and complaints. It was determined that the Company has acceptable procedures in place for the handling of claims. The Fund scans in the First Report of Injury (FROI) the day it is received and a time stamp is generated on the notice of injury. All notice of injuries received via email are accompanied by the dated e-mail transmittal. Claims received via mail or walk-in continue to be hand date stamped. Examiners determined that the Fund was in compliance with IDAPA 17.02.03 Sec. 051(04), which requires all documentation to be date-stamped on the day claims are received by the claims office.

Paid Claims – General Review

The paid claims review was conducted entirely on-line as the Fund has scanned documents into their system. A random sample of 100 was pulled from the entire paid claims population as specified by the NAIC. All claims reviewed were incurred in 2006, with the date of first compensation and/or medical payment occurring in 2006. Items reviewed included timeliness of response, ongoing correspondence and the general handling procedures prescribed by Idaho Code, Title 41 and Title 72, and IDAPA Rule 17.02.03. The exceptions in the sample were within the acceptable NAIC tolerable limits.

Denied Claims

Denied claims were reviewed on-line as to reasons for denial, timeliness of response, ongoing correspondence, and general handling procedures. A random sample of 50 was pulled from the entire denied claims population as specified by the NAIC. The exceptions in the sample were within the acceptable NAIC tolerable limits.

Fraudulent Claims

The Fund's Claims Manual contained fraud procedures for the investigation of possible suspected fraudulent claims and the Fund maintained a Fraud Hotline. The fraud procedures contained copies of the forms used with the Fraud Hotline and forms necessary to report such claims to the Idaho Department of Insurance in accordance with Idaho Code Section 41-290. No exceptions were noted during the review.

Statistical Claims Reporting

The Fund was required to file extensive statistical and detailed claim reports to the National Council on Compensation Insurance (NCCI) on a pre-stipulated periodic basis in both electronic and paper format. Examples of the filing forms and a Workers Compensation Data Specifications Manual compiled by the Workers Compensation Insurance Organization were provided for review. The reports are filed with the NCCI on a monthly basis.

Advertising and Sales Material

During the examination period, the Fund did not participate in any advertising or distribute any advertising materials.

The Fund's website, www.idahosif.org, was reviewed for any misrepresentations in information presented to the consumer, policyholders, health professionals, and agents. No exceptions were noted.

ACCOUNTS AND RECORDS

General Accounting

The Fund's accounting and financial systems consisted of a compilation of several systems, all linked together. Sunguard's General Ledger and Accounts Payable program, EAS, and their Investment Tracking program, EPS, were used. Best's fixed assets program, FAS, was used to track assets. Booke's Financial Statement Preparation program was used for internal financial/management reporting. Fund claim checks were written using BottomLine's check printing program. The State of Idaho's STARS system was used for vendor payments, and EIS was used for payroll.

Feeding these systems was the Fund's WCIS application that handles the various workers' compensation insurance components of the business, (i.e., underwriting, billing and auditing policies, claims processing and all other components of the Fund's insurance business). WCIS summarized and passed information to the financial applications above in the form of journal entries and other detail as required to properly account for its activities.

All of these applications were accessed by the Fund employees via desktop computers running Windows XP software, which allowed access to the servers hosting these applications. The users and servers were connected via a LAN/WAN network, which consisted of a HP UNIX based mini-computer and several Windows 2000 and NT servers.

The Fund's 2006 general ledger and non-ledger amounts were reconciled to the 2006 annual statement filed with the Idaho Department of Insurance. An accounting spreadsheet was prepared supporting the reconciliation with no exceptions.

Independent Accountants

Deloitte & Touche LLP, Boise, Idaho was the Fund's independent auditor for the years 2002 to 2006, which coincides with the period covered by this examination. Deloitte & Touche LLP has been the independent auditor for the Fund since 1999.

The independent auditor's report issued for the year ending December 31, 2006, indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Fund on a statutory basis. In compliance with Rule No. 62 (IDAPA 18.01.62) the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2006 workpapers and supporting documentation were made available and reliance was placed on these workpapers, when possible, during this examination. When the auditor's workpapers were used, such workpapers were denoted to indicate that utilization.

Actuarial Opinion

A statement of actuarial opinion regarding the unpaid losses and loss adjustment expenses reported by the Fund in its 2006 annual statement was made by David R. Kennerud. The opinion stated that Mr. Kennerud was associated with the firm of Milliman, Inc., Seattle Washington, and was a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society.

The opinion further stated his review included the actuarial assumptions, methods, and such tests of calculations as deemed necessary to determine the loss and loss adjustment expense reserves. The opinion stated that the reserve amounts:

- (1) met the requirements of the insurance laws of the State of Idaho,
- (2) were computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and
- (3) made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Fund under the terms of its contracts and agreements.

In forming the opinion, the actuary relied upon data prepared by a responsible representative of the Fund, and evaluated such data directly in the analysis for reasonableness and consistency. The actuary considered a material adverse deviation to be one in which the actual net outstanding losses and loss adjustment expenses exceeded the Fund's reserves by an amount greater than \$16,637,096 (10% of the Fund's statutory surplus). The actuarial items reported in the 2006 Annual Statement, on which Mr. Kennerud's opinion was rendered, were as follows:

Note: Pages and schedules referenced below pertain to the 2006 Annual Statement.

Loss and Loss Adjustment Expense Reserves

A.	Reserves for Unpaid Losses (Page 3, Line 1)	\$300,575,386
B.	Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	\$ 35,314,573
	Total of A and B	<u>\$335,889,959</u>
C.	Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$310,526,000
D.	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	\$ 35,315,000
	Total of C and D	<u>\$345,841,000*</u>

* This Total of C and D has been corrected for a footing error noted in the original actuarial opinion.

E.	Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)	\$0
F.	Other Loss Reserve Items	NA
	<u>Premium Reserves</u>	
G.	Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
H.	Reserve for Net Unearned Premiums for Long Term Duration Contracts	\$0
I.	Other Premium Reserve Items	NA

The following were taken into consideration in determining the above amounts:

1.	Materiality Standard expressed in \$US	\$16,637,096
2.	Statutory Surplus	\$166, 370,962
3.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$4,781,000
4.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	
	4(a) Nontabular Discount	\$0
	4(b) Tabular Discount	\$18,140,247
5.	The net reserves for losses and expenses for the Fund's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$6,342,959
6.	The net reserves for losses and loss adjustment expenses that the Fund carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	
	6(a) Asbestos, as disclosed in the Notes to Financial Statements	\$0
	6(b) Environmental, as disclosed in the Notes to Financial Statements	\$0
7.	The total claims made extended loss and loss expense reserves (Schedule P Interrogatories)	
	7(a) amount reported as loss reserves	\$0
	7(b) amount reported as unearned premium reserves	\$0
8.	Other items	NA

Risk factors that could have a significant effect on the Fund's exposure were the long-tailed nature of the Fund's book and the Fund's high per-occurrence retention.

In evaluating whether the reserves made a reasonable provision for unpaid losses and loss adjustment expenses, it was necessary to project future loss and loss adjustment expense payments. It was certain that actual future losses and loss adjustment expenses would vary significantly from the projections. The estimates for reserves, indicated above, made no provision for extraordinary future emergence of new classes of losses or types of loss not sufficiently represented in the Fund's historical database or which have not been quantifiable.

The Fund participates in one involuntary pool, the National Workers Compensation Reinsurance Pool (National Pool), which accounts for all \$6,342,959 of the net pool reserves. Mr. Kennerud relied upon the opinion of Dennis Mealy, the qualified actuary for the National Pool in regard to the Fund's National Pool reserves.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for discussion of the Department's examining actuary's analysis.

Evaluation of Controls and Information Systems

A limited EDP exam was conducted for the Idaho Department of Insurance by IS Specialist, Jenny L. Jeffers, CISA, AES (Certified Information Systems Auditor, Automated Examination Specialist) of Examination Resources, LLC at the Fund's Boise office. Ms. Jeffers' review coincided with the examination period. The EDP examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) from the NAIC's Financial Condition Examiners Handbook.

Scope

- Determine the major systems through which the data of Idaho State Insurance Fund flows.
- Review the NAIC IS Questionnaire responses from the company and follow up on any issues.
- Review the physical and system controls in place at the Main Computer Facility – ISQ Section E
- Review the system security measures regarding access to all major systems –ISQ Sections I and L
- Review the Business Continuity and Disaster Recovery Plan-ISQ Section J
- Review Web access and e-Business – analyze controls regarding privacy – ISQ Section K
- Determine the reliability of the controls and thus the reliability of the data as put forth by the company.

Procedures

- Telephone Interviews with key personnel as determined to be needed from the ISQ review
- Review of documentation of controls – printed and provided electronically

In arriving at a conclusion regarding the reliance that may be placed on the Fund's information systems, the following ISQ areas were evaluated:

- ISQ Section A – Management Control
- ISQ Section B – Organizational Control
- ISQ Section C – Changes to Applications
- ISQ Section D – System and Program Development
- ISQ Section E – Operations

- ISQ Section F – Processing Controls
- ISQ Section G – Documentation
- ISQ Section H – Outside Services
- ISQ Section I – Logistical and Physical Services
- ISQ Section J – Contingency Planning
- ISQ Section K – e-Business
- ISQ Section L – Wide Area Network (WAN) and Internet Controls

Conclusion Regarding IS Controls and Data Integrity

The result of the review of the IS Controls at the Idaho State Insurance Fund resulted in the conclusion that reliance can be placed on the data used by the Fund to produce reports and provide data. In summary, the risk factor is low and the reliance is recommended as high.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2006
- Liabilities, Surplus and Other Funds as of December 31, 2006
- Statement of Income, For the Year Ending December 31, 2006
- Capital and Surplus Account, For the Year Ending December 31, 2006
- Reconciliation of Capital and Surplus, December 31, 2002 through December 31, 2006

ASSETS
As of December 31, 2006

	<u>Ledger</u>	Non <u>Admitted</u>	Net <u>Admitted</u>
Bonds (Note 1)	\$440,063,638	\$	\$440,063,638
Common Stock (Note 1)	75,108,462		75,108,462
Real Estate – Occupied by the Company	2,796,383		2,796,383
Cash and Short term Investments (Note 2)	16,723,011		16,723,011
Other Invested Assets	1,340,563		1,340,563
Receivable for Securities	2,484,841		2,484,841
Investment Income Due and Accrued	5,139,788		5,139,788
Premiums in Course of Collection	9,190,023	1,660,626	7,529,397
Premiums Booked but Deferred	(48,024)		(48,024)
Amounts Recoverable from Reinsurers	2,484,037		2,484,037
Funds Held by or Deposited with Reinsured Cos.	339,520		339,520
Electronic Data Processing Equipment	506,745		506,745
Furniture and Fixtures	230,707	230,707	0
Aggregate Write-ins for Other Than Invested Assets:			
Ceded Reinsurance Deposit	1,386,200		1,386,200
National Guard Receivable	24,079		24,079
Premium Tax Refund – IDOI	2,645,362		2,645,362
Prepaid Expenses	529,405	529,405	0
Travel Advances	342	342	0
Due from ID. Pet. Clean Water Trust Fund	<u>18,329</u>		<u>18,329</u>
 Total Assets	 <u>\$560,963,411</u>	 <u>\$2,421,080</u>	 <u>\$558,542,331</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As Of December 31, 2006

Losses (Note 3)		\$300,575,386
Loss Adjustment Expenses (Note 4)		35,314,573
Other Expenses		1,549,493
Taxes, Licenses and Fees		3,053,599
Unearned Premiums		37,727,144
Dividends Declared and Unpaid – Policyholders		0
Advance Premiums		2,831,809
Ceded Reinsurance Premiums Payable		1,509,017
Amounts Withheld or Retained by Company for Account of Others		86,362
Remittances and Items Not Allocated		28,347
Payable for Securities		6,096,548
Aggregate Write-ins for Liabilities		
Credits Due Policyholders		<u>3,399,091</u>
Total Liabilities		<u>\$392,171,369</u>
Unassigned funds (surplus)	<u>\$ 166,370,962</u>	
Total Surplus		<u>166,370,962</u>
Total Liabilities, Surplus and Other Funds		<u>\$558,542,331</u>

STATEMENT OF INCOME
For The Year Ending December 31, 2006

Statement of Income

<u>Underwriting Income</u>	
Premiums earned	<u>\$238,013,436</u>
Deduct:	
Losses Incurred	\$153,620,145
Loss Expenses Incurred	17,008,932
Other Underwriting Expenses Incurred	<u>32,088,481</u>
Total Underwriting Deductions	<u>\$202,717,558</u>
Net Underwriting Gain (Loss)	<u>\$ 35,295,878</u>
 <u>Investment Income</u>	
Net Investment Income Earned	\$ 19,242,576
Net Realized Capital Gains (Losses)	<u>(581,070)</u>
Net Investment Gain (Loss)	<u>\$ 18,661,506</u>
 <u>Other Income</u>	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	\$ (2,922)
Miscellaneous Income (Loss)	<u>68,639</u>
Total Other Income	<u>\$ 65,717</u>
Net Gain From Operations Before Dividends and Federal Income Taxes	\$ 54,023,101
Dividends to policyholders	<u>15,459,013</u>
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	\$ 38,564,088
Federal Income Taxes Incurred	<u>0</u>
Net Income (Loss)	<u>\$ 38,564,088</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2006

Surplus, December 31, 2005	<u>\$120,867,997</u>
Net Income (Loss)	\$ 38,564,088
Net Unrealized Capital Gain (Losses)	7,199,181
Change in non-admitted assets	(260,307)
Other Adjustments	<u>0</u>
Net change in surplus for the year	<u>\$ 45,502,962</u>
Rounding	3
Surplus, December 31, 2006	<u>\$166,370,962</u>

RECONCILIATION OF CAPITAL AND SURPLUS
December 31, 2002 through December 31, 2006

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Prior Year Surplus, December 31	\$ 80,719,995*	\$68,053,020	\$82,937,834	\$ 98,878,257	\$120,867,997
Net income	(1,431,513)	\$ 4,677,287	\$10,378,930	\$ 28,836,111	\$ 38,564,088
Change in unrealized gains (losses)	(10,459,743)	10,423,068	4,460,914	1,304,849	7,199,181
Change in not admitted assets	(46,297)	(373,622)	(269,148)	(208,218)	(260,307)
Cumm. Effect Chg in Acct. Princ.	(737,001)	0	0	0	0
Other Adjustment	<u>7,578</u>	<u>158,079</u>	<u>1,369,731</u>	<u>(7,943,001)</u>	<u>0</u>
Net Change for the Year	<u>(12,666,976)</u>	<u>\$14,884,812</u>	<u>\$15,940,427</u>	<u>\$ 21,989,741</u>	<u>\$ 45,502,962</u>
Rounding	1	2	(4)	(1)	3
Current Year Surplus, December 31	<u>\$ 68,053,020</u>	<u>\$82,937,834</u>	<u>\$98,878,257</u>	<u>\$120,867,997</u>	<u>\$166,370,962*</u>

* Per Examination

NOTES TO FINANCIAL STATEMENTS

<u>Bonds (Note 1)</u>	\$440,063,638
<u>Common Stock (Note 1)</u>	<u>\$ 75,108,462</u>

Pursuant to Idaho Code Section 72-912, the Endowment Fund Investment Board shall at the sole direction of the Fund Manager, invest any surplus or reserve funds belonging to the Idaho State Insurance Fund in those types of investments authorized by the Idaho Insurance Code, Title 41 and such investments shall be approved by the Fund Manager. During the review of the investments, the examiners found the Fund was in compliance with Section 72-912.

<u>Cash and Short-term Investments (Note 2)</u>	<u>\$16,723,011</u>
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The Fund has \$11,958,287 in its checking accounts and one Money Market account for \$4,764,724. These amounts were properly reported on Schedule DA, Part 1 and Schedule E, Part 1 of the 2006 Annual Statement.

<u>Losses (Note 3)</u>	<u>\$300,575,386</u>
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At December 31, 2006, the Fund's loss reserves totaled \$300,575,386. The reserve was composed of the following:

<u>Description</u>	<u>Amount</u>
Gross Loss Reserve	\$308,772,000
Less: Accrued Salvage & Subrogation	(4,781,150)
Less: Reinsurance Recoverable	(9,951,000)
Subtotal	\$294,039,850
Add: NCCI Outstanding Loss Reserve	4,611,483
Add: NCCI IBNR Reserve	1,924,053
Total Loss Reserves at December 31, 2006	\$300,575,386

Idaho Department of Insurance contract actuary, R. Michael Lamb, FCAS, MAAA completed his review of the Milliman USA Actuarial Report and found that the reserving methods and calculations were appropriate and reasonably presented. Mr. Lamb concluded that the loss reserve balance of \$300,575,386 be accepted as reported.

<u>Loss Adjustment Expenses (Note 4)</u>	<u>\$35,314,573</u>
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At December 31, 2006, the Fund's loss adjustment expense reserve amounted to \$35,314,573. The reserve was composed of the following:

<u>Description</u>	<u>Amount</u>
Defense and cost Containment Reserve	\$15,708,000
Add: Adjusting and Other Reserve	11,421,000
Add: Special Indemnity Fund Reserve	8,178,000
Add: NCCI EBNR Expense Reserve	7,573
Total Loss Adjustment Expense Reserve	\$35,314,573

Idaho Department of Insurance contract actuary, R. Michael Lamb, FCAS, MAAA completed his review of the Milliman USA Actuarial Report and found that the reserving methods and calculations were appropriate and reasonably presented. Mr. Lamb concluded that the loss adjustment expense reserve balance of \$35,314,573 be accepted as reported.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The results of the examination disclosed that as of December 31, 2006, the Fund had admitted assets of \$558,542,331, liabilities of \$392,171,369, and surplus as regards policyholders of \$166,370,962. The Fund was in compliance with the minimum capital and surplus requirements of Idaho Code Section 41-313.

Comments and Recommendations

<u>Page</u>	<u>Description</u>
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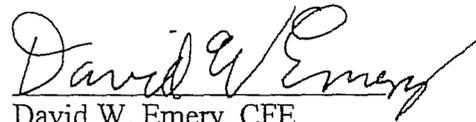
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| 10 | <u>Active and Terminated Producers</u> It is recommended that the Fund develop a standardized letter of notification to be consistently sent to the last known address of terminated producers/agencies, as specified in Idaho Code Section 41-1019(4)(a). |
|----|--|

CONCLUSION

The courteous assistance and cooperation extended by the officers and employees of the Fund during the course of this examination is acknowledged and appreciated.

In addition to the undersigned, Ann McClain, CIE, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, ACS, AIS, Senior Market Conduct Examiner, and Kelvin Ko, CFE, Senior Insurance Examiner, from the Idaho Department of Insurance; Michael Lamb, FCAS, MAAA (actuary) of Michael Lamb, LLC; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

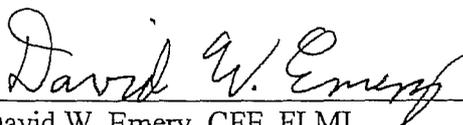


David W. Emery, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

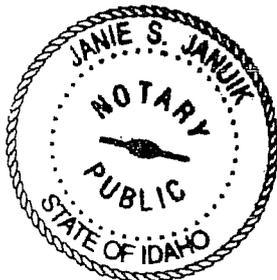
State of Idaho
County of Ada

David W. Emery, 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 the Idaho State Insurance Fund for the period from January 1, 2002 through December 31, 2006, including subsequent events, 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 the report are based on the facts disclosed in the examination.



David W. Emery, CFE, FLMI
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 10th day of December, 2007 at Boise, Idaho





Notary Public

My commission Expires: 8-13-09

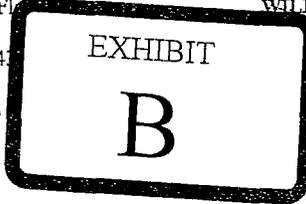
C.L. "BUTCH" OTTER
Governor

State of Idaho
DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

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DEC 27 AM 11:32
STATE OF IDAHO
DEPT OF INSURANCE



WAIVER

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

**IDAHO STATE INSURANCE FUND
1215 WEST STATE STREET
BOISE, IDAHO 83720**

By executing this Waiver, the Fund hereby acknowledges receipt of the above-described examination report, verified as of the 10th day of December 2007, 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 14th day of December, 2007

IDAHO STATE INSURANCE FUND

James M. Alcorn

Name (print)

A handwritten signature in dark ink, appearing to read "James M. Alcorn", written over a horizontal line.

Name (signature)

Manager

Title