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**FILED**

**MAR 17 2008**

**Department of Insurance  
State of Idaho**



Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
STATE OF IDAHO

IN THE MATTER OF:	)	
	)	
Workers Compensation Exchange	)	ORDER ADOPTING
	)	REPORT OF EXAMINATION
Idaho Certificate of Authority: 565	)	AS OF DECEMBER 31, 2006
NAIC Company Code: 34576	)	
	)	Docket No. 18-2449-08
	)	
	)	
	)	
	)	

The Report of Examination as of December 31, 2006 (Report) of the Workers Compensation Exchange (Exchange), an Idaho reciprocal insurer, was completed by an examiner of the Idaho Department of Insurance (Department) and signed the 25<sup>th</sup> day of February 2008 by the Examiner-in-Charge, David W. Emery, CFE, FLMI. The verified (attested) copy of the Report was filed with the Department effective February 25<sup>th</sup>, 2008. Previously, a draft copy of the Report was delivered to the Exchange, with the verified

Report being transmitted to the Exchange electronically (PDF file, via e-mail) on February 26<sup>th</sup>, 2008 to Mr. Todd J. Blake, Attorney-in-Fact. 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. Blake on February 26<sup>th</sup>, 2008 and received by the Department on February 28<sup>th</sup>, 2008 (via U.S. First Class mail). Based upon the Waiver/Exhibit B, this is a final order, and the Exchange has waived its rights to seek reconsideration and judicial review of this order.

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 17<sup>TH</sup> day of March 2008.

  
\_\_\_\_\_  
William W. Deal, Director  
IDAHO DEPARTMENT OF INSURANCE

**CERTIFICATE OF SERVICE**

I hereby certify that on this 17<sup>th</sup> day of March 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Todd J. Blake, MBA, CPA, CPCU	<u>  X  </u>	certified mail
Attorney-in-Fact	<u>      </u>	first class mail
Workers Compensation Exchange	<u>      </u>	hand delivery
1901 Idaho Street	<u>      </u>	Facsimile
Lewiston, Idaho 83501	<u>      </u>	
e-mail: <a href="mailto:todd@idacomm.net">todd@idacomm.net</a>	<u>  X  </u>	e-mail

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



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

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

WORKERS COMPENSATION EXCHANGE

(NAIC Company Code 34576)

as of

December 31, 2006

EXHIBIT

A

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

**C.L. "BUTCH" OTTER**  
Governor

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**WILLIAM W. DEAL**  
Director

Lewiston, Idaho  
February 25, 2008

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 generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006 of:

**WORKERS COMPENSATION EXCHANGE**

**1901 IDAHO STREET**  
**LEWISTON, IDAHO 83501**

hereinafter referred to as "the Exchange," at its offices in Lewiston, 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 Lewiston, Idaho office of the Exchange by an examiner 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 Exchange attesting to the Exchange's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

After appropriate review by the examiner, and in accordance with NAIC procedures, there was some reliance placed on the 2006 internal audit report of Potlatch Corporation and the accompanying work papers during the examination of the Exchange.

## PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1998 through December 31, 2001.

A review was made to ascertain what action was taken by the Exchange with regard to comments and recommendations made by the Department in the prior exam report. Unless otherwise mentioned in the COMMENTS AND RECOMMENDATIONS section of this report, the prior report exceptions were adequately addressed by the Exchange.

## HISTORY AND DESCRIPTION

The Exchange was organized under authority of Idaho Code Title 41, Chapter 29, and commenced operations on August 1, 1918.

The Exchange was founded for the purpose of providing workers compensation insurance for the employees of an association of businesses that engage in the forest products industry in the State of Idaho. The businesses for which coverage is provided are known as the "Subscribers." The Subscribers formed the Exchange, and operate it as a not-for-profit insurance exchange pursuant to the provisions of Idaho Code Title 41, Chapter 29.

As of December 31, 2006, there were six Subscribers to the Exchange, which are listed as follows:

Potlatch Corporation	J. I. Morgan Inc.	Bennett Lumber Products, Inc.
Riley Creek Lumber Company, Inc.	Bennett Forest Industries	Stimson Lumber Company

The Exchange was managed by an Attorney-in-Fact, with authority granted under powers of attorney executed by each of the Subscribers.

The Exchange collects premiums from the Subscribers monthly on a retrospective basis, according to each Subscriber's monthly payroll and actual losses incurred. Thus, all premiums written are "earned" premiums.

Each Subscriber is independent of the others and is responsible for its own losses up to \$200,000 per claim. The Subscribers are subject to additional assessment for funds needed to meet the obligations of the Exchange, and each may be required to pay a sum equal to one year's annual premium in the event its losses and loss adjustment expenses exceed its annual paid-in premiums. In the event that an individual Subscriber should be unable to meet its premium obligations, the other Subscribers may be assessed additional premiums to cover the default.

### MANAGEMENT AND CONTROL

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

The basic duties of the Trustees include the following:

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

These duties of the Trustees comply with Idaho Code Section 41-2920.

## Trustees

The following persons were duly elected as Trustees of the Exchange as of December 31, 2006:

<u>Name and Address</u>	<u>Principal Occupation</u>
Scott Atkison Grangeville, ID	Chief Executive Officer Bennett Forest Industries
Marc Brinkmeyer LaClede, ID	President , Riley Creek Lumber Company
Gerald Zuehlke* Spokane, WA	Chief Financial Officer Potlatch Corporation
John Bell Lewiston, ID	Director of Risk Management Potlatch Corporation
Richard Kelley Lewiston, ID	Senior Vice President, Western Wood Products Potlatch Corporation
Michael McNichols Lewiston, ID	Attorney at Law

\*In 2007 Mr. Zuehlke, retired from Potlatch Corporation and was replaced on the Board of Trustees by Eric Cremers, Chief Financial Officer of Potlatch Corporation.

## Officers

The following persons were serving as officers of the Exchange as of December 3, 2006:

Gerald L. Zuehlke*	President
Todd Blake	Secretary

\*In 2007 Mr. Zuehlke was replaced by Eric Cremers as President of the Exchange.

Mr. Blake also serves as the Attorney-in-Fact of the Exchange.

## Committees

There are no provisions for the appointment of additional committees, and there is no record of any having been appointed.

## Conflict of Interest

The Exchange established a conflict of interest policy on June 12, 1997. The policy required each of the trustees and the attorney-in-fact to complete a statement of any conflicts or possible conflicts with the performance of their duties and responsibilities. Statements completed by trustees and the attorney-in-fact were reviewed and indicated no conflicts. It was noted that Mr. Blake, Attorney-in-Fact, did not complete a conflict of interest statement in 2005 and 2006. It is recommended that Mr. Blake, as Attorney-in-Fact, complete a conflict of interest statement annually.

## Contracts and Agreements

The Exchange purchased their claims management system from the DAVID Corporation. An end user agreement between the Exchange and DAVID Corporation was signed January 21, 1999. This agreement granted the Exchange a license to use the software on five personal computers and/or file servers. The

Exchange also initiated an annual maintenance agreement for the upkeep of the software. Either party could terminate these agreements by giving at least thirty days written notice.

The Exchange had an agreement with Potlatch Corporation for Potlatch to process the payroll of the Exchange's employees. The agreement also had the following provisions:

- for the employees of the Exchange to participate in the Potlatch employee benefit plans,
- for the Exchange to reimburse Potlatch for the costs of these plans,
- for the Exchange to reimburse Potlatch for direct costs of payroll, taxes and a \$100 per month fee.
- for Potlatch to prepare and file payroll related federal and state tax reports on behalf of the Exchange

Either party may terminate the agreement on 30 days notice, with or without cause.

The Exchange had no other employee, management, or administrative contracts in effect during the period under examination.

## CORPORATE RECORDS

### Power of Attorney and Subscriber Agreement

As the Exchange is a reciprocal, and provides insurance through an Attorney-in-Fact, there are no Articles of Incorporation. The general policies, procedures and guidelines typically included in the Articles of Incorporation are provided to the Exchange through its Power of Attorney and its Subscriber Agreement.

The Exchange amended their Subscriber Agreement effective December 18, 2000 to remove Idaho Forest Industries as a subscriber and note that Riley Creek Lumber Company was currently a subscriber. The amended Subscriber Agreement has been filed with the Department of Insurance as required by Idaho Code Section 41-2910(4).

### Minutes of Meetings

The minutes of the meetings of the Trustees were reviewed for the period of examination. The minutes appear to adequately reflect the activities of the Exchange for the years 2002 through 2006. The Trustees approved all investment activity as required by Idaho Code Section 41-704.

The minutes of the Trustees meeting held June 11, 2003, indicated that the prior Report of Examination as of December 31, 2001 issued by the Idaho Department of Insurance was received and had been reviewed and approved by all Trustees.

## FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Exchange has been maintained throughout the period under examination. Coverages in effect as of December 31, 2006, are summarized as follows:

Fidelity Bond: The employees of the Exchange are covered under a blanket bond carried by Potlatch Corporation on its employees. The bond provides Employee Dishonesty coverage up to \$10,000,000 and Depositors Forgery up to \$1,000,000 with a deductible of \$100,000.

Surety Bond: The Attorney-in-Fact is covered by a bond in the amount of \$25,000 in accordance with the requirements of Idaho Code Section 41-2912.

Surety Bond: The Exchange is covered by a bond in the amount not to exceed \$10,000,000 in accordance with the requirements of Idaho Code Section 41-313A.

Employers Liability: This is a workers compensation package which provides coverage for bodily injury up to \$100,000 for each accident and \$100,000 for disease related claims (each employee) up to a limit of \$500,000.

Commercial Package: This contains multi-coverages for loss of income (actual) not exceeding 12 months, home office building and contents for \$343,000 and \$129,000, respectively, liability and medical expenses up to \$1,000,000 per occurrence and non-owned and hired auto up to \$1,000,000 per occurrence.

The fidelity bond coverage meets the requirements of NAIC recommendations, and the insurers providing the various coverages to the Exchange are licensed or authorized in the State of Idaho. In addition, it was noted that the fidelity bond coverage was obtained by Potlatch Corporation and named the Exchange as a covered insured. The certification signed by management acknowledged that no losses had been suffered due to dishonest or fraudulent acts.

### PENSION AND INSURANCE PLANS

Employees of the Exchange are provided a number of benefits through the Potlatch Corporation. The major programs available are a Hospital and Major Medical plan, Dental Care, continued coverage on both the Medical and Dental plans in the event of termination, basic life and matching AD&D insurance equal to 150% of base salary, optional AD&D insurance, temporary and long term disability benefits, a vision program, savings investment, retirement, severance, vacation, and supplemental benefits plans as outlined in the Salaried Employees' Benefit Plans Manual.

### TERRITORY AND PLAN OF OPERATION

The Exchange is licensed only in the State of Idaho as a domestic reciprocal insurer with the business written being limited exclusively to workers compensation insurance. As discussed earlier in the Report, all Subscriber policies are fully assessable.

Only firms that are exclusively engaged in the forest products industry in the State of Idaho are eligible for admission to the Exchange as a Subscriber. Potential Subscribers must demonstrate an active participation in a lumber industry support group, meet certain standards for the safety of its workers, have adequate financial capacity and stability, and have access to a resource base which will provide for future financial stability.

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

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

## STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2006, the Exchange provided the following securities in trust for the benefit of policyholders or policyholders and creditors, through the office of the Director of Insurance, State of Idaho:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Federal Home Loan Banks	\$ 500,000	\$ 499,635	\$ 484,220
U S Treasury Notes	<u>1,000,000</u>	<u>1,000,000</u>	<u>957,070</u>
Totals	<u>\$1,500,000</u>	<u>\$1,499,635</u>	<u>\$1,441,290</u>

The deposit meets the general requirements and provisions of Idaho Code Sections 41-316A, 41-803 and 41-804. The deposit was verified by the Idaho Department of Insurance.

## GROWTH OF THE EXCHANGE

The Exchange's Growth for the years indicated, as taken from its Annual Statements (or as adjusted by the examination report) is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2002	\$ 9,906,313	\$ 9,842,019	\$ 64,294	\$ 0
2003	9,782,261	9,550,977	231,284	0
2004	9,494,270	9,269,120	225,150	(3,600)
2005	10,240,202	10,132,965	107,237	30,394
2006 *	\$10,176,563	\$ 9,930,086	\$246,477	\$66,883

\* As determined by Examination

In 2003 and 2004 the Net Income shown above was \$0 because the Exchange as a reciprocal only assessed its subscribers an amount to equal \$0.00 net income. In 2004 the Board of Trustees decided to keep up to 20% of its investment income to help build surplus. The surplus was deemed necessary to help in case of market fluctuations in its securities, so that the Exchange would always have enough to pay its liabilities as required by Idaho Code Section 41-2930.

## LOSS EXPERIENCE

The ratios of losses and underwriting expenses incurred to premiums earned, as reported in the Exchange's annual statements for the five year period ending December 31, 2006 are reported below:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Loss/UW Expenses Incurred</u>	<u>Total Losses &amp; Expenses</u>	<u>Ratio to Premiums Earned</u>
2002	\$4,833,293	\$3,805,326	\$1,141,133	\$4,946,459	102.3%
2003	3,799,616	3,736,691	388,051	4,124,742	108.6%
2004	4,771,224	4,513,161	559,809	5,072,970	106.3%
2005	4,646,212	3,836,533	1,163,551	5,000,084	107.6%
2006	\$4,611,773	\$4,469,513	\$ 522,171	\$4,991,684	108.2%

## REINSURANCE

As noted in a previous section of this report, the Subscribers are responsible for their own losses up to \$200,000 per occurrence and the Exchange covers losses in excess of \$200,000 up to \$500,000 in accordance with the Subscriber Agreement.

As of December 31, 2006, the Exchange had an excess of loss reinsurance agreement with Continental Casualty Company of Chicago, Illinois that provided for coverage on losses in excess of \$500,000, with unlimited workers compensation coverage and a \$1,000,000 limit on employers' liability. The reinsurance premiums are a percentage of the annual remuneration of the employees covered by the Exchange.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting Practices

The Subscriber Agreement serves as the "basic policy" of the Exchange, as well as providing procedures and guidelines for operation of the Exchange. Again, all Subscriber policies written are fully assessable.

Upon review of the Idaho Code, it was noted that the Exchange is exempt from Chapter 16, Workmen's Compensation Rates, pursuant to Idaho Code Section 41-1601(2). Section 41-1812, requires all policies issued in Idaho to be filed with the Director of the Department of Insurance. The Department does have the Subscriber Agreement on file for the Exchange.

### Treatment of Policyholders

#### Claims:

A sample of open claims as of December 31, 2006 was reviewed during the course of this examination. The review indicated that the claims were being settled properly and that payments were being made in a timely manner.

#### Complaints:

The Exchange maintains a complaint register. It was determined that the complaint register did contain a complete record of all complaints that the Exchange had received since the date of its last examination as prescribed by Idaho Code Section 41-1330.

The Exchange has a fraudulent claim procedure in place, in compliance with Idaho Code Section 41-290.

### Advertising and Sales Materials

Due to the specialized nature of its operations, the Exchange does not engage in any type of advertising or promotional activity.

## ACCOUNTS AND RECORDS

### General Accounting

The Exchange maintains an electronically posted general ledger and a number of subsidiary journals and records. The Exchange prepared trial balances from its general ledger for each of the five years under examination. These were traced to or reconciled with their respective annual statements. The supporting work papers maintained by the Exchange were generally adequate.

### Independent Accountants

For each year under examination the Exchange requested an exemption from filing an audited financial statement. The request was based upon financial hardship for the Exchange. The Exchange also notified the Idaho Department of Insurance that the internal auditors of Potlatch Corporation, the largest Subscriber, was planning to do an internal audit of the Exchange for these years. The Department granted the exemption with the condition that a copy of the internal audit report(s), including management letter and recommendations, as performed by Potlatch Corporation internal audit department be submitted to the Department on a timely basis. As stated earlier in this Report, there was some reliance placed by the Department in the internal audit workpapers.

Since the Exchange writes Workers Compensation Insurance, it undergoes a limited review by the Idaho Industrial Commission. The Commission reviews claim files for compliance with IDAPA 17.02.03.051, Requirements for Maintaining Idaho Workers' Compensation Files. They also review the treatment of the claimants for the files that are examined. The Industrial Commission found no major problems with the files kept by the Exchange and generally found the files to be maintained in an orderly manner.

### Actuarial Opinion

The Exchange requested that the Idaho Department of Insurance deem Mr. Todd Blake, the Attorney-in-Fact, qualified to sign the 2006 Actuarial Opinion. The Department determined that they would accept the actuarial opinion provided by Mr. Blake with the following caveats:

- The actuarial opinion should be filed in accordance with the NAIC Annual Statement Instructions for Property and Casualty Insurance Companies.
- Mr. Blake is required to retain and make available his work papers for review by the Department's Examiners.
- The Department will closely monitor the Exchange's loss development for any signs of reserve inadequacy.
- The Department may, from time to time, request supplemental information from the Exchange.

The statement of opinion was issued which relied on information provided by the Exchange to formulate the opinion. The opinion stated that the amounts of the reserves:

- a. meet the requirements of the insurance laws of Idaho;
- b. are computed in accordance with accepted loss reserving standards and principles; and
- c. make a reasonable provision for all unpaid loss and loss expense obligations of the Exchange under the terms of its policies and agreements.

The identified actuarial items are listed as follows:

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

Loss Reserves

A.	Reserves for Unpaid Losses (Page 3, Line 1)	\$ 8,066,972
B.	Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	\$ 1,767,415
C.	Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$10,017,000
D.	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	\$ 1,769,000
E.	Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)	\$0
F.	Other Loss Reserve Items	\$0
<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	\$0

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

1.	Materiality Standard expressed in \$US	\$500,000
2.	Statutory Surplus	\$246,477
3.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$0
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	\$0
5.	The net reserves for losses and expenses for the Exchange'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.	\$0
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	\$0

## 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>	<u>Non Admitted</u>	<u>Net Admitted</u>
Bonds (Note 1)	\$ 5,212,286	\$	\$ 5,212,286
Common Stock (Note 2)	1,472,878		1,472,878
Real Estate – Occupied by the Company	14,317		14,317
Cash and Short term Investments (Note 3)	2,114,475		2,114,475
Receivable for Securities	8,350		8,350
Investment Income Due and Accrued	74,938		74,938
Premiums in Course of Collection	1,172,347		1,172,347
Amounts Recoverable from Reinsurers	93,595		93,595
Net Deferred Tax Asset	449,330	436,636	12,694
Electronic Data Processing Equipment	0		0
Furniture and Equipment	<u>683</u>	<u>                    </u>	<u>683</u>
Total Assets	<u>\$10,613,199</u>	<u>\$436,636</u>	<u>\$10,176,563</u>

LIABILITIES, SURPLUS AND OTHER FUNDS  
As Of December 31, 2006

Losses (Note 4)		\$ 8,066,972
Loss Adjustment Expenses (Note 4)		1,767,415
Other Expenses		25,371
Taxes, Licenses and Fees		<u>70,328</u>
Total Liabilities		<u>\$ 9,930,086</u>
Subscriber Deposit	280,568	
Unassigned funds (surplus)	<u>\$ (34,091)</u>	
Total Surplus		<u>246,477</u>
Total Liabilities, Surplus and Other Funds		<u>\$10,176,563</u>

STATEMENT OF INCOME  
For The Year Ending December 31, 2006

Statement of Income

<u>Underwriting Income</u>	
Premiums earned	\$ <u>4,611,773</u>
Deduct:	
Losses Incurred	\$ 4,469,513
Loss Expenses Incurred	290,317
Other Underwriting Expenses Incurred	<u>231,854</u>
Total Underwriting Deductions	<u>\$ 4,991,684</u>
Net Underwriting Gain (Loss)	<u>\$ (379,911)</u>
<u>Investment Income</u>	
Net Investment Income Earned	\$ 349,763
Net Realized Capital Gains (Losses)	<u>97,031</u>
Net Investment Gain (Loss)	<u>\$ 446,794</u>
<u>Other Income</u>	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	\$ 0
Miscellaneous Income (Loss)	<u>0</u>
Total Other Income	<u>\$ 0</u>
Net Gain From Operations Before Dividends and Federal Income Taxes	\$ 66,883
Dividends to policyholders	<u>0</u>
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	\$ 66,883
Federal Income Taxes Incurred	<u>0</u>
Net Income (Loss)	<u>\$ 66,883</u>

CAPITAL AND SURPLUS ACCOUNT  
For the Year Ending December 31, 2006

Surplus, December 31, 2005	\$ <u>107,237</u>
Net Income (Loss)	\$ 66,883
Net Unrealized Capital Gain (Losses)	75,721
Change in net deferred income tax	(25,053)
Change in non-admitted assets	21,689
Other Adjustments	<u>0</u>
Net change in surplus for the year	<u>\$ 139,240</u>
Rounding	0
Surplus, December 31, 2006	<u>\$ 246,477</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	<u>\$284,178*</u>	<u>\$ 64,294</u>	<u>\$231,284</u>	<u>\$225,149</u>	<u>\$107,237</u>
Net income	0	0	(3,600)	30,394	66,883
Change in unrealized gains (losses)	(203,620)	156,740	(10,598)	(146,052)	75,721
Change in net deferred income tax	(16,264)	449,586	7,970	16,826	(25,053)
Change in non-admitted assets	0	(439,336)	93	(19,081)	21,689
Other Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change for the Year	<u>(219,884)</u>	<u>\$166,990</u>	<u>\$ (6,135)</u>	<u>\$(117,913)</u>	<u>\$139,240</u>
Rounding	0	0	0	1	0
Current Year Surplus, December 31	<u>\$ 64,294</u>	<u>\$231,284</u>	<u>\$225,149</u>	<u>\$107,237</u>	<u>\$246,477*</u>

\* Per Examination

## NOTES TO FINANCIAL STATEMENTS

Bonds (Note 1) \$5,212,286

During the examination period the Exchange has had a steady growth in its bonds. They increased from \$3,011,670 in 2002 to \$5,212,286 in 2006. The Exchange has mainly U. S. government bonds and one long term CD.

Common Stock (Note 2) \$1,472,878

The Exchange does invest in some common stock. The common stock total has remained fairly consistent from year to year. In 2002 the Exchange had \$1,074,071 and in 2005 it had \$1,472,878. The Exchange does not have any stock in excess of that allowed by Idaho Code Section 41-714.

Cash and Short-term Investments (Note 3) \$2,114,475

The Exchange has \$251,851 in its checking accounts and CD's, one Money Market account for \$1,375,124, and short term investments of \$487,500. These amounts were properly reported on Schedule DA, Part 1 and Schedule E, Part 1 of the 2006 Annual Statement.

Losses (Note 4) \$8,066,972

Loss Adjustment Expenses (Note 4) \$1,767,415

At December 31, 2006, the Exchange's loss reserve and loss adjustment expense reserve totaled \$9,834,387 (see above for detail). The Idaho Department of Insurance deemed Todd Blake, the Attorney-in-Fact, qualified to sign the actuarial report for 2006. The examiner reviewed the methods used to calculate the reserves and found that the total has a redundancy of approximately \$465,000. Therefore, the examiner concluded that the total reserve balance of \$9,834,387 should be accepted as reported.

## SUMMARY, COMMENTS, AND RECOMMENDATIONS

### Summary

The results of the examination disclosed that as of December 31, 2006, the Exchange had admitted assets of \$10,176,563, liabilities of \$9,930,086, and surplus as regards policyholders of \$246,477. The Exchange was in compliance with the minimum capital and surplus requirements of Idaho Code Sections 41-313A and 41-2930.

### Comments and Recommendations

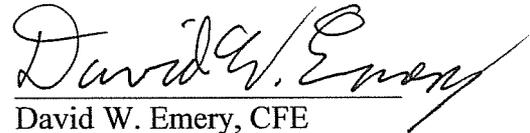
<u>Page</u>	<u>Description</u>
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- |   |  |
|---|--|
| 5 | <u>Conflict of Interest</u> It is recommended that Mr. Blake, as Attorney-in-Fact, complete a conflict of interest statement annually. |
|---|--|

CONCLUSION

The courteous assistance and cooperation extended by the Exchange's Attorney-in-fact and staff during the course of this examination is acknowledged and appreciated.

Respectfully submitted,

A handwritten signature in black ink that reads "David W. Emery". The signature is written in a cursive style with a long, sweeping tail on the letter "y".

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

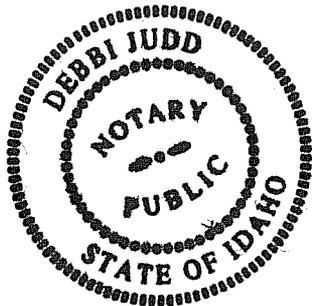
AFFIDAVIT OF EXAMINER

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

Subscribed and sworn to before me the 25<sup>th</sup> day of February, 2008 at Boise, Idaho



Debbi Judd  
Notary Public

My commission Expires: 7/30/2010

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

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WILLIAM W. DEAL  
Director  
2008 FEB 28 AM 9:57  
STATE OF IDAHO  
DEPT OF INSURANCE

**WAIVER**

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

**Workers Compensation Exchange  
1901 Idaho Street  
Lewiston, Idaho 83501**

By executing this Waiver, the Exchange hereby acknowledges receipt of the above-described examination report, verified as of the 25th day of February 2008, 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 26 day of February, 2008

Todd Blake

Name (print)

[Signature]

Name (signature)

Attorney-in-Fact

Title

EXHIBIT

**B**