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FILED

FEB 29 2012

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:	Docket No. 18-2740-12
The Surplus Line Association of Idaho, Inc. (a non-profit Idaho corporation)	**ORDER ADOPTING REPORT OF LIMITED SCOPE EXAMINATION AS OF DECEMBER 31, 2009**

The Report of Limited Scope Examination as of December 31, 2009 (Report) of the Surplus Line Association of Idaho, Inc. (the Association) was completed by an examiner of the Idaho Department of Insurance (Department) and signed the 3rd day of January 2012 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) copy of the Report was filed with the Department effective January 3, 2012. The verified report was transmitted electronically to the Association on January 4, 2012. The final report, attached hereto and incorporated herein in full and identified as Exhibit A, is identical to the verified report.

Pursuant to Idaho Code § 41-227(4), the Association was afforded a reasonable opportunity to review the verified examination report and to make written submissions regarding relevant matters contained within the Report. No written submissions or rebuttals were received from the Association regarding the verified report.

WAIVER

Attached hereto and incorporated herein as Exhibit B is a Waiver signed by the Manager of the Association, Ms. Wendy Tippetts. The Waiver was executed (signed) on January 4, 2012, with an electronic copy being received by the Department on January 4, 2012. Based upon the Waiver/Exhibit B, this is a final order, and the Association has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above-described Report of Limited Scope 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 29th day of February, 2012.

IDAHO DEPARTMENT OF INSURANCE

by _____
WILLIAM W. DEAL, Director

CERTIFICATE OF SERVICE

I hereby certify that on this 29TH day of February 2012, I caused to be served the foregoing document on the following parties in the manner set forth below:

Ms. Wendy Tippetts, Manager	X	certified mail
595 South 14th Street		first class mail
Boise, Idaho 83705		hand delivery
e-mail: wendy@idahosurplusline.org	X	e-mail

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

William R. Michels, MBA, CPA, CFE
Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF LIMITED SCOPE EXAMINATION

of

SURPLUS LINE ASSOCIATION OF IDAHO, INC.
(a non-profit corporation)

as of

December 31, 2009

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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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State of Idaho

WILLIAM W. DEAL
Director

Boise, Idaho
January 3, 2012

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Idaho, an examination has been made of the administrative affairs, books, records and financial condition of:

SURPLUS LINE ASSOCIATION OF IDAHO, INC.
595 South 14th Street
Boise, Idaho 83702

hereinafter referred to as the "Association," at its offices in Boise, Idaho.

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This limited scope examination covered the period from January 1, 2005, through December 31, 2009, and consisted of a general review of the Association's operations, practices and compliance procedures.

The examination was conducted at the Boise, Idaho office of the Association's professional manager, Association Services Group, Inc. (ASG). The examination was conducted pursuant to Idaho Administrative Code (IDAPA) 18.01.17, section (011(04)(d).

The Association is incorporated as a not-for-profit organization which, is under the general supervision of the Department of Insurance, State of Idaho, and has had delegated to it the responsibility for determination of eligibility for export of particular proposed coverages to eligible unauthorized insurers (see IDAPA 18.01.17(011)(01)) and to more effectively enforce the provisions of the surplus line brokers' laws.

No annual statements are required to be filed with the Department. However, financial statements, prepared by an independent certified public accountant, are to be filed annually with the Department.

PRIOR EXAMINATION

The prior examination (limited scope) was conducted by the State of Idaho and covered the period of January 1, 1999, through December 31, 2004.

A review was made to ascertain what action was taken by the Association with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Association.

HISTORY AND DESCRIPTION

The Association was first organized January 1, 1958, and is regulated under Title 41, Chapter 12, Idaho Code, Unauthorized Insurers and Surplus Lines; IDAPA 18.01.17, Surplus Lines – Delegation of Responsibility; and IDAPA 18.01.18, Open Lines for Export – Surplus Lines.

The Association was incorporated under the laws of the State of Idaho as a not-for-profit corporation on March 12, 1972. The Association received its tax exemption certificate from the federal Internal Revenue Service in December, 1972, under Internal Revenue Code Section 501(c)(6).

The objects and purposes of the Association as set forth in the Association's Amended and Restated Articles of Incorporation dated August 18, 1997 and filed with the Idaho Secretary of State on October 3, 1997, include the following:

1. To facilitate and encourage compliance by licensed surplus lines brokers who are members of the corporation, and insofar as possible by non-members, with the laws of Idaho and the rules and regulations of the Director of the Department of Insurance of the State of Idaho relative to surplus lines insurance, and to discourage and prevent violations of said laws, rules, and regulations.

2. To encourage fair dealing among members and with the public and admitted insurance carriers in the State of Idaho.

3. To the extent permitted by law, to cooperate with recognized organizations of admitted insurance carriers for the proper use of the surplus line market by members of the corporation and, as far as possible, by non-members.

4. To provide means for the examination of all surplus line coverage written by members on Idaho risks, to determine whether such coverages comply with such laws and regulations.

5. To receive and disseminate to members information that may legally be disseminated about surplus coverages, laws, rules, regulations and the interpretation or application thereof, and information about such other surplus line matters as may be legal and of value and interest to the members.

6. To receive from any and all available sources funds for the development and furtherance of the objects and purposes enumerated herein.

MANAGEMENT AND CONTROL

Any person licensed as a surplus line broker under the laws of the State of Idaho shall become a member of the Association, upon notification from the Idaho Department of Insurance. Membership in the Association shall automatically terminate upon a member's ceasing to become a surplus line broker. The Association shall be organized without capital stock. Membership shall not entitle a person to any interest in the assets of the Association, but only to participate in the management of the affairs. All rights of the members shall be equal.

The annual meeting of the membership shall be held in conjunction with the Independent Insurance Agents convention to be held annually in the month of August, or at such other time as may be determined by the Board of Directors. A member may vote in person at each annual meeting. Each member shall be entitled to one vote.

The Association's Amended and Restated Articles of Incorporation set forth that the governing body of this corporation shall be managed and conducted by a Board of Directors of not less than three persons, the exact number of persons to serve on such Board to be specified in the Bylaws. The Amended Bylaws state that the business affairs of the Corporation shall be managed by a Board of Directors consisting of nine members.

Board of Directors

The business affairs of the Association shall be managed by a Board of Directors consisting of nine members, which shall automatically include the President, Vice President/President-Elect, Secretary-Treasurer, and the immediate Past President. Five directors elected to the Board of Directors shall represent the five geographical areas of the State of Idaho.

The nine members serving on the Board as of the date of this examination and through the completion of the examination fieldwork are as follows:

Directors and Location	Association Position and Affiliation
Scott O. Packham Blackfoot, ID	President
Tim Obenchain Twin Falls, ID	Vice President/President-Elect
Ron Howell Pocatello, ID	Secretary/Treasurer
Darrell Kerby Bonners Ferry, ID	Immediate Past President
Ken Koep Coeur d'Alene, ID	Director – Region 1
Mike Martin Lewiston, ID	Director – Region 2
Gail Johnson Boise, ID	Director – Region 3
Bill Assendrup Buhl, ID	Director – Region 4
Deray Perry Idaho Falls, ID	Director – Region 5

Officers

According to the amended Bylaws, the officers of the Association shall be the President, Vice President/President-Elect, Secretary/Treasurer and Immediate Past President. They will be elected by the membership at the Annual Meeting and hold office for a term of one year, until the next annual meeting. The Vice President/President-Elect shall serve three consecutive terms.

Officers serving at December 31, 2009, and through the completion of the examination fieldwork are as follows:

Scott O. Packham	President
Tim Obenchain	Vice President/President-Elect
Ron Howell	Secretary/Treasurer
Darrell Kerby	Immediate Past President

Committees

The amended Bylaws state that the Corporation may select an Executive Committee consisting of members selected by the Board of Directors.

Members of the executive committee serving at December 31, 2009, and through the completion of the examination fieldwork are the four officers aforementioned.

Conflict of Interest

The Association adopted a conflict of interest policy, which required the officers and directors to disclose annually, on a prescribed written form, any conflict. Any director having a duality of interest or possible conflict shall not vote nor use his or her influence in any way. A review of the documents for the period under examination indicated that the forms were completed by all officers and directors on a yearly basis. No potential conflicts of interest were noted on the forms during the review.

Contracts and Agreements

As of December 31, 2009, the Association was a party to a management agreement with Association Services Group, Inc. (ASG). The agreement was entered into on June 20, 2007 and covered the period January 1, 2008 through December 31, 2010 (three year period). ASG is a management firm providing a variety of managerial and other services to trade associations. Pursuant to the agreement the management services provided include the following:

a. Secretarial and bookkeeping services which include deposits and making all disbursements;
b. Maintain the books and records of the Association, including preparing financial statements and coordinating with the Association accountants;
c. Monitor State of Idaho legislative sessions on issues of concern to the Association and provide no less than one registered lobbyist to lobby on those issues identified by the Association;
d. Maintain a library of insurance-related materials;
e. Prepare no less than 3 newsletters per year;
f. Assist in no less than one board meeting per year by preparing the meeting agenda and the minutes, and having at least one ASG employee attend each meeting;

g. Process all surplus line submissions in accordance with the "Manual of the Surplus Line Association of Idaho;"
h. Provide workers' compensation for employees of ASG.

ASG will perform such additional duties as agreed between the parties as the representative of the Association with and between other segments of the insurance industry; communicate with and between members of the Association; and provide planning and administrative assistance to all committees of the Association.

The fee paid to ASG was $160,000 annually or $13,333.33 monthly for the services provided, plus reimbursement of any extraordinary expenses commencing January 1, 2008. From January 1, 2005 through December 31, 2007, the fee paid to ASG was $140,000 annually or $11,666.67 per month. Payments are due the first of each month.

The agreement may be terminated by either party for material breach upon 90 days written notice. ASG may terminate the agreement upon 90 days written notice to the Association if a pending sale of the service business occurs.

ASG may not assign this contract without the prior written consent of the Association, which consent shall not be unreasonably withheld. The agreement is binding on all successors and assigns of the parties.

On July 22, 2010, the Association entered into another management agreement with ASG, which was effective commencing January 1, 2011 through December 31, 2014. This agreement is identical to the prior agreement in which the management fee remains at $160,000 per year or $13,333.33 per month. This agreement was signed and dated by the President of the Board and the President of ASG.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The restated Articles of Incorporation and amended Bylaws were reviewed for the period covered by this examination. The articles currently in effect were dated August 18, 1997 and were filed with the Idaho Secretary of State on October 3, 1997. The Second Amended Bylaws were adopted by the Board of Directors on August 17, 1998.

The Association is required to file any changes to its Articles of Incorporation, Bylaws, Rules and Procedures for prior approval with the Director of the Idaho Department of Insurance, as required by IDAPA 18.01.17.011.04(a). During the period covered by this examination, there were no changes or amendments made to the Association's Articles of Incorporation.

In 2005, the Department approved the Association's request to an amendment to Article XVII, Funds and Disbursements, of the Association's bylaws. The approval was for the addition of the underlined wording indicated below:

(4) Disbursements for the funds of the corporation shall be subject to approval of the board of directors. The board of directors shall audit or review, or cause to be audited or reviewed, the accounts of the corporation prior to each annual meeting of its members and in its discretion, at any other time. A report of such annual audit or review shall be presented at the annual meeting. All persons responsible for the handling of funds shall be bonded in an amount to be determined by the board of directors.

Minutes of Meetings

The minutes of meetings of the Association's members and Board of Directors were reviewed for the examination period. The review indicated that the meetings were held in compliance with the Bylaws.

GROWTH OF THE ASSOCIATION

The following schedule reflects the growth of the Association, as reported in the Association's audited financial statements, for the respective years as indicated in the following schedule:

Year	2005	2006	2007	2008	2009
Net Unrestricted Assets, Prior Year	$1,727,304	$1,862,322	$2,093,837	$2,244,405	$2,293,672
Change During Year	135,018	231,515	150,568	49,267	(51,723)
Net Unrestricted Assets, Current Year	$1,862,322	$2,093,837	$2,244,405	$2,293,672	$2,241,949

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2009, the Association is a named insured on the following coverages:

Description	**Limits**
Employee Dishonesty/Blanket Bond Insurer: Travelers Casualty and Surety Company of America	$1,000,000 $10,000 deductible
Directors & Officers Liability Policy including employment practices liability Insurer: Great American Insurance Company	$3,000,000 aggregate limit of liability subject to a $0 retention; $2,500 retention on employment practices liability
Business Owners Package Policy	Property:

Insurer: Cincinnati Insurance Company	-Building - $275,000 -Bus. Per. Property - $112,000 Liability Limits: -Occurrence Limit - $2,000,000 each occurrence -Aggregate Limit - $4,000,000 all occurrences -Personal & Advertising - $2,000,000 any one person or organization -Personal & Advertising Aggregate - $4,000,000 all offenses -Damage to Premises rented - $2,000,000

The fidelity coverage exceeds the minimum amount recommended in the NAIC Financial Condition Examiners Handbook for an organization of this size. The other coverages have limits that the Association's management deemed appropriate.

All of the issuing companies are authorized in Idaho.

The manager of the Association completed the Fraud Certification indicating that the Association had not suffered any loss resulting from a dishonest or fraudulent act during the examination period.

INSURANCE PRODUCTS & RELATED PRACTICES

Stamping Fees

The Association charges members a "stamping fee" for processing each surplus line policy written. The fee is based on the premium charged for the policy. The stamping fees charged are used to maintain and operate the Association. The stamping fee and the state premium tax rate in effect at December 31, 2009 were: Stamping Fee, .25% (1/4 percent); State Premium Tax. 2.75%.

The stamping fee was reduced from .5% to .25% effective July 1, 2007. This was approved by the Association's Board of Directors at their meeting held on March 20, 2006.

The Stamping Fees and other charges are allowed, with the approval of the Director of the Idaho Department of Insurance, pursuant to IDAPA 18.01.17.011.03.

The following schedule summarizes the Association's net income, stamping fee revenue and management fees paid during the examination period:

Year	Net Income	Revenue-Stamping Fee	Expense-Management Fees
2005	$112,604	$364,006	$140,000
2006	$232,222	$418,103	$140,000
2007	$150,264	$311,513	$140,000
2008	$ 49,388	$204,959	$160,000
2009	$ (51,723)	$181,794	$160,000

Authorized Surplus Line Insurers

A comparison was made of the Association's white list per their computer file and as listed on the Association's website to the Department's white list on February 9, 2011; no differences were noted [Note:the white list is a list of eligible surplus line insurers approved by the Idaho Insurance Director pursuant to Idaho Code 41-1217 (2)]. The Association updated its white list when new information was received from the Department. It also did a reconciliation between its white list and the Department's white list quarterly.

Licensed Surplus Line Brokers

The Association has procedures in place to examine each submission from licensed Idaho Surplus Line Brokers to assure compliance with IDAPA 18.01.17.011.02, and Idaho Code Section 41-1217. The Association utilizes the listing of eligible surplus line insurers, which has been compiled by the Director, to assure that the insurers utilized are so eligible for all business placed by each broker.

The brokers on the Association's list were traced to the Department's listing of surplus line brokers, dated February 11, 2011. No discrepancies were noted.

Based on the aforementioned reviews, the Association was in compliance with Surplus Lines – Delegation of Responsibility rules.

Diligent Search

The Association has established a process which requires each broker to execute an electronic affidavit in compliance with Idaho Code Section 41-1215 and IDAPA Section 18.01.18.011.02 when an insurance policy is sent. The language in the affidavit was reviewed and was determined to be in compliance with the aforementioned code section and rule.

ACCOUNTS AND RECORDS

General Accounting

Records and files were, in general, well maintained and were kept on a cash basis. The Association used in-house personal computers to maintain its accounting records. The Association utilized QuickBooks Pro and Microsoft Access software. Stamping and premium tax data is generated by a program written by Current Software of Reno, Nevada, which utilizes the data maintained in Access files. The computer system produces a general ledger, trial balance, balance sheet, income statement and journal entries on a monthly basis. Cash receipts and disbursements records are maintained through the QuickBooks Pro software.

Independent Accountants

Jones, France, Basterrechea & Brush, Chtd., located at Gooding, Idaho was the Association's independent accountant who expressed the audit opinion on the Association's financial

statements during the periods under examination. Jason Coles, CPA, Boise, Idaho, was subcontracted by Jones, France, Basterrechea & Brush, Chtd. to perform the annual audit of the Association.

The independent accountant's report, issued for the year ending December 31, 2009, indicated that the balance sheet and related statement of revenues, expenses and changes in net assets were prepared on a modified cash basis, which is "*a comprehensive basis of accounting other than generally accepted accounting principles.*" The report further stated that the financial statements presented fairly, in all material respects, the assets, liabilities, and net assets of the Association as of December 31, 2009, and its revenues and expenses for the year ended 2009.

Further, the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance in compliance with IDAPA 18.01.17.011.04 (d).

The independent accountant's 2009 work papers were made available for this examination. Based on the Department's limited scope examination, nothing came to its attention that would preclude reliance upon the independent accountant's report.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2009

Statement of Revenues, Expenses and Change in Unrestricted Assets for the year ended December 31, 2009

BALANCE SHEET
As of December 31, 2009

ASSETS

Cash	$ 54,496
Short-term investments, at market	2,139,319
Property and equipment, at cost, less accumulated depreciation	48,134
Total Assets	$2,241,949

LIABILITIES AND NET ASSETS

Net Assets	
Unrestricted:	
Designated Funds (See Notes to Financial Statements)	$1,000,000
Undesignated	1,241,949
	$2,241,949

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN UNRESTRICTED ASSETS
Year ended December 31, 2009

Unrestricted Revenues and Other Support:	
Stamping fees	$181,794
Investment income	19,235
Rent	10,800
Other	103,344
Total Revenues	$315,173
Expenses:	
Management fees	$160,000
Depreciation	10,651
Insurance	4,225
Legal and accounting	13,513
Maintenance	22,092
Western States expenses	87,886
Office expenses	772
Travel	53,704
Other expenses	14,053
Total Expenses	$366,896
Net Change (reduction) in Unrestricted Net Assets	$ (51,723)

NET UNRESTRICTED ASSETS

Unrestricted Net Assets, Beginning of Year	$2,293,672
Net Change (reduction) During Year	(51,723)
Unrestricted Net Assets, End of Year	$2,241,949

NOTES TO THE FINANCIAL STATEMENTS

Designated Funds - $1,000,000:
Designated funds include resources available for current operations that have been set aside by the Association's Board of Directors. The funds are designated for indemnification for unforeseen litigation as well as purchasing and maintaining equipment for use in the operations of the Association.

SUMMARY

Summary

As of December 31, 2009, the Association had unrestricted assets of $2,241,949. Title 41, Idaho Code does not have a minimum capital and surplus requirement for the Association.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Association's manager in conducting the examination.

Respectfully submitted,

Kelvin Ko, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

State of Idaho

Ada County

Kelvin Ko, 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 Surplus Line Association of Idaho, Inc. for the period from January 1, 2005 through December 31, 2009, 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.

Kelvin Ko

Kelvin Ko, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 3 day of January, 2012 at Boise, Idaho

JOHN C. KEENAN NOTARY PUBLIC STATE OF IDAHO

John Keenan
Notary Public of Idaho
Comm. Expires 30 October 2013

EXHIBIT B

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2009, of the:

SURPLUS LINE ASSOCIATION OF IDAHO, INC.

595 SOUTH 14TH ST

BOISE, IDAHO 83702

By executing this Waiver, the *Surplus Line Association of Idaho, Inc.* hereby acknowledges receipt of the above-described examination report, verified as of the 3rd day of January 2012, 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 Association 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 4 day of Jan, 2012

Wendy Tippetts
Name (print)

Wendy Tippetts
Name (signature)

Manager
Title.