

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY (the "Company") as of June 30, 2008, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Thomas R. Sullivan, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes;
2. CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY ("Company") is a domestic insurer authorized to transact the business of insurance in the State of Connecticut;
3. On April 24, 2009, the verified Examination Report of CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY ("Company") was filed with the Connecticut Insurance Department.
4. In accordance with Conn. Gen. Statutes §38a-14(e) (3), CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 26, 2009, the Company notified the Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Examination Report of CONNECTICUT INERLOCAL RISK MANAGEMENT AGENCY (“Company”) hereby is adopted as filed with the Insurance Department.
2. That CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY (“Company”) shall comply with all of the recommendations set forth in the Report, and that CONNECTICUT RISK MANAGEMENT AGENCY (“Company”) to so comply shall result in sanctions or administrative action as provided by Title 38a of the Connecticut General Statutes.

Dated at Hartford, Connecticut this 1st day of June, 2009.

A handwritten signature in black ink, appearing to read 'Tom R. Sullivan', written over a horizontal line.

Thomas R. Sullivan,
Insurance Commissioner

REPORT OF EXAMINATION

OF

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

AS OF

JUNE 30, 2008

BY THE

CONNECTICUT INSURANCE DEPARTMENT

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

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April 16, 2009

The Honorable Thomas R. Sullivan
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 7th Floor
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Sections 38a-14 and 7-479e(d) of the Connecticut General Statutes (CGS), the undersigned has made an examination of the conditions and affairs of the

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

(hereinafter referred to as the Agency, or CIRMA), an unincorporated, tax-exempt, nonprofit association, organized under the laws of the State of Connecticut and having its home office and its main administrative office located at 900 Chapel Street, New Haven, Connecticut 06510. The report on such examination is submitted herewith.

The current examination, which covers the four-year period from July 1, 2004 through June 30, 2008, was conducted at the Agency's main administrative office.

SCOPE OF EXAMINATION

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Division) reviewed the following material submitted by the Agency:

- Material included in the June 30, 2008 audit report by the Agency's certified public accountants, Carlin, Charron & Rosen, LLP (CCR);
- Minutes of the meetings of the Board of Directors (Board); and
- A review of the Agency's 2007 and 2008 statutory audit opinions.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Division.

Workpapers prepared by CCR, in connection with its annual statutory audit, were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the National Association of Insurance Commissioners (NAIC) Financial Examiners Handbook (the Handbook).

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals, or for totals to agree with captioned amounts, is due to rounding.

HISTORY

CIRMA is an unincorporated tax-exempt non-profit association formed in 1980 by the Connecticut Conference of Municipalities (CCM) for the purpose of establishing and administering an interlocal risk management program pursuant to the provisions of Section 7-479e, Chapter 113a of the CGS. Under the terms of this section the Agency is not considered to be an insurer. However, in accordance with Section 7-479e(d) of the CGS, the Agency is subject to the following relevant insurance sections of the CGS: 38a-11; 38a-14; 38a-17 to 38a-19, inclusive; 38a-49; 38a-51 to 38a-53 inclusive; 38a-56; 38a-76; 38a-321; 38a-334 to 38a-336a, inclusive; 38a-338; 38a-340 to 38a-343 inclusive; 38a-350; 38a-363 to 38a-387, inclusive; 38a-663 to 38a-666, inclusive; 38a-669; 38a-671; 38a-675 to 38a-682, inclusive; 38a-790; 38a-792; 38a-806; 38a-815 to 38a-819, inclusive; and 38a-828. In addition, CGS Section 3-56a is also applicable.

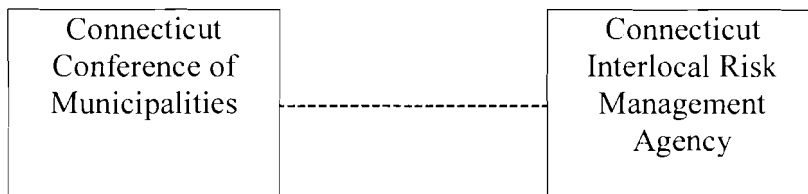
Pursuant to CGS, any Connecticut municipality may become a member of CIRMA provided it agrees to comply with the bylaws and the rules and regulations of CIRMA. Any municipality which becomes a member of CIRMA may continue to be a member so long as it complies with the bylaws and the rules and regulations of CIRMA. The rules and regulations include standards and specifications for loss control. Each member of the CIRMA Board is either an elected official or manager of an entity that is a member of CIRMA. CIRMA's Board of Directors are elected by CIRMA's membership each year at the annual meeting.

CIRMA commenced operations on July 1, 1980, providing a comprehensive workers' compensation insurance program to Connecticut municipalities and other local public agencies through a workers' compensation risk-sharing pool. Effective July 1, 1986, CIRMA began offering liability, automobile and property coverage to its members through a liability-automobile-property (LAP) risk-sharing pool.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

ORGANIZATIONAL CHART

The following is an organizational chart as of June 30, 2008, of the Agency and its affiliate association:



MANAGEMENT AND CONTROL

The bylaws are promulgated to create an interlocal risk management agency, which may establish and operate such interlocal risk management pools as are permitted by CGS. The general objectives of the Agency are to formulate, develop and administer an interlocal risk management program for the membership, to assure the availability of adequate coverage for liability, automobile, property and workers' compensation, to lower costs of such coverage, to provide a program of loss prevention and control services and to provide claims administration services.

The Agency shall be nonprofit and all funds in excess of expenses and costs of loss control activities and reasonable reserves, required by law or established by the Board, shall be used to reduce the cost of risk protection for the members.

Each member shall be represented by a permanent representative who shall be the chief executive officer of each municipality or the chief administrative officer of each other local public agency, or his or her designee. Any permanent representative may designate in writing a representative to cast his or her vote.

On any question, including the election of directors, each member shall have one vote, except that on any question, including the election of directors, any municipality may request a weighted vote; the chairman shall grant such request. The greater population of either the latest decennial census or the state health department estimate shall determine weighting.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Annual Meetings

The annual meeting shall be for election of directors. At the annual meeting or any other meeting, any matter set forth in the notice of the meeting may be addressed. One-third of the members or fifteen members, whichever is less, who are present in person at any meeting shall constitute a quorum.

Special meetings of the Board may be called by the chairman or chief executive officer or by the Board and shall be called upon the written request of members having not less than 50% of the total members' weighted voting rights.

A notice in writing of each meeting, stating the purpose, place, day and hour of the meeting, shall be sent by the president or secretary to each member by mail, postage prepaid, not less than fifteen days before the date of the meeting.

Board of Directors

According to the bylaws, the business of the Agency shall be managed by or under the direction of the Board. The Board shall consist of such number (not less than five) of directors as may be established by the Board from time to time. Each person who is nominated for the Board of CIRMA shall be a member of the CCM Board. The Board members shall be elected at the annual meeting of the members.

The Board shall elect a chairman and vice chairman from its members and designate a secretary to keep minutes and records of the Board. The secretary need not be a director of CIRMA.

Directors serving the Agency at June 30, 2008 were:

<u>Director</u>	<u>Title and Business Affiliation</u>
Timothy C. Griswold Old Lyme, CT	Chairman and First Selectman, Old Lyme
Michael Stupinski Ellington, CT	Vice Chairman and First Selectman, Ellington
Martin H. Berliner Storrs, CT	Town Manager, Mansfield
Ryan Bingham Torrington, CT	Mayor, Torrington
Woody Bliss Weston, CT	First Selectman, Weston
Mark D. Boughton Danbury, CT	Mayor, Danbury

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Director

Susan Bransfield
Portland, CT

Title and Business Affiliation

First Selectwoman, Portland

Stephen T. Cassano
Manchester, CT

Selectman, Manchester

Frank J. Chiaramonte
Harwinton, CT

First Selectman, Harwinton

Melody A. Currey
East Hartford, CT

Mayor, East Hartford

John DeStefano, Jr.
New Haven, CT

Mayor, New Haven

John Elsesser
Coventry, CT

Town Manager, Coventry

Matthew B. Galligan
South Windsor, CT

Town Manager, South Windsor

Sebastian Giuliano
Middletown, CT

Mayor, Middletown

Mary Glassman
Simsbury, CT

First Selectman, Simsbury

Cynthia Mangini
Enfield, CT

Councilmember, Enfield

Michael Pace
Old Saybrook, CT

First Selectman, Old Saybrook

Elizabeth C. Paterson
Mansfield, CT

Mayor, Mansfield

David A. Pinney
Somers, CT

First Selectman, Somers

Herbert C. Rosenthal
Newtown, CT

Selectman, Newtown

Philip K. Schenck, Jr.
Avon, CT

Town Manager, Avon

Peter Tesei
Greenwich, CT

First Selectman, Greenwich

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Director

John Weichsel
Southington, CT

Title and Business Affiliation

Town Manager, Southington

Mr. Steven Werbner
Tolland, CT

Town Manager, Tolland

Company Officers and Key Employees

The officers serving the Agency at June 30, 2008 were:

Name

Bruce A. Wollschlager
Frank F. Coulom, Jr., Esq.
Stuart A. English
Steven Bixler
Bruce H. Clinger
David J. Demchak

Title

President and Chief Executive Officer
Secretary
Chief Financial Officer
Assistant Secretary and Vice President
Vice President
Vice President

Committees

The committees to the Agency's Board and the committee members as of June 30, 2008 were as follows:

Budget and Audit

Timothy C. Griswold,
Chairperson
Martin Berliner
Stephen T. Cassano
Melody A. Currey
Eizabeth C. Peterson
Herbert C. Rosenthal
Philip K. Schenck, Jr.
Michael Stupinski
John Weichsel

Claims Advisory

Daniel Roche,
Chairperson
Alan Desmarais
Harold Alvord
Cindy Bennett
Gary Conrad
Nicholas J. DiCorleto, Jr.
John Elsesser
Art Giulietti
Thomas Kulhawik
Geoffrey McAlmond Robert
Milano
Denise Menard
Andrea O'Connor
Rita Umile

Investment

Anna Johnson
Chairperson
Beth Bauer
Bruce Benway
Martin Berliner
Frank J. Chiaramonte
Judy Donciko
Ed Gomeau
Wayne McAllister
James Reynolds
Advisor:
Daniel Smereck
Managing Director --
Strategic Asset Alliance

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Risk Control Advisory

Arthur Baker, *Chairperson*
Harold Alvory
Barbara Aube
Michael Barker
Jack Casner
Janette E. Devendorf
Jeanette J. Deschesnes
Joanne Douglas
Joanne Drag
Catherine Fanucchi
Ralph Fletcher
Laura Francis
Thomas Galliford
David R. Gofstein
Cherly Jones-Pickering Wendy
LaMontagne
Glenn Marston
Stephen Pendl
Mark Pietrosimone
Ray Purtell
Kirk Severance
Ed Soper
Michael Spera
J. Darren Stewart
Fred Thumm
Michael Turner
Patricia Washington
Mark Walter
Dawn Warner
Michael Wilknsn

Consultants:

Harold T. LeMay
Accreditation Program Manager
Gilbert Fried, M.A., J.D., D.A.F.E
Keith Havermayer, Concentra
Integrated Services Inc.
Mary C. McCarthy
Training Coordinator
Richard Murray, MSPT
Director – Area Therapy
Richard Palo
Director
CONN-OSHA
Elliot B. Spector, Esq., Sack,
Spector & Barrett

Operations and Underwriting

Matthew Galligan, *Chairperson*
Beth Bauer
Rob Buden
Jared Clark
Dan Garrick
Matthew Hart
Roland Laine
Thomas Landry
Tonya Levesque
Tim McCaffrey
Denise Menard
William Smith
William Strachan
George Sylvestre
Claudia Tata
Michael Wilkinson
Consultant:
Kimberly Mitchell, Deloitte
& Touche, LLP

School Districts Advisory

Julie Pendleton, *Chairperson*
Steve Wapen
Michael Barker
Beverly Caparco
Daniel Clarke
Nancy Cole
Frank Connolly
Paul Engemann
Greg J. Florio
Art Giuliatti
Linda Giuliano
Nancy Haynes
David Holden
Timothy Howes
Anthony Littizzio
William Mazzara
Charles McCarthy
Salvatore F. Menzo
Sharon Milroy
Doreen Munsell
Dr. Ernest Perlini
James Saisa
Jane Regina
Dr. Kenneth Russell Roy
Lt. Michael Spera
Marilyn Warren
Consultant:
Thomas Gerarde
Howd & Ludorf, LLC
Dr. H. Kaye Griffin

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

INSURANCE COVERAGE

The directors and officers of the Agency are insured by a financial institution bond issued by the St. Paul Fire and Marine Insurance Company. The aggregate limit of liability on the policy was \$1.25 million at June 30, 2008, and the bond meets the suggested minimum limits of insurance per the Handbook. In addition to the fidelity bond insurance, the Agency is protected by the following insurance coverages:

<u>Company</u>	<u>Insurance coverage</u>
St. Paul Mercury Insurance Company	Fiduciary liability
Peerless Insurance Company	Computer
General Casualty Company of Wisconsin	Commercial marketplace property and liability, business automobile and umbrella
The Hartford Casualty Insurance Company	Workers compensation and employee liability
Lloyds of London	Errors and Omissions and Directors and Officers

TERRITORY AND PLAN OF OPERATION

The Agency is authorized to transact business in the state of Connecticut. CIRMA provides an interlocal risk management program to member local public agencies and provides a plan and activities to reduce the risk of loss from public liability or workers' compensation liability. The Agency administers two risk management pools, including the processing and defense of claims brought against members of the Agency.

Underwriting, funding, rate and price-setting policies have been established with assistance from consulting actuaries. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

As of June 30, 2008, there were a total of 216 members of the workers' compensation pool (117 municipalities and 99 other local public agencies) and a total of 157 members of the LAP pool (113 municipalities and 44 other local public agencies). In addition, CIRMA provided services to seven self-insured municipalities in 2008.

RELATED PARTIES

CIRMA was organized under the sponsorship of CCM. Under a management services agreement, CCM provides to CIRMA all management, administrative personnel and services not otherwise separately contracted for by CIRMA. Services provided include management, administration, finance, regulatory relations, member relations, workers' compensation underwriting, liability and property underwriting, loss control, promotion and marketing, record keeping, reporting, administrative support, office space, equipment and supplies. The aggregate service fees charged to CIRMA were \$12.01 million for the fiscal year ended June 30, 2008.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

REINSURANCE

SUMMARY of SIGNIFICANT REINSURANCE PROGRAMS

Program\Type	Cover*	Retention	Comments
Workers' Compensation	Statutory	\$1,000,000	Excess of loss (Per occurrence)
General Liability:			
Law enforcement & auto liability	\$10,000,000	\$1,000,000	Excess of loss (with ultimate net loss based on per occurrence, by member and line of business)
Sexual abuse	\$5,000,000	\$1,000,000	Excess of loss (with ultimate net loss based on per claim per member)
Employers	\$5,000,000	\$1,000,000	Excess of loss (with ultimate net loss based on per occurrence per member)
Overall Cap	\$40,000,000	n/a	Cap based on any one occurrence or claim made
Property:			
Primary commercial	\$100,000,000	\$250,000 subject to a \$1,500,000 annual aggregate (\$250,000/\$1,500,000)#	Excess of loss (with ultimate net loss based on per occurrence)
Sub-limits:			
Flood	\$10,000,000	\$250,000/\$1,500,000 #	Per occurrence
Earthquake	\$10,000,000	\$250,000/\$1,500,000 #	Per occurrence
Mold	\$25,000,000	\$250,000/\$1,500,000 #	Per occurrence
If aggregate exhausted		\$10,000	Per occurrence
Second excess	\$400,000,000 x \$100,000,000	\$250,000/\$1,500,000	Facultative excess of loss
If aggregate exhausted		\$10,000	
Equipment breakdown (boiler & machinery)	\$100,000,000		Net loss based on any one accident
Terrorism:			
	Statutory	\$1,000,000	Per occurrence

* Reinsurance cover represents the maximum limit available under a particular agreement.

Loss Adjustment Expense (LAE) not included in the retention limits.

During the Division's review of the Agency's reinsurance contracts the following exceptions were noted:

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

- Certain agreements were not in compliance with required payment terms and termination clauses as required within SSAP 62 paragraph 6(b) and SSAP 62 paragraph 6(d)if the NAIC AP&P Manual respectively.

SSAP 62 6(b) requires reinsurance agreements to contain time schedules, currencies intended and the rights of the parties to withhold funds, while 6(d) requires that agreements contain cut-off or run-off termination clauses. A cut-off provision stipulates that the reinsurer shall not be liable for loss as a result of occurrences taking place after the date of termination, while a run-off provision stipulates that the reinsurer shall remain liable for loss under reinsured policies in force at the date of termination as a result of occurrences taking place after the date of termination until such time as the agreements expire or are canceled.

It is recommended the Agency verify that all reinsurance contracts are in compliance with SSAP 62 paragraph 6.

- Certain agreements did not contain an executed signature.

It is recommended the Agency verify that all its reinsurance contracts are complete and contain an executed signature from an Agency officer in order to comply with SSAP 62 .

INFORMATION SYSTEMS AND OTHER CONTROLS

A review was conducted to evaluate information systems (IS) general and other control policies and procedures established by the Agency. The review focused on the i Valley Oak System (iVOS) – AON the Agency’s primary premium, loss and reinsurance data processing system. The Division reviewed the supporting documentation in conjunction with the Evaluation of the IS Controls Questionnaire, as contained in the Handbook.

The areas of review included: management control, organizational control, changes to applications, system and program development, operations, documentation, logical and physical security, outside service center, contingency planning and wide area network and internet.

No exceptions were noted that would affect the overall reliance on the Agency’s IS general and other controls. However, the Division recommended the implementation of certain control policies and procedures that would improve the overall effectiveness of the IS control environment. The following exceptions were noted:

- During the Division’s review of the Company’s information security policy (SP) and security standard (SS), it was noted that the SS was dated December 22, 2008, while the SP was last updated in 2001. It is recommended that the SP be updated to reflect the current IT environment and be reviewed annually to determine if it appropriately reflects the changing IT environment.
- During the Division’s review of the Company’s business recovery plan (Plan), it was noted that sections of the Plan have not been updated since 2006; in addition the Plan has

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

not been tested since August 2006. Annual reviews of the Plan are key to maintaining the Plan's ability to be executed properly during a time of disaster. Subtle changes, such as recovery personnel phone number information, can impact the execution of the Plan. In addition, regular testing of the Plan will aid in determining whether key components of the recovery process are adequate. It is recommended that the Plan be updated and tested annually.

ACCOUNTS AND RECORDS

The Agency records all financial accounting transactions using the Microsoft Dynamics Great Plains (MDGP) Software. MDGP is the official book of records for all the Agency's financial accounting operations.

The majority of accounting transactions within MDGP originate from computerized sales, cash receipts and payment transactions. Other cash transactions, including claim payments, are entered through summarized general journal entries. Data needed for the recording of claim payments and for billing of premiums is generated by various administrative systems. The Agency's administrative system is iVOS-AON.

Each general journal entry is reviewed and approved by authorized personnel before being posted to the MDGP. Staff within the financial department are responsible for the final monthly review of the Agency's MDGP before financial information is released. Financial department personnel prepare reconciliations either monthly or quarterly. General expenses are allocated according to classification, function and line.

Various accounting reports are produced on a quarterly basis for generally accepted accounting principles, statutory accounting principles and management reporting purposes.

The system used to create the annual statement is Booke Seminars' The Complete Package for Windows.

The year-end trial balance for June 30, 2008 was reconciled to the annual statement.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

FINANCIAL STATEMENTS

The following statements reflect the assets, liabilities, surplus and other funds as of June 30, 2008, and net income and changes in capital and surplus for the year then ended as reported by the Agency and as determined by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$153,408,279		\$153,408,279
Common stocks	32,123,629		32,123,629
Cash, cash equivalents and short-term investments	24,367,130		24,367,130
Other invested assets	1,458,100		1,458,100
Receivable for securities	589,101		589,101
Subtotal, cash and invested assets	211,946,239		211,946,239
Investment income due and accrued	1,496,707		1,496,707
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	821,688	\$315,589	506,099
Deferred premiums, agents' balances and installments booked but deferred and not yet due	608,989	77,500	531,489
Accrued retrospective premiums	175,000	17,500	157,500
Reinsurance:			
Amounts recoverable from reinsurers	2,400,971		2,400,971
Amounts receivable relating to uninsured plans	16		16
Aggregate write-ins for other than invested assets	3,900,830	411,950	3,488,881
Total	\$221,350,442	\$822,538	\$220,527,903

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 132,333,821
Loss adjustment expenses	30,078,475
Other expenses	1,361,114
Advance premiums	316,225
Ceded reinsurance premiums payable	532,540
Amounts withheld or retained by company for account of others	295,975
Liability for amounts held under uninsured plans	342,636
Total liabilities	165,260,786
Aggregate write-ins for special surplus funds	12,521,992
Aggregate write-ins for other than special surplus funds	2,350,000
Unassigned funds (surplus)	40,395,125
Surplus as regards policyholders	55,267,117
Total	\$220,527,903

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$62,330,952
DEDUCTIONS	
Losses incurred	39,879,079
Loss expenses incurred	16,898,010
Other underwriting expenses incurred	8,669,309
Total underwriting deductions	65,446,398
Net underwriting gain or (loss)	(3,115,446)
INVESTMENT INCOME	
Net investment income earned	8,963,544
Net realized capital gains	2,095,709
Net investment gain	11,059,253
OTHER INCOME	
Aggregate write-ins for miscellaneous income	116,039
Total other income	116,039
Net income	8,059,846
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, June 30, 2007	52,786,152
GAINS AND (LOSSES) IN SURPLUS	
Net income	8,059,846
Change in net unrealized capital gains or (losses)	(6,522,275)
Change in nonadmitted assets	1,028,394
Surplus adjustments -	
Paid in	(85,000)
Change in surplus as regards policyholders for the year	2,480,965
Surplus as regards policyholders, June 30, 2008	\$55,267,117

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS \$ 24,367,130

Consistent with findings of the prior examination, dated June 30, 2004, the Agency does not have documented procedures to accurately and timely escheat funds and therefore has failed to report outstanding checks as unclaimed property to the Treasurer of the State of Connecticut as required by CGS Section 3-58(b). During the Division’s review of the Agency’s cash operating accounts, it was noted that checks exceeding three years in age were prevalent.

CGS section 3-58(b) states in part that “unclaimed funds means all monies held and owing by any insurance company unclaimed and unpaid for more than three years after the monies became due and payable.....”

It is recommended that the Agency prepare procedures to ensure the timely escheatment of unclaimed property as required by CGS 3-58(b).

AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS \$3,488,881

This line item is comprised of the following:

Claim recoveries receivable (CRR)	\$ 2,589,378
Accounts held for self insured members	342,619
Service fees receivable (SFR)	<u>556,883</u>
Total	<u>\$ 3,488,880</u>

During the Division’s review of the Agency’s premium receivable aging reconciliation report, it was noted that the Agency did not properly report SFR and CRR account balances. SFR balances are the result of charges to self insured members for the Third Party Administrative (TPA) services provided by the Agency, while CRR balances consist of two components; claims recoveries and reimbursable deductibles. CRR recoveries consist of heart and hypertension claims paid on behalf of the members and later recovered from the policy members while reimbursable deductibles are policy deductibles paid by the Agency and then reimbursed by the members.

The Agency erroneously overstated SFR by \$239,000 which should be reclassified to CRR.

It is recommended that the Agency properly report SFR and CRR amounts within proper write-in annual statement lines in all future reporting periods.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

<u>LOSSES</u>	<u>\$132,333,821</u>
<u>LAE</u>	<u>\$30,078,475</u>

The Division conducted a comprehensive actuarial analysis of the loss and LAE reserves of the Agency to examine the methods and assumptions employed by the Agency to derive an indicated net loss and LAE reserve level. The actuarial analysis was conducted in accordance with accepted loss reserving standards and principles. In performing the analysis, testing was conducted to verify the accuracy of the data included in Schedule P of the Agency's 2008 Annual Statement (Schedule P). It was concluded that Schedule P data could be relied upon in the analysis of the loss and LAE reserves.

The table below shows the carried amounts by statutory line of business as presented in Part 2A of the Underwriting and Investment Exhibit of the Agency's 2008 Annual Statement. During the review of the recent history of the Agency, it was noted that IRIS reserve development tests showed stability in carried amounts in years since the last examination. Capital adequacy measures also reflected strong and stable history for the Agency.

CIRMA Net Carried Loss & LAE Reserves at 6/2008 (000s omitted)				
Annual Statement <u>Line of Business</u>	Net Carried Reserves (000s omitted)			Line of business as a percent of Total
	<u>Loss</u>	<u>LAE</u>	<u>Total</u>	
Workers' compensation	\$88,576	\$11,207	\$99,783	61%
Commercial auto liability	6,060	1,026	7,086	4%
Commercial multi-peril	754	231	985	1%
Other liability – occurrence	29,835	9,890	39,725	24%
Other liability – claims made	5,811	7,560	13,371	8%
Auto property damage	1,297	165	1,462	1%
All other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0%</u>
Total	\$132,333	\$30,079	\$162,412	100%

The following documents provided by the Agency were reviewed during the Division's actuarial analysis:

- The Annual Statement as of June 30, 2008;
- CIRMA's 2007-2008 Annual Report;
- The Statement of Actuarial Opinion and the Risk Based Capital Report;
- Loss and LAE analyses prepared by the Agency's actuarial consultant (AC), Deloitte Consulting LLP, for the current and prior years;
- Rate analyses prepared by the AC for the current and prior years.
- The Schedule P reconciliation of data used for actuarial analysis.

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The Division reviewed the analysis prepared by the AC. Agency management relies primarily on the analysis of the AC in making its decisions regarding carried Loss and LAE liabilities in its annual statement. Estimates of ultimate loss relied on standard actuarial methodologies of loss development and exposure based expected loss methods. Historical paid and incurred losses were used in the projections. The Division reviewed the calculations within the analysis and found no material errors. In addition, selected development factors and ultimate losses were determined to be reasonable. The actuarial analysis is considered appropriate for the exposures of the Agency.

The Division then developed independent estimates of the net loss and LAE reserves using Schedule P data. The accuracy of the data included in Schedule P was verified by the Division. Based on the results of testing, it was concluded that Schedule P data is fairly presented.

Based on the analysis completed, the Division concluded that the Agency's carried net loss and LAE reserves are reasonable.

<u>AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS</u>	<u>\$ 12,521,992</u>
<u>AGGREGATE WRITE-INS FOR OTHER THAN</u>	
<u>SPECIAL SURPLUS FUNDS</u>	<u>\$ 2,350,000</u>
<u>UNASSIGNED FUNDS (SURPLUS)</u>	<u>\$40,395,125</u>
<u>SURPLUS AS REGARDS POLICYHOLDERS</u>	<u>\$55,267,117</u>

The following table reflects changes in the components of surplus as regards policyholders for years ended June 30 of each year under review:

	Restricted By Statute	Appropriated For Self Insurance	Restricted for Contingencies & Excess Retention	Unassigned Funds (Surplus)	Total Capital & Surplus
June 30, 2008	12,521,992	2,350,000	0	40,395,125	55,267,117
June 30, 2007	12,511,496	2,350,000	0	37,924,655	52,786,151
June 30, 2006	11,870,346	2,350,000	0	29,504,102	43,724,448
June 30, 2005	11,528,211	2,350,000	0	22,639,331	36,517,542
June 30, 2004	8,239,244	2,350,000	0	21,353,698	31,942,942

Restricted by statute:

A portion of members' equity from both the workers compensation (WC) pool and for the liability-automobile-property (LAP) pool is required to be restricted as a reserve for contingencies, in accordance with CGS 7-479e(c). This amount is not available for distribution to members unless operations are terminated.

Appropriated for self-insurance:

During 1987-88, CIRMA's Board appropriated \$100,000 of unrestricted members' equity from the agency account to provide a self-insurance reserve for the deductible portion of CIRMA's errors and omissions insurance policy.

A restriction for self insurance was created by a vote of the Board. During 1989-90, CIRMA ceased purchasing aggregate workers' compensation coverage from NLC Mutual Insurance Company and held a \$2 million restricted equity reserve for workers' compensation contingencies.

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The reserve was increased during 1996-97 when CIRMA allocated \$250,000 of LAP Pool members' equity toward a self-insured property aggregate fund to protect CIRMA in the event of a catastrophe that would cause multiple losses as a result of one occurrence in one policy year.

COMMENTS AND RECOMMENDATIONS

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9 REINSURANCE

- It is recommended the Agency verify that all reinsurance contracts are in compliance with SSAP 62 paragraph 6.
- It is recommended the Agency verify that all its reinsurance contracts are complete and contain an executed signature from an Agency officer in order to comply with SSAP 62 .

10 INFORMATION SYSTEMS AND OTHER CONTROLS

- It is recommended that the SP be updated to reflect the current IT environment and be reviewed annually to determine if it appropriately reflects the changing IT environment.
- It is recommended that the business recovery plan be updated and tested annually.

14 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

It is recommended that the Agency prepare procedures to ensure the timely escheatment of unclaimed property as required by CGS 3-58(b).

14 AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

It is recommended that the Agency properly report SFR and CRR amounts within proper write-in annual statement lines in all future reporting periods.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

CONCLUSION

The results of the examination disclosed that as of June 30, 2008 the Agency had:

Admitted assets	<u>\$220,527,903</u>
Liabilities	<u>165,260,786</u>
Aggregate write-ins for special surplus funds	12,521,992
Aggregate write-ins for other than special surplus funds	2,350,000
Unassigned funds (surplus)	<u>40,395,125</u>
Surplus as regards policyholders	<u>55,267,117</u>
Total liabilities and surplus as regards policyholders	<u>\$220,527,903</u>

During the period under examination, admitted assets increased by \$91,425,333, liabilities increased by \$ 68,101,158 and surplus as regards policyholders increased by \$23,324,175. It was determined that the Company's assets were fairly stated in accordance with the guidance outlined in the Manual and were acceptable under applicable sections of the CGS. The liabilities established were adequate to cover the Company's obligations to contract holders.

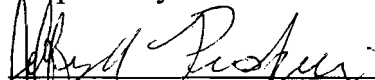
CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

SIGNATURE

In addition to the undersigned, the following participated in this examination: Clyde Hayden, CFE; Chiffon King, Kenneth Roulier, CISA; Wayne Shepherd, CFE and Richard Marcks, FCAS, MAAA.

I, Jeffrey Prosperi, CFE, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of June 30, 2008, to the best of my information, knowledge and belief.

Respectfully Submitted



Jeffrey A. Prosperi, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut
County of Hartford

ss. Hartford

Subscribed and sworn to before me, Patricia Butler, Notary Public, on this 24th day of April, 2009.



Notary Public

My commission expires September 30, 2013