

FOR NORTH DAKOTA. FOR LOCAL GOVERNMENT. FOR YOU.

North Dakota Insurance Reserve Fund
2018 Annual Report





Dear NDIRF Member:

The North Dakota Insurance Reserve Fund (NDIRF) is providing this copy of its 2018 Annual Report to inform you of the Fund's activities and financial performance in the past year.

The NDIRF operates with a mission of being the source of risk services for North Dakota political subdivisions. It is because of the efforts of NDIRF members and staff that the NDIRF has been able to fulfill that mission for the past 33 years. In this report, we will describe some of the activities showing those efforts in action. As you will see, the collaboration between the NDIRF and its members is truly unique and one of the many reasons why the NDIRF remains the best risk financing option available to North Dakota's local governmental entities.

It is my privilege to communicate to you that the NDIRF remains in very strong financial health. The following report will provide more detail to elaborate on that statement. If you would like additional information beyond what is included in this report, the 2018 audited financial statements are available on the NDIRF website at www.ndirf.com/ndirf-info/financials.

On behalf of the NDIRF Board of Directors and staff, thank you for your continued participation in the NDIRF.

Sincerely,

Brennan Quintus
Chief Executive Officer
North Dakota Insurance Reserve Fund

MEMBERSHIP

All political subdivisions in North Dakota are eligible for membership in the NDIRF. Distribution of NDIRF membership by entity-type covers the broad spectrum of all categories of local government and the relative premium distribution among them has remained very stable historically. **(Fig. 1)**

In 2018, 2,558 local governmental entities participated in the NDIRF. This number means that well over 90% of the entities eligible for membership have become part-owners of the NDIRF through their purchase of coverage. **(Fig. 2)**

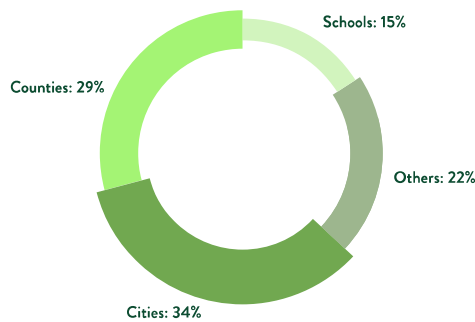


Fig. 1 - Member Premium Distribution

CONFERMENT OF BENEFITS

The NDIRF is pleased to be able to share its good years with its members through the Conferment of Benefits program. Over the past 25 years, since instituting this program, the Fund has paid out over \$61.5 million in benefits to members.

While we understand this to be a valued feature of membership in the NDIRF, due to the volume of loss activity over the past few years, the NDIRF surplus growth has not kept pace with the levels required to declare a conferment of benefits to NDIRF members. So, unfortunately, the NDIRF Board of Directors did not declare a conferment of benefits for 2018. With that being said, the **NDIRF maintains very strong financial health.**

The conferment of benefits is not reflective of the NDIRF's financial health, overall, but reflective of the NDIRF's annual surplus level in relation to the surplus level requirement to declare a conferment of benefits set by the NDIRF Board of Directors. The NDIRF maintains over \$20 million in surplus which significantly exceeds the level required to meet a 90% confidence level in the opinion of the NDIRF's actuarial consultant.

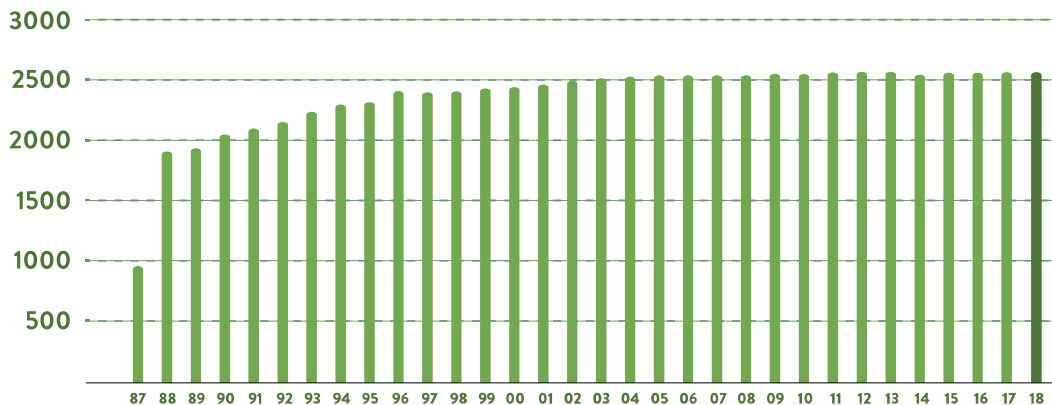


Fig. 2 - NDIRF Membership

PREMIUMS AND LOSSES

Unlike the tendency of commercial insurance pricing to sometimes vary dramatically from year to year, the NDIRF's rates have historically remained quite stable. For example, we did not react immediately to dramatically increased claim loss in 2015 and 2016 with a general rate increase – the NDIRF staff chose to review an additional year of experience (2017) to better determine whether 2015 and 2016 incurred losses were an anomaly or if the results of those years represented a trend in the making. Following another year of higher than normal loss activity in 2017, however, a general rate increase was sought by NDIRF staff. The combination of the general rate increase and increases to the value of covered autos and equipment provided the NDIRF with a 10.9% increase in written premium for 2018. **(Fig. 3)**

Losses in 2018 fell in line with what NDIRF has determined to be a new normal **(Fig. 4)**. The NDIRF experienced \$8.7 million in total losses which produced a loss ratio of just over 57% **(Fig. 5)**. Liability losses contributed significantly to the overall total loss amount with \$5.9 million in losses and an 82% loss ratio. Law enforcement, corrections, contractual dispute, and employment-related claim activity continue to lead to the high Liability loss ratio and will continue to be addressed through NDIRF loss control activity. Automobile and Public Assets loss activity were at a much more palatable level, which can, in part, be attributed to the NDIRF emphasis on Automobile and Public Assets loss control activity through Defensive Driving courses and other loss control programs. Automobile losses came in at \$2.5 million producing a 39% loss ratio and Public Assets losses

finished 2017 at \$306,000 producing a loss ratio of 18%.

The more serious claims (claims reserved at \$10,000 or higher) open at any point in time continue to be higher than average, highlighting the trend toward a consistently higher level of claim activity and expense. The significant increase in population North Dakota has experienced in a relatively short time, while very beneficial to our state in many ways, continues to be a significant contributor to NDIRF loss activity.

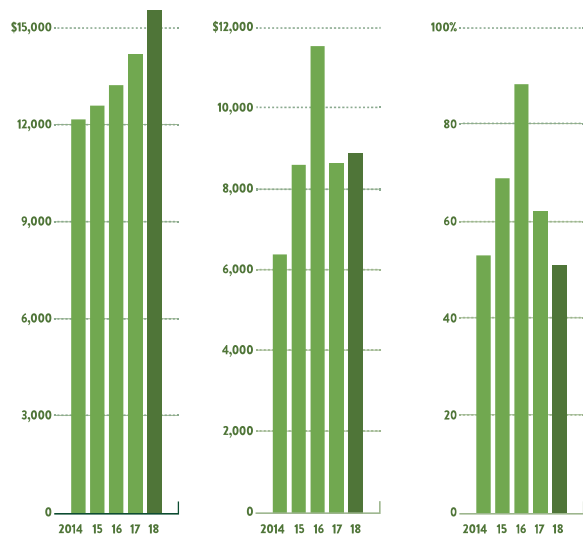


Fig. 3 - Net Written Premium [in thousands]

Fig. 4 - Losses [in thousands]

Fig. 5 - Loss Ratios

INVESTMENTS

The NDIRF's investment portfolio, as of December 31, 2018, was distributed 79% in fixed income; 13% in equities; and 8% in cash or equivalents. The quality of the fixed income portfolio is high, with an average S&P quality rating of AA/A.

Overall, the NDIRF investment portfolio provided a -.88% total return in 2018 as compared to +5.4% for the prior year. Fixed income investment returns (.52%) dropped from 2017's 2.7% while significantly lower returns from the NDIRF's equity investments – moving from a 24.3% return in 2017 to -8.6% in 2018 – caused the total portfolio return to swing from \$2 million of investment income in 2017 to a \$343,000 investment loss in 2018. The good news is that these losses are primarily unrealized – that is, the NDIRF did not sell its holdings into a down market and is still receiving dividend and interest income from its portfolio without interruption.

Reporting the NDIRF's investment portfolio at market value, especially the fixed-income portion (as has been required since 1998), rather than at amortized cost can result in wide variations of investment income. A strategy of including and maintaining a limited equity exposure in the portfolio has proven quite effective, over time, as a relatively small equity position frequently tends to counterbalance significant unrealized fixed-income market swings caused principally by fluctuating interest rates. It did not, however, work that way in 2018, but as the financial markets work through the aftermath of 2018 and recover over time, we expect the NDIRF's investments to regain significant value.

EARNINGS AND EQUITY

With loss levels remaining stable and the general rate increase contributing to an increase in earned premium, the NDIRF ended 2018 with a net income of \$404,899. (Fig. 6)

Members' equity increased to approximately \$20.1 million. The gradual addition to members' equity from 2009-2015 – in recognition of the possibility of an eventual increase in claims due to population growth – was designed to provide continued strength and stability of members' equity, even as the NDIRF found it necessary to use some of it in 2016 to offset the unprecedented loss activity. Fortunately, the results in 2017 and 2018 allowed for the reduction in 2016 to be negated and the NDIRF has now reached surplus levels not seen since 2015. With continued success, the NDIRF members' equity levels will again fall back in line with levels that will allow for a conferment of benefits.

The Fund's consulting actuaries indicate that the current level of members' equity provides an outstanding confidence level (well in excess of 90%) that all expected future obligations can be met. (Fig. 7)

A review of the NDIRF's entire thirty three year history regarding total revenues, net earnings, total assets and members' equity provides a graphic representation of the growth, maturity and overall success enjoyed by the NDIRF and its membership. (Figs. 8 and 9)

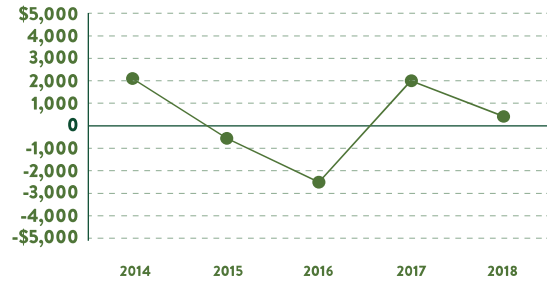


Fig. 6 - Net Earnings [in thousands]

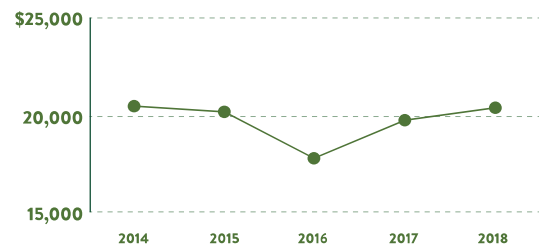


Fig. 7 - Members' Equity [in thousands]

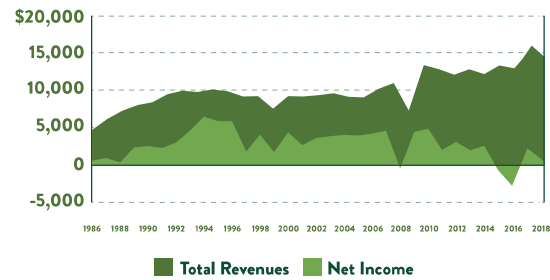


Fig. 8 - 33 Year Revenues [in thousands]

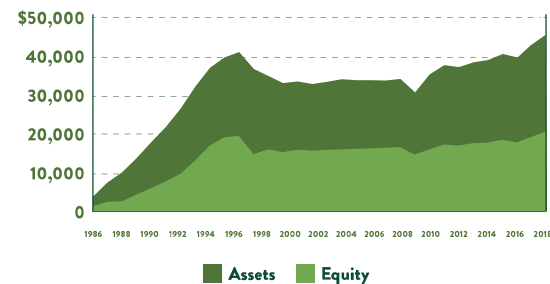


Fig. 9 - 33 Year Balance Sheet [in thousands]

TRAINING

In 2018, the NDIRF continued its commitment to assist members in controlling their cost of risk through appropriate training opportunities. This effort was substantial and included providing information and assistance to thousands of officials and employees of Fund members on the following subjects:

- Defensive driving
- Employment practices
- Road maintenance
- Law enforcement liability
- Playground safety
- Special coverage issues for specific member groups

Development and maintenance of online handbooks regarding employment practices and procedures, in addition to the live presentation of HR-related information to local government groups, have had a real impact and continued to be supported by the NDIRF in 2018. Internet-available documents are hosted on the NDIRF's website, regularly updated and linked to the websites of statewide political subdivision associations such as the ND Association of Counties, ND League of Cities, ND Recreation & Parks Association and ND School Boards Association.

Since 2009, the NDIRF has been committed to a partnership with the North Dakota Firefighter's Association to bring emergency vehicle operations training to firefighters on a regional-availability basis, including the use of driving simulators. In 2018, this effort continued to grow and resulted in training opportunities for North Dakota firefighters at locations convenient to them.

The NDIRF also continues to support the North Dakota Local Technical Assistance Program (NDLTAP) in their efforts to educate local officials and employees regarding road maintenance and signage. In addition to funding, the NDIRF also provides support through its member services staff.

All of these tools are intended to assist NDIRF members in meeting and dealing successfully with the multitude of challenges they encounter.

CONCLUSION

Since commencing operations in 1986, the NDIRF has consolidated its claim as **the stable source of risk services to local government in North Dakota.** Over the past 33 years, the NDIRF has proven its ability to meet a critical need for our members. As you have seen from this report, even though the prior few years have been challenging, the NDIRF and its staff are positioned very well to continue to be the provider of dependable risk services to North Dakota's political subdivisions well into the future. We look forward to working with our members to build upon the strength and stability that the past 33 years have created.



The **NDIRF** partners with the North Dakota Local Technical Assistance Program (NDLTAP) to provide relevant, quality education to NDIRF member employees and officials. Pictured here you can see Mark Verke, NDIRF Member Services Representative, providing classroom training about NDIRF claims experience to a group of NDLTAP event attendees and also pictured is one of the various hands-on training opportunities the NDLTAP provides.

NDIRF employees participate in a multitude of political subdivision association events throughout the year. Pictured here are Corey Olson, NDIRF Director of Member Services (right), and Mark Verke, NDIRF Member Services Representative (left), attending the North Dakota School Boards Association Annual Conference in Bismarck.



BOARD OF DIRECTORS

AND MEMBER AFFILIATION



Randy Bina
Chairperson
Others



Chris West
Chairperson-Elect
Cities



Blake Crosby
Cities



Darcie Huwe
Cities



Burdell Johnson
Others



Scott Ouradnik
Counties



Bruce Strinden
Counties



Terry Traynor
Counties



Independent Auditor's Report

The Board of Directors
North Dakota Insurance Reserve Fund
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Insurance Reserve Fund, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Insurance Reserve Fund as of December 31, 2018 and 2017, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fargo, North Dakota
March 15, 2019

North Dakota Insurance Reserve Fund
Balance Sheets
December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Assets		
Cash and cash equivalents - Note 3	\$ 3,748	\$ 1,403
Investments - Note 4	39,069	39,123
Agents' balances	491	456
Interest receivable	220	218
Deferred policy acquisition costs - Note 5	695	628
Land, building and equipment, net - Note 6	711	668
Other assets	230	221
	\$ 45,164	\$ 42,717
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 24	\$ 23
Conferment payable - Note 7	1	1
Accrued expenses	153	151
Unearned premiums	5,630	5,084
Reserve for losses	12,842	11,743
Reserve for incurred but not reported losses	6,376	5,982
	25,026	22,984
Net Assets		
Without member restrictions	20,138	19,733
	\$ 45,164	\$ 42,717

North Dakota Insurance Reserve Fund
 Statements of Activities
 Years Ended December 31, 2018 and 2017
 (Dollars in Thousands)

	2018	2017
Revenues		
Premiums earned	\$ 15,225	\$ 13,928
Expenses		
Losses and loss adjustment expenses	8,738	8,664
Underwriting and administrative	5,739	5,350
Total expenses	14,477	14,014
Revenues over (under) Expenses	748	(86)
Nonoperating Revenues (Expenses)		
Investment income, net of investment expenses of \$100 and \$97 in 2018 and 2017, respectively	961	920
Realized and unrealized gains (losses) on investments, net	(1,304)	1,132
Total nonoperating revenues (expenses)	(343)	2,052
Change in Net Assets Without Member Restrictions	405	1,966
Unrestricted Net Assets, Beginning of Year	19,733	17,767
Unrestricted Net Assets, End of Year	\$ 20,138	\$ 19,733

North Dakota Insurance Reserve Fund
Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 405	\$ 1,966
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	94	72
Realized and unrealized (gain) loss on investments	1,304	(1,132)
Changes in assets and liabilities		
Agents' balances	(35)	(21)
Interest receivable	(2)	13
Deferred policy acquisition costs	(67)	(39)
Other assets	(9)	(36)
Losses and loss adjustment expenses	1,099	(426)
Incurred but not reported losses	394	427
Unearned premiums	546	314
Accounts payable	1	-
Accrued expenses	2	2
	3,732	1,140
Net Cash provided by Operating Activities		
Cash Flows from Investing Activities		
Purchase of investments	(10,725)	(11,884)
Proceeds from sale and maturities of investments	9,475	10,917
Purchase of property and equipment	(137)	(5)
	(1,387)	(972)
Net Cash used in Investing Activities		
Net Change in Cash and Cash Equivalents	2,345	168
Cash and Cash Equivalents at Beginning of Year	1,403	1,235
Cash and Cash Equivalents at End of Year	\$ 3,748	\$ 1,403

MISSION

The NDIRF is the source of risk services for
North Dakota political subdivisions.



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