

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Community Blood Centers' Exchange, Risk Retention Group )  
728 North State Street )  
Greenfield, Indiana 46140 )

Examination of: **Community Blood Centers' Exchange, Risk Retention Group**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Community Blood Centers' Exchange, Risk Retention Group (hereinafter "Company") for the time period January 1, 2013 through December 31, 2017.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on March 25, 2019.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 6, 2019 and was received by the Company on June 6, 2019.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Community Blood Centers' Exchange, Risk Retention Group as of December 31, 2017.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Community Blood Centers' Exchange, Risk Retention Group to comply with the laws of the State of Indiana.

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728 North State Street )  
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Examination of: **Community Blood Centers' Exchange, Risk Retention Group**

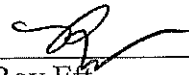
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Community Blood Centers' Exchange, Risk Retention Group, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 6, 2019, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Community Blood Centers' Exchange, Risk Retention Group shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 13, 2019  
Date

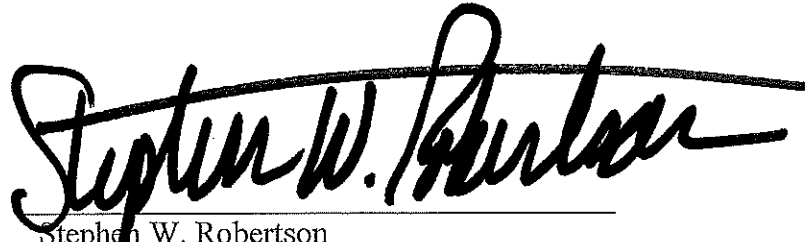
  
Roy Eff  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4444 0809**

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 13 day of June, 2019.


  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A large, stylized handwritten signature in black ink, appearing to be a name with a prominent initial.A smaller, more compact handwritten signature in black ink.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

**COMMUNITY BLOOD CENTERS' EXCHANGE, RISK  
RETENTION GROUP**  
NAIC COMPANY CODE 13893

As of

December 31, 2017

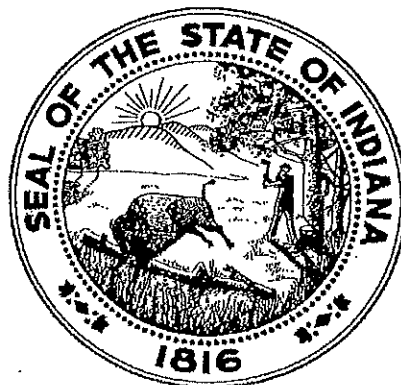


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
LOSS EXPERIENCE.....	4
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	5
Corporate Governance.....	6
CONFLICT OF INTEREST.....	6
OATH OF OFFICE.....	6
CORPORATE RECORDS.....	6
Articles of Incorporation.....	6
Bylaws.....	6
Minutes.....	7
AFFILIATED COMPANIES.....	7
Organizational Structure.....	7
Affiliated Agreements.....	8
FIDELITY BOND AND OTHER INSURANCE.....	8
STATUTORY AND SPECIAL DEPOSITS.....	9
REINSURANCE.....	9
Reinsurance Ceded.....	9
RESERVES.....	9
ACCOUNTS AND RECORDS.....	10
FINANCIAL EXHIBITS.....	11
FINANCIAL STATEMENTS.....	12
Assets.....	12
Liabilities, Surplus and Other Funds.....	13
Statement of Income.....	14
Capital and Surplus Account.....	15
COMMENTS ON THE FINANCIAL STATEMENTS.....	16
OTHER SIGNIFICANT FINDINGS.....	16
SUBSEQUENT EVENTS.....	16
MANAGEMENT REPRESENTATION.....	16
AFFIDAVIT.....	17



# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

## Indiana Department of Insurance

Stephen W. Robertson, Commissioner

311 W. Washington Street, Suite 103

Indianapolis, Indiana 46204-2787

Telephone: 317-232-2385

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March 25, 2019

Honorable Stephen W. Robertson  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3978, an examination has been made of the affairs and financial condition of:

**Community Blood Centers' Exchange, Risk Retention Group**  
728 North State Street  
Greenfield, Indiana 46140

hereinafter referred to as the "Company," an Indiana domestic reciprocal and risk retention group that is regulated as a property and casualty insurance company. The examination was conducted at the main administrative offices of the Company located on 702 North Shore Drive, Suite 500, Jeffersonville, Indiana

The Report of Examination, showing the status of the Company as of December 31, 2017, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413	COMPANY COMPLIANCE 317-232-3495	CONSUMER SERVICES 317-232-2395/1-800-622-4461	FINANCIAL SERVICES 317-232-2390	MEDICAL MALPRACTICE 317-232-2402	COMPANY RECORDS 317-232-5692	STATE HEALTH INSURANCE PROGRAM 1-800-452-4800
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2012. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2013 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Conner Ash P.C. for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Meg Glenn, FCAS, MAAA, and Gregory Fanoie, FCAS, MAAA, of Merlinos & Associates, Inc., consulting actuaries appointed by the INDOI conducted a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2017.

In accordance with the 2017 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, Thomas Consulting performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated on October 9, 1992 as an Indiana domiciled inter-insurance reciprocal exchange and commenced business on August 1, 1993. The Company provides coverage under the Federal Liability Risk Retention Act of 1986 (15 U.S.C. § 3901 et seq.), which allows a risk retention group to operate on a nationwide basis.

The Company is managed by its Attorney-in-Fact (AIF), which provides general and professional liability insurance to not-for-profit community blood centers. All policyholders are "members" of the AIF and "subscribers" to the Company. The Company currently writes coverage for 32 blood centers in 19 states.

## CAPITAL AND SURPLUS

As of December 31, 2017, the Company's capital and surplus of \$ 15,588,973 consisted of \$2,815,734 in subscriber contributions, \$7,115,600 in surplus notes, \$2,524,026 in subordinated debentures and unassigned funds of \$3,133,613.

Subscribers are required to make a cash contribution to the surplus of the Company. These capital contributions may be paid in lump sums or in installments over three (3) years and are recognized by the Company when received. Additional surplus contributions from the subscribers may be required at the



request of the Board of Directors and are subject to limitations set forth in the subscriber's agreements. Upon withdrawal from the Company, the Company has the option of converting a subscriber's contributed surplus to a subordinated debenture. The Company then has the option of paying the principal on these subordinated debentures in five (5) equal annual payments beginning five (5) years after the year of withdrawal.

As of December 31, 2017, the Company's surplus notes resulted from rollovers and distribution from subscriber savings accounts, in addition to an incentive renewal credit. The notes bear interest at a rate determined annually by the Board of Directors. In 2017, with the prior approval of the INDOI, the Company distributed \$1,089,250 to subscribers from surplus notes.

The subordinated debentures issued to withdrawing subscribers are subject to downward adjustments five (5) years after withdrawal, are non-interest bearing, and may be paid in equal installments over the next five (5) years. All payments are subject to the prior approval of the INDOI.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in Indiana and is registered in 33 other states to write business under the Federal Liability Risk Retention Act of 1986. In all other states in which the Company issues policies, it registers and operates as a foreign risk retention group. The Company writes professional liability, general liability, and network security (cyber) liability coverage. The professional liability and general liability coverage is written on a claims-made basis to not-for-profit community blood centers licensed by the FDA with deductibles ranging from \$25,000 to \$100,000, with an upper policy limit of \$5,000,000. Cyber coverage was added in 2010 in order to provide blood centers coverage for network security and patient privacy issues.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>	<u>Net Underwriting Gain/Loss</u>	<u>Net Income</u>
2017	\$19,310,745	\$3,721,772	\$15,588,973	\$996,082	\$1,284,885
2016	19,375,370	4,323,785	15,051,585	1,002,738	1,257,832
2015	20,370,687	4,155,443	16,215,244	2,922,138	3,272,653
2014	22,183,296	7,469,134	14,714,162	2,524,449	2,998,255
2013	21,449,618	8,411,917	13,037,702	1,024,020	1,350,979

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

## LOSS EXPERIENCE

The following exhibit summarizes the underwriting results of the Company for the period under examination:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses (LAE) Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Losses and LAE Ratio</u>	<u>Combined Ratio</u>
2017	\$2,510,706	\$448,219	\$1,066,405	17.9%	60.3%
2016	1,940,576	132,050	805,788	6.8%	48.3%
2015	2,870,630	(903,961)	852,453	-31.5%	-1.8%
2014	2,752,205	(576,733)	804,489	-20.9%	8.3%
2013	2,919,758	837,293	1,058,445	28.7%	64.9%

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The Company reported an underwriting profit in each of the five (5) years covered by this examination. For 2014 and 2015, net loss and loss adjustment expenses reflect a reduction of loss reserves on prior claims years due to favorable development of reserves. Favorable development was primarily due to the settlement of claims at amounts less than anticipated.

## MANAGEMENT AND CONTROL

### **Directors**

The Bylaws state the business affairs of the Company shall be managed by a Board of Directors (Board) consisting of not less than seven (7) and no more than thirteen (13) members who shall be elected at its Annual Meetings for a three (3) year term. In addition, special directors may be approved by the Board of Directors when presented by the Nominating Committee. The following is a listing of persons serving as Directors as of December 31, 2017:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marshall Gene Cothran Austin, Texas	CEO We Are Blood
James Lee Decker Knoxville, Tennessee	CEO MEDIC Regional Blood Center
Eric Scott Eaton Houston, Texas	CFO Gulf Coast Regional Blood Center
Yasuko Ochi Erickson, MD Davenport, Iowa	Medical Director Mississippi Valley Regional Blood Center
Linda Elaine Gerber Rockford, Illinois	CEO Northern Illinois Blood Bank, Inc.

John Allen Hagins Appleton, Wisconsin	CEO Community Blood Center, Inc. (Appleton)
Mark Edward Patterson Oklahoma City, Oklahoma	Vice President of Finance and Corporate ACTS (Oklahoma Blood Institute)
Cheryl Jenene Ritter Des Moines, Iowa	CFO LifeServe Blood Center
Christine Marie Swinehart, MD Tacoma, Washington	CEO Cascade Regional Blood Services
Mark Steven Tabler Indianapolis, Indiana	CEO Innovation Physician Solutions, RRG
Dan Allan Waxman, MD Indianapolis, Indiana	Medical Director Versiti Indiana, Inc.
Lee Ann Weitekamp, MD Grand Rapids, Michigan	Medical Director Versiti Michigan, Inc.

**Officers**

Pursuant to the Bylaws, the officers of the Company shall consist of a Chairman, a Vice Chairman, a Secretary, a Treasurer, and such other officers, including and without limitation, one (1) or more Assistant Secretaries and Assistant Treasurers, as the directors from time to time may elect or appoint. The Chairman, Vice Chairman, Secretary, and Treasurer shall be elected annually by the directors at their Annual Meeting. The following is a list of key officers and their respective titles serving as of December 31, 2017:

<u>Name</u>	<u>Title</u>
Eric Carl Blomfelt, JD, CPCU	Executive Director/CEO
Lee Ann Weitekamp, MD	Chairman
Christine Marie Swinehart, MD	Vice Chairman
Marshall Gene Cothran	Secretary
James Lee Decker	Treasurer

## **Corporate Governance**

As of December 31, 2017, members serving on the following committee of the Board were:

### **Audit Committee:**

James Lee Decker	Chairman
Eric Scott Eaton	
Nancy Cagle Perez	
Cheryl Jenene Ritter	

The Company also receives oversight from its other committees that were comprised of, but not limited to, Claims, Executive, Governance and Nominating, Marketing, Information Management, Risk Management, and Underwriting Rates and Medical Advisory.

## **CONFLICT OF INTEREST**

The Company has established a conflict of interest policy for the disclosure of any material interest or affiliation by any director, officer, or key employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no material conflicts of interest reported by any of the officers or directors.

## **OATH OF OFFICE**

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation.

The Company only had Directors sign an Oath of Office statement the first time they were elected to the Board and did not require re-elected Directors sign an Oath of Office. This is a violation of IC 27-1-7-10(i) which requires every director, when elected to sign an Oath of Office statement. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

## **CORPORATE RECORDS**

### **Articles of Incorporation**

The Company amended its Articles of Incorporation effective November 13, 2014, to allow Annual Subscribers Meetings to be held in or out of the State of Indiana.

### **Bylaws**

The Company amended its Bylaws a number of times between 2013 and 2017. The significant amendments are as follows:

- *Bylaws 2017-11-30: Revamp and modernize Bylaws. Updated to gender inclusive language; clearly define the Executive Director position and move the CEO function to that position (away from the Board Chair); remove outdated/unnecessary language related to the formation and inception of the Company; shift responsibility of Director replacement to the full Board (away from Executive Committee); Clearly define the officer roles; define important committees along with their roles/responsibilities.*
- *Bylaws 2016-09-29: Updated Bylaws to remove language for non-director Board advisors.*
- *Bylaws 2016-04-28: Updated Bylaws to clarify definitions of directors and non-director Board advisors.*
- *Bylaws 2014-11-13: Updated Bylaws to change timing of annual meeting to comply with statutory requirement of within five months after the close of the year. Updated to limit group members from having more than one director serving as officers.*
- *Bylaws 2014-04-02: Updated Bylaws to clarify the Company membership requirements and voting requirements for special directors.*
- *Bylaws 2013-11-01: Updated Bylaws to clarify language to allow for group members to join the Company.*
- *Bylaws 2013-08-06: Updated Bylaws to change Resident Director language to apply to any domicile state and make the position conditional upon compliance with state statute.*
- *Bylaws 2013-03-15: Updated Bylaws to allow for group members to join the Company.*

## Minutes

The Board of Directors and Member Meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The Annual Meetings and other regular Board Meetings were held in accordance with the Bylaws. However, from a review of the Annual Subscribers Meeting minutes, it was noted that the 2013 and 2014 meetings weren't held until after the first five (5) months of each year. This is in violation of IC-27-1-7-7(b), which requires the Annual Subscribers Meetings to be held within five (5) months of the fiscal close of December 31 for each year. (Please see the "Other Significant Findings" section of this report regarding this issue.)

## AFFILIATED COMPANIES

### Organizational Structure

The Company is an unincorporated association that operates through its AIF, Community Blood Centers' Exchange, Inc., which is an Indiana not-for-profit taxable corporation. The members of which are the subscribers to the Company. All transactions are affected through the AIF, which has no activities separate from the Company.

Substantially, all of the volunteer directors and officers of the Company are full-time employees and executives of their respective blood centers. To oversee operations the directors hired an Executive Director in 2014, who is not a member of the Board and is an independent contractor operating under a three (3) year contract. The Executive Director oversees the activities of the underwriting, claims, and financial service providers. All of the Executive Director's activities are subject to the oversight and policy making

functions of the Board of Directors. The Company has no parent, subsidiaries, or affiliates.

### **Affiliated Agreements**

Consultants are utilized to perform the duties and responsibilities relating to all aspects of the Company's operations. The following is a summary of the primary consultants under contract and the services performed by each:

#### Consulting Agreement

Effective May 5, 2017, Eric Blomfelt entered into a Consulting Agreement as Executive Director of the Company and Chief Executive Officer of the AIF. Mr. Blomfelt oversees all activities of the consultants and coordinates with the Board and Board Committees. In, 2017, the Executive Director was paid \$111,000 under this agreement.

#### Captive Management Agreement

Effective January 1, 2014, the Company entered into a Captive Management Agreement with MCM CPA's & Advisors (MCM). MCM prepares quarterly and annual financial regulatory filings, and provides additional financial accounting and consulting. In 2017, MCM was paid \$225,000 under this agreement.

#### Claims Administration Agreement

Effective January 1, 2013, the Company entered into a third party Claims Administration Agreement with Western Litigation, Inc. (WLI). WLI administers receipt of incidents and claims, as well as investigates and manages settlements, and coordinates with local legal counsel. WLI is paid \$162,225 annually under this agreement.

#### Policy Administration Agreement and Reinsurance Intermediary Agreement

Effective August 20, 2008 and August 30, 2008, the Company entered into a third party Policy Administration Agreement and Reinsurance Intermediary Agreement, respectively, with Alliant Insurance Services Inc. (Alliant). Alliant manages daily underwriting, policy services, marketing, reinsurance, and other policy administration matters. Effective June 1, 2009, Alliant is paid \$165,000 annually under these agreements.

#### Investment Management Agreement

Effective January 1, 2015, the Company entered into an Investment Management Agreement with BOK Financial (BOKF) to manage their investments. The invested assets of the Company are held in custody at the Bank of Oklahoma and are managed by BOKF. The investment manager receives compensation for its services in accordance with its published schedule of fees attached to the agreement. In 2017, the Company paid BOKF approximately \$35,696 under this agreement.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects against loss by reason of fraud or dishonesty through a crime policy providing a single loss limit of \$450,000 in employee theft from Travelers Casualty and Surety Company of America. The provided coverage exceeds the recommended minimum specified by the NAIC. Other various interests

of the Company were protected by appropriate policies of insurance as well.

Contrary to the requirements of IC 27-1-7-14, the Company's fidelity bond was not approved by its Board at any time during the five (5) year examination period ending December 31, 2017. (Please see the "Other Significant Findings" section of this report regarding this issue.)

### STATUTORY AND SPECIAL DEPOSITS

The Company reported a statutory deposit, held by the INDOI for the benefit of all policyholders, with a book value of \$100,000 and a fair value of \$100,000 as of December 31, 2017.

### REINSURANCE

#### **Reinsurance Ceded**

The Company has consistently maintained reinsurance with highly rated authorized reinsurers. Through 2013, the Company utilized excess of loss reinsurance coverage on a claims-made basis for individual claims over \$250,000 and up to \$5,000,000. This was accomplished by a layer one reinsurance treaty for \$2,000,000 in losses in excess of the company's retention of \$250,000. The treaty included a corridor deductible of approximately 5% of its premiums and also included a swing rating, as defined in the agreement and disclosed in the Annual Statement. The layer two treaty was for losses in excess of \$2,000,000 and up to \$5,000,000. This layer was 95%-100% reinsured and contained a reinstatement premium of 150% of the base premium.

In 2014, the Company changed reinsurers to General Reinsurance Corporation, increased the per claim retention to \$500,000 and utilized excess of loss reinsurance coverage on a claims-made basis for individual claims over \$500,000 and up to \$5,000,000. Additionally, the Company eliminated both the corridor deductible and swing plan features of the previous treaties and the treaties were closed out in 2017.

The Company provides cyber liability coverage, which includes network security and privacy coverage, to its members. Underwriters at Lloyds Syndicates provide a 100% quota share reinsurance for the cyber liability coverage. The basic coverage limit is \$250,000/500,000 per claim with a \$5,000 deductible per claim. Each policyholder may elect to purchase higher limit coverages from \$1,000,000 to \$5,000,000.

### RESERVES

Terry Godbold, ACAS, MAAA, FCA principal and consulting actuary with Pinnacle Actuarial Resources, Inc. was the Company's Appointed Actuary from 2009 to 2013. Russell L. Sutter, FCAS, MAAA, a consulting actuary with Willis Towers Watson, has been the Company's Appointed Actuary since 2014.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2017 opinion stated the reserves: a) meet the requirements of the insurance laws of the State of Indiana; b) are consistent with reserves 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 Company under the terms of its contracts and agreements.

During the examination, it was determined by the INDOI consulting actuaries, Meg Glenn, FCAS, MAAA, and Gregory Fanoë, FCAS, MAAA, of Merlinos & Associates, Inc., that the significant actuarial items in the Company's Annual Statement were materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the INDOI.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2017, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2017, with no exceptions noted. All of the independent audit work papers were made available to Thomas Consulting during the examination.

An evaluation of controls of the information systems was performed in this examination. The objective of the review was to assess whether the controls of the information systems were adequate and risks associated with the information systems had been adequately addressed. The assessment of the controls to mitigate risks was effective and no material weaknesses or significant findings were noted.

Overall, Thomas Consulting determined the Company's accounting procedures, practices, and account records were satisfactory.



**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

COMMUNITY BLOOD CENTERS' EXCHANGE, RISK RETENTION GROUP

7

FINANCIAL STATEMENTS

Assets

As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 11,069,872	\$ -	\$ 11,069,872	\$ 13,290,389
Common stocks	4,785,813	-	4,785,813	3,926,381
Cash, cash equivalents and short-term investments	1,785,493	-	1,785,493	1,048,279
Other invested assets	<u>700,000</u>	<u>-</u>	<u>700,000</u>	<u>-</u>
Subtotals, cash and invested assets	<u>\$ 18,341,177</u>	<u>\$ -</u>	<u>\$ 18,341,177</u>	<u>\$ 18,265,049</u>
Investment income due and accrued	\$ 48,187	\$ -	\$ 48,187	\$ 62,062
Uncollected premiums and agents' balances in the course of collection	11,308	-	11,308	102,408
Deferred premiums, agents' balances and installments booked but deferred and nit yet due	<u>910,073</u>	<u>-</u>	<u>910,073</u>	<u>945,851</u>
<b>Total Assets</b>	<u>\$ 19,310,745</u>	<u>\$ -</u>	<u>\$ 19,310,745</u>	<u>\$ 19,375,370</u>

**COMMUNITY BLOOD CENTERS' EXCHANGE, RISK RETENTION GROUP**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

As of December 31, 2017

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Liabilities:</b>				
Losses	\$ 978,602	\$ -	\$ 978,602	\$ 682,791
Loss adjustment expenses	860,653	-	860,653	936,851
Other expenses	228,189	-	228,189	173,129
Taxes, licenses and fees (excluding federal and foreign income taxes)	31,798	-	31,798	54,166
Current federal and foreign income taxes	19,956	-	19,956	19,956
Unearned premiums	1,154,685	-	1,154,685	1,236,574
Ceded reinsurance premiums payable	447,889	-	447,889	1,220,318
<b>Total liabilities</b>	<b>\$ 3,721,772</b>	<b>\$ -</b>	<b>\$ 3,721,772</b>	<b>\$ 4,323,785</b>
Aggregate write-ins for other-than-special surplus funds	\$ 2,815,734	\$ -	\$ 2,815,734	\$ 2,868,831
Surplus notes	9,639,626	-	9,639,626	9,736,556
Unassigned funds (surplus)	3,133,613	-	3,133,613	2,446,198
<b>Surplus as regards policyholders</b>	<b>\$ 15,588,973</b>	<b>\$ -</b>	<b>\$ 15,588,973</b>	<b>\$ 15,051,585</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 19,310,745</b>	<b>\$ -</b>	<b>\$ 19,310,745</b>	<b>\$ 19,375,370</b>

COMMUNITY BLOOD CENTERS' EXCHANGE, RISK RETENTION GROUP

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Underwriting Income</b>				
Premiums earned	\$ 2,510,706	\$ -	\$ 2,510,706	\$ 1,940,576
Losses incurred	\$ 295,811	-	\$ 295,811	\$ 4,163
Loss adjustment expenses incurred	152,408	-	152,408	127,887
Other underwriting expenses	1,066,405	-	1,066,405	805,788
Total underwriting deductions	\$ 1,514,624	\$ -	\$ 1,514,624	\$ 937,838
<b>Net underwriting gain</b>	<u>\$ 996,082</u>	<u>\$ -</u>	<u>\$ 996,082</u>	<u>\$ 1,002,738</u>
<b>Investment Income</b>				
Net investment income earned	\$ 96,918	\$ -	\$ 96,918	\$ 131,100
Net realized capital gains (losses)	191,885	-	191,885	123,994
<b>Net investment gain (loss)</b>	<u>\$ 288,803</u>	<u>\$ -</u>	<u>\$ 288,803</u>	<u>\$ 255,094</u>
Net income before federal income taxes	1,284,885	-	1,284,885	1,257,832
<b>Net Income</b>	<u>\$ 1,284,885</u>	<u>\$ -</u>	<u>\$ 1,284,885</u>	<u>\$ 1,257,832</u>

COMMUNITY BLOOD CENTERS' EXCHANGE, RISK RETENTION GROUP

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital and Surplus Account:					
Capital and surplus, December 31, prior year	<u>\$ 15,051,585</u>	<u>\$ 16,215,244</u>	<u>\$ 14,714,162</u>	<u>\$ 13,037,702</u>	<u>\$ 13,079,987</u>
Net income	\$ 1,284,885	\$ 1,257,832	\$ 3,272,653	\$ 2,998,255	\$ 1,350,979
Change in net unrealized capital gains and losses	667,235	102,112	(229,786)	(94,614)	324,678
Change in nonadmitted assets	(70,705)	(23,925)	-	(50,000)	-
Change in surplus notes	(96,930)	729,656	1,360,636	283,883	1,479,854
Aggregate write-ins for gains and losses in surplus	<u>(1,247,097)</u>	<u>(3,229,334)</u>	<u>(2,902,421)</u>	<u>(1,461,064)</u>	<u>(3,197,796)</u>
Change in capital and surplus for the year	<u>\$ 537,388</u>	<u>\$ (1,163,659)</u>	<u>\$ 1,501,082</u>	<u>\$ 1,676,460</u>	<u>\$ (42,285)</u>
Capital and surplus, December 31, current year	<u>\$ 15,588,973</u>	<u>\$ 15,051,585</u>	<u>\$ 16,215,244</u>	<u>\$ 14,714,162</u>	<u>\$ 13,037,702</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2017, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

#### Oath of Office

The Company requires every director to sign an Oath of Office statement the first time they are elected to the Board. If the Director is re-elected to serve a second term, they are not required to sign an Oath of Office statement.

**It is recommended that the Board of Directors sign an Oath of Office statement each time they are elected in accordance with IC 27-1-7-10(i).**

#### Minutes

It was determined that the Company's Annual Subscribers Meetings for 2013 and 2014 were not held within the first five (5) months of the year contrary to the provisions of IC 27-1-7-7(b), which requires the Annual Subscribers Meetings be held within five (5) months of the fiscal close of December 31 for each year.

**It is recommended that the Company hold its Annual Subscribers Meetings in accordance with the requirements of IC-27-1-7-7(b).**

#### Fidelity Bond

Contrary to the requirements of IC 27-1-7-14, the Company's fidelity bond was not approved by its Board at any time during the five (5) year examination period ending December 31, 2017.

**It is recommended that the Company's Board approve the fidelity bond in accordance with the requirements of IC 27-1-7-14.**

### SUBSEQUENT EVENTS

There were no events subsequent to the examination date that significantly affected the finances or operations of the Company.

### MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, Thomas Consulting obtained a management representation letter in the standard NAIC format. This letter was executed by the key administrative consultants and officers for the Company and provided to Thomas Consulting.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **Community Blood Centers' Exchange, Risk Retention Group** as of **December 31, 2017**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2017 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of the **Community Blood Centers' Exchange, Risk Retention Group** as of **December 31, 2017**, as determined by the undersigned.



**David L. Daulton, CFE**  
**The Thomas Consulting Group, Inc.**



**Jerry Ehlers, CFE, CPA**  
**Indiana Department of Insurance**

State of: Indiana  
County of: Marion

DARCY L. SHAWVER  
NOTARY PUBLIC

**SEAL**

MARION COUNTY, STATE OF INDIANA

MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO 76653

On this 2nd day of May, 2018, David L. Daulton and Jerry Ehlers personally appeared, David L. Daulton and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires October 4, 2025 Darcy L. Shawver  
Notary Public Darcy L. Shawver

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