

EXAMINATION REPORT
OF
DELEA FOUNDERS INSURANCE TRUST
AS OF
AUGUST 31, 2018

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of August 31, 2018 of

DELEA FOUNDERS INSURANCE TRUST

is a true and correct copy of the document filed with this Department.

Attest By: Rufyann Brown

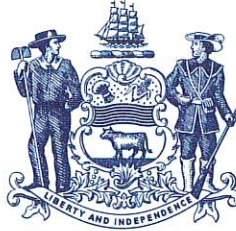
Date: 12 day of March, 2020



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 16 day of March, 2020.

Trinidad Navarro
Trinidad Navarro
Insurance Commissioner

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
DELEA FOUNDERS INSURANCE TRUST
AS OF
AUGUST 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.


Trinidad Navarro
Insurance Commissioner

Dated this 16th day of March, 2020

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION..... 1

SUMMARY OF SIGNIFICANT FINDINGS 3

COMPANY HISTORY 3

MANAGEMENT AND CONTROL 4

 TRUSTEES 4

 SAFETY COMMITTEE 4

 CORPORATE RECORDS 5

 INSURANCE HOLDING COMPANY SYSTEM 5

AGREEMENTS WITH NON-AFFILIATES 5

TERRITORY AND PLAN OF OPERATION 7

 TERRITORY 7

 PLAN OF OPERATIONS 7

FINANCIAL STATEMENTS 7

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION 10

COMMENTS ON FINANCIAL STATEMENT ITEMS 10

COMPLIANCE WITH ORGANIZATIONAL EXAMINATION RECOMMENDATIONS 11

SUMMARY OF RECOMMENDATIONS 11

CONCLUSION..... 11

SALUTATION

February 24, 2020

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.029, dated May 9, 2019, an examination has been made of the affairs, financial condition and management of

DELEA FOUNDERS INSURANCE TRUST

hereinafter referred to as the Company or DFIT and incorporated under the laws of the State of Delaware as a workers' compensation self-insured group of public employers under 18 *Del. C.* ch. 4 of the Delaware Insurance Code. The examination was conducted at the administrative office of the Company located at 492 Franklin Ave Nutley, New Jersey 07110. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. This is the first regulatory examination of the Company covering the four-year period from September 1, 2014 and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of

August 31, 2018. Transactions subsequent to the examination date were reviewed where deemed necessary. This is a single state examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Trust's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm Horty & Horty (Horty). Certain auditor work papers of the 2018 Horty audit of the Company have been incorporated into the work papers of the examiners

and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

DFIT received Department approval to do business as a workers' compensation self-insurance group on August 28, 2014. DFIT is comprised of municipalities & related agencies throughout the State of Delaware, including cities, towns, counties & public authorities. Effective September 1, 2014, and amended December 11, 2014, the DFIT established a trust to establish and maintain a self-insured program providing workers' compensation insurance coverage for members of the trust. Each member shall be responsible, jointly and severally, for all liabilities of the DFIT and in accordance with the provisions of the Delaware Code provisions of the Workers' Compensation Self-Insurance Group contained in 18 *Del. C.* § 401, et seq. Specifically, but not limited to, the provisions of section 419 which required that:

If the assets of the trust are at any time insufficient to enable the Members to discharge their legal liabilities and other obligations and to maintain the reserves, the trust shall make up the deficiency or assess upon its members an amount needed to make up the deficiency. In the event of a deficiency in any fund year, the deficiency shall be made up immediately.

MANAGEMENT AND CONTROL

Trustees

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Trust's Certificate of Authority and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction, of its Trustees.

The members of the Trustees, serving as of August 31, 2018, each elected or appointed in accordance with the Company bylaws were as follows:

<u>Name</u>	<u>Member</u>
Ted Becker	Lewes, Chairperson
Mike Petit deMange	Kent County Levy Court, Vice Chairperson
Gene Dvornick	Georgetown, Secretary
Teresa Tieman	Fenwick Island, Finance Secretary
Sam Callender	Cheswold
Bob McGhee	Middletown
Maureen Hartman	South Bethany
Sharon Lynn	Rehoboth Beach
Bill Barthel	New Castle

Safety Committee

There is a safety committee of the Board of Trustees as of the examination date. The current

Officers of the Safety Committee as follows:

<u>Name</u>	<u>Office</u>
Rick Melendez	Chairperson
Joe Schulcz	Vice Chairperson
Rick Gentile	Secretary

Corporate Records

The recorded minutes of the Stewardship meetings were reviewed for the period under examination. The recorded minutes of the Stewardship meetings documented the Company transactions and events.

Insurance Holding Company System

The Company is not a member of an Insurance Holding Company System as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code.

AGREEMENTS WITH NON-AFFILIATES

Program Administrator

Effective July 1, 2014, DFIT engaged Strategic Insurance Partners (SIP) of Nutley, New Jersey as the Program Administrator. SIP personnel managed and administered the DFIT and its growth in its previous plan (prior to June 1, 2014) of a fully insured group retrospectively rated program, since 2008. SIP has experience in developing and managing programs in other states similar to the program for Delaware and has the following duties and responsibilities:

- (1) Act as the Executive Director to carry out the policies established by the Board of Trustees to otherwise administer and provide for the day-to-day management of DFIT.
- (2) Advise the Board of Trustees on Risk Management matters and prepare a Risk Management Plan.
- (3) Maintain underwriting data and assist DFIT in the purchase of insurance.
- (4) Monitor the performance of the Insurance Carriers.
- (5) Perform due diligence on a continuing basis to monitor the insurance carrier markets, and develop any carrier relationships necessary to insure the best possible placements of insurance of DFIT Members.

(6) Evaluate member's exposures.

(7) Preparation of reports, applications, statements of values, etc.

During 2018, the program administration fees were \$231,713.

Claims Management

Amerihealth Casualty was the claim manager until August 31, 2017. PMA Management Corporation (PMA) replaced Amerihealth Casualty starting policy year 2017-2018. PMA assumed responsibility for all claims occurring after August 31, 2017 as well as all open claims in the process from September 1, 2014 to August 31, 2017. As of the examination date, DFIT had \$18,000 deposited in an escrow account with PMA to pay claims on behalf of DFIT. During 2018, the claims administration fees were \$51,376.

Risk Control Services Agreement

Annually, the Program Administrator engages PMA to provide Risk Management Assessments for each of DFIT trust members. PMA participates in safety committee meetings, presents training topics and provides guidance and support in the development/improvement of written policies/procedures in the effort to prevent injuries and accidents of DFIT member operations. Additionally, PMA provides loss trending analyses for the trust.

Actuarial Consulting Services

Annually, DFIT engages Sound Actuarial Consulting, LLC to calculate the DFIT liabilities based upon the data, as of August 31st. The fee for these services is \$18,000.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2018, the Company is licensed and authorized to provide workers compensation insurance in Delaware.

Plan of Operations

The DFIT acts as a self-insured buying group for public entities in Delaware. The DFIT is a self-insured plan. The self-insured retention is \$750,000 per occurrence, with a statutory limit. The actual policy for excess coverage is issued by Safety National, an authorized Company in Delaware.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the DDOI, are reflected in the following:

- Statement of Assets and Liabilities and Net Position as of August 31, 2018
- Statement of Income for the year ended August 31, 2018
- Reconciliation of Net Position for the Period from the organization to August 31, 2018

**DELEA FOUNDERS INSURANCE TRUST
STATEMENT OF ASSETS AND LIABILITIES
AS OF AUGUST 31, 2018**

	Assets
Cash	\$3,866,961
Premium Receivable	133,341
Prepaid Insurance	8,313
Total Current Assets	4,008,615
Other Assets	18,000
Restricted Cash	524,716
Total Assets	\$ 4,551,331

**DELEA FOUNDERS INSURANCE TRUST
STATEMENT OF LIABILITIES AND UNRESTRICTED FUNDS
AS OF AUGUST 31, 2018**

	2018
Losses and Loss adjustment expenses	\$ 1,807,308
Due to members Restricted cash	524,716
Premiums collected in advance	30,911
Accrued Expenses	21,280
Self-insured worker compensation tax payable	27,910
Total liabilities	2,412,125
Unrestricted funds	\$ 2,139,206
Totals of liabilities & surplus	\$ 4,551,331

DELEA FOUNDERS INSURANCE TRUST
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
AS OF AUGUST 31, 2018

Operating Revenues	<u>2018</u>
Premiums income	\$ <u>2,317,134</u>
Operating Expenses	
Claims and Claim expenses	\$ (232,888)
Administrative and Service Fees	422,004
Excess insurance	414,269
Surety Bond	22,500
Other Insurance	<u>9,762</u>
Total operating expenses	<u>635,647</u>
Change in Net Position	\$ <u>1,681,487</u>
Net position - Beginning of year	<u>457,719</u>
Net position -End of year	<u>\$ 2,139,206</u>

**RECONCILIATION OF NET POSITION
For the Period from Organization
As of August 31, 2014 to August 31, 2018**

	31-Aug			
	2015	2016	2017	2018
Beginning	\$ -	\$ 29,457	\$ 137,652	\$ 457,719
Change in Net Position	29,457	108,195	320,067	1,681,487
Ending	\$ 29,457	\$ 137,652	\$ 457,719	\$ 2,139,206

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Restricted Assets \$ 524,716

The restricted cash relates to surplus accumulation from years prior to the DFIT becoming self-funded. The cash is held in escrow for the benefit of members who contributed to the trust when the group was a retrospectively rated plan and not self-funded. The Department mandated that the DFIT must restrict cash until approval is obtained from the Department to distribute cash to the respective members from the group retrospectively rated plan period. In September of 2018, the Department approved the distribution of the remaining restricted cash.

Note 2:

Loss and Loss adjustment expenses \$ 1,807,308

The examination liability for the aforementioned captioned item of \$1,807,308 is the same as reported by the Company as of August 31, 2018. The liability is a result of the workers' compensation policy covering the members of the DFIT.

SUBSEQUENT EVENTS

There were no material subsequent events,

COMPLIANCE WITH ORGANIZATIONAL EXAMINATION RECOMMENDATIONS

The Company has complied with all recommendations and conditions contained in the organizational examination report issued by the Department as of August 31, 2014.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

The assistance and cooperation of the Company's outside audit firm, Harty, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Anthony Cardone, CFE
Examiner In-Charge
State of Delaware



Ann Pruett, CFE
Supervising Examiner
State of Delaware