

SEP 04 2019

FILED

CERTIFICATION

September 4, 2019

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2018

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Range

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

1664 WASHINTON STREET

BLAIR, NEBRASKA 68008

dated as of December 31, 2018 verified under oath by the examiner-in-charge on July 26, 2019 and received by the company on August 28, 2019, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 4th day of September 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2018



Blair, Nebraska
July 30, 2019

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY
1664 Washington Street
Blair, Nebraska 68008

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made of the Company’s operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter

provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members and Board of Directors held during the examination period, were read and noted. Attendance at meetings and election of Directors and Officers were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was inspected and a survey was made of the Company's general plan of operation.

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the substantive examination process.

All accounts and activities of the Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. The assets were verified and evaluated and the liabilities were determined in order to present the statement of the Company's financial condition as of December 31, 2018.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized on June 15, 1892 as a Nebraska mutual assessment fire insurance company, under the name of “Washington County Scandinavian Mutual Insurance Company”. In 1951, by amendment to its Articles of Incorporation, the name was changed to the current name. The Company’s By-Laws allow for the Company to “insure farm property, real and personal, country school houses, country churches, parsonages and dwellings located in Washington County and adjoining counties” as well as “property occupied solely as a residence...”

MANAGEMENT AND CONTROL

Members

Article IV of the Company’s Articles of Incorporation states that, “every person, corporation, association or partnership insuring in this Company shall be a member thereof and entitled to one vote at any annual or special meeting of the Company in person.” Section 3a of the Company’s By-Laws states that, “the annual meeting of this Company shall be held in Blair, Nebraska on the second Friday after January 1st of each year, at 1:30 o’clock P.M.” Section 6 further states that, “the members present shall constitute a quorum for the transaction of business at any annual or special meeting of this association or at a meeting of the Board of Directors thereof.”

Board of Directors

Section 4 of the Company’s By-Laws requires that, “the Board of Directors shall consist of nine (9) members and shall be elected for a term of three years, shall have general

management and control of the business of the Company, and shall meet at such times as they deem necessary.”

The following persons were serving as Directors at December 31, 2018:

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Gerald Kobs	Blair, Nebraska	2019
Jeffrey Quist	Blair, Nebraska	2019
Leland Vogt	Blair, Nebraska	2019
James Anderson	Blair, Nebraska	2020
Daniel Magill	Herman, Nebraska	2020
Ronald Wulf	Blair, Nebraska	2020
Wesley Anderson	Kennard, Nebraska	2021
Brian Larsen	Herman, Nebraska	2021
Robert Petersen	Blair, Nebraska	2021

Directors receive \$50 for attendance at the annual meeting.

Officers

Section 4 of the Company’s By-Laws states that, “the Board of Directors shall, by ballot, immediately after the annual meeting, elect one President and one Vice-President from among its members and shall appoint and employ a Secretary and/or Secretary/Treasurer, and such other assistants as are deemed necessary.”

The following is a listing of Officers elected and serving the Company at December 31, 2018:

<u>Name</u>	<u>Office</u>
Robert Petersen	President
Daniel Magill	Vice-President
Rose Marie Brummer	Secretary/Treasurer

During the examination, it was noted that the Directors and Officers of the Company do not complete conflict of interest statements. It is recommended that the Company require each of its Directors and Officers to complete a conflict of interest statement on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

Effective January 9, 2009, the Company obtained fidelity bond coverage for its Secretary/Treasurer through Western Surety Company. The coverage is for \$5,000 and the Company pays a \$100 premium annually. This policy has run continuously since the effective date. The exam team calculated the recommended fidelity bond amount by utilizing Exhibit R of the NAIC Financial Condition Examiners Handbook (NAIC Handbook). Based on the Company's admitted assets and gross income, it was determined that the Company requires coverage of \$25,000. During the examination, the Company complied with this recommendation and obtained additional coverage through Western Surety Company.

The Company obtained fire and extended coverage for the home office in the amount of \$222,600 and the contents thereof in the amount of \$29,100 from Nationwide Mutual Insurance Company.

A combined professional liability and Directors and Officers liability policy, in the amount of \$1,000,000, from NAMICO, is carried by the Company. This coverage is subject to a \$10,000 deductible.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska.

The Company insures property from fire and wind for citizens of Washington County and adjoining counties. One salaried agent produced business for the Company and received commissions from this business.

The Company, as a convenience for its policyholders and agents, makes available general liability insurance coverages written by Acceptance Casualty Insurance Company. The

accounting on such business for premiums and agents fees is handled by the Company, and commissions are retained by the Company.

REINSURANCE

Ceded

Under the contract with the Nebraska Farmers Mutual Reinsurance Association (NFMRA) for 2018, the Company retained a liability equal to \$2,700 per million of its average insurance in-force. After the aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2018 was noted to be \$195,890.

Prior to incurring the retention limit, NFMRA assumes 100% of any insured loss on a single risk greater than \$40,000 up to \$660,000 (\$1,160,000 as respects risks of a single farm outbuilding and contents therein). Recoveries made under this section, which are greater than recoveries available under the aggregate retention, are deducted from subsequent aggregate recoveries.

General

The contract reviewed contained a standard insolvency, arbitration, offset, and errors and omissions clause. During review of the contract, it was noted that the contract did not contain an entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual. SSAP No. 62R, paragraph 8c states that, "the agreement shall constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly, from the reinsurer to the ceding entity or from the ceding entity to the reinsurer."

BODY OF REPORT

FINANCIAL STATEMENTS

The following statement of assets and liabilities, together with the accompanying statement of income and disbursements, reflects the financial condition of the Company at December 31, 2018. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Balance, beginning of year	\$ 355,625	\$298,266*	\$290,164	\$289,638	\$310,682
<u>Income</u>					
Gross receipts from assessments	\$ 168,050	\$201,543	\$195,099	\$183,736	\$187,007
Return on cancellations	<u>(1,452)</u>	<u>(4,892)</u>	<u>(3,293)</u>	<u>(3,460)</u>	<u>(3,261)</u>
Total underwriting income	\$ 166,598	\$196,651	\$191,806	\$180,276	\$183,745
Interest on investment	920	634	582	734	1,443
Other interest	197	396	2,152	748	2,096
Rent	6,000	6,000	6,000	6,000	6,000
Liability premiums	20,756	22,676	21,885	22,734	21,967
Collapse premium	825	824	944	882	882
NAMIC stock	8,291	353	(28)	19,326	525
NFMRA refund		11,335	11,335	9,175	5,662
Hail payment on building	14,123				
Miscellaneous refund	<u>17</u>	<u>1</u>	<u> </u>	<u> </u>	<u> </u>
Total income	\$ <u>217,727</u>	<u>\$238,869</u>	<u>\$234,676</u>	<u>\$239,875</u>	<u>\$222,320</u>

Disbursements

Gross losses paid	\$3,326,129	\$525,715	\$168,384	\$ 52,282	\$ 43,021
Reinsurance recoverable	<u>(3,480,000)</u>	<u>(519,648)</u>	<u>(106,867)</u>	_____	_____
Net losses paid	\$ 106,475	\$ 6,067	\$ 61,517	\$ 52,282	\$ 43,021
Liability premium	19,263	19,123	18,934	20,173	19,881
NAMIC dues	1,289	1,418	1,560	1,560	1,716
Surety bond	100	100	100	100	100
Office repairs	1,220	5,916	1,360	2,433	2,704
Building insurance	1,402	1,004	1,113	1,127	1,144
Bonus	2,500	5,000	5,000	5,000	5,000
Director salaries and expenses	2,375	2,550	1,950	1,675	1,100
Employee salaries	16,946	17,421	17,621	17,899	18,340
Supplies	516	575	397	379	326
990 form	275	285	295	300	305
Taxes on real estate	1,091	1,082	1,192	1,188	1,192
Department licenses & fees	4,718	2,287	2,624	2,548	2,412
All other taxes	9,653	9,957	10,540	11,172	11,599
Advertising, printing & postage	4,366	4,549	6,019	3,704	3,277
Telephone & utilities	5,259	5,254	5,262	5,529	5,714
Reinsurance premiums paid	67,793	86,415	86,523	80,804	80,486
Miscellaneous	11,050	10,712	10,830	10,721	10,117
Directors liability	2,383	2,233	2,363		2,245
NEDOJ interest adjustment					8,021
Continuing education				239	
Surplus note		65,000			
Penalty on CDs		23			
Reinsurance assessment	20,898				
Furnace repairs	<u>515</u>	_____	_____	_____	_____
Total disbursements	<u>\$ 280,086</u>	<u>\$246,970</u>	<u>\$235,202</u>	<u>\$218,831</u>	<u>\$218,700</u>
Balance, end of year	<u>\$ 293,266</u>	<u>\$290,164</u>	<u>\$289,638</u>	<u>\$310,682</u>	<u>\$314,303</u>

*\$5,000 correcting adjustment made between 2014 and 2015

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2018

ASSETS

Ledger Assets

Real estate	\$ 3,121	
Common stock	1,500	
Certificates of deposit	173,945	
Cash deposited in banks	<u>135,737</u>	
Total ledger assets		\$314,303

Non-Ledger Assets

Interest due or accrued on investments	\$ 8,021	
Surplus note	<u>55,947</u>	
Total non-ledger assets		<u>63,968</u>
Gross assets		<u>\$378,271</u>

Assets Not Admitted

Surplus note		\$ 55,947
Total admitted assets		<u>\$322,324</u>

LIABILITIES AND SURPLUS

Unearned premiums	\$ 62,473	
Real estate taxes	1,241	
Premium tax	<u>2,452</u>	
Total liabilities		\$ 66,166
Surplus as regards members		<u>256,158</u>
Total liabilities and surplus		<u>\$322,324</u>

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Common Stock – It is recommended the NAMIC common stock book value be listed on the Annual Statement on page 5 line 5 and the deferred gain be listed on page 5 in the non-ledger assets section to accurately represent assets.

Action: The Company has not complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

Net Unpaid Losses - It is recommended that the Company estimate the amount of claim payments outstanding at year-end to represent the Company’s liabilities as of year-end

Action: This finding was not applicable during the exam period as there were no unpaid claims at year-end during the exam period.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Real Estate

\$ 3,121

Real estate owned by the Company consists of land and a building in downtown Blair, Nebraska. The building houses the Company’s office, which is also partially rented to a local mortgage company. The property was acquired in 1960 for \$20,000. The building has been fully depreciated and the \$3,121 represents the initial value of the land in the annual statement. The building is located on lot 17 (except the west 8”) of Block 37. It is 24 feet by 60 feet and is of frame and brick construction with a composition roof.

During 2018, the Company received rent from its tenant totaling \$6,000. The Company does not charge itself rent for occupancy of the building.

Common Stock

\$ 1,500

The Company owns 30 shares of NAMIC common stock that had an initial par value of \$10 per share, or \$300. The Company purchased these shares for \$50 per share, or \$1,500. The market value of the stock is \$9,521. The Company is reporting the market value as a ledger asset, but should be reporting the cost as a ledger asset and the unrealized gain as a non-ledger asset of \$8,021. This will also require an adjustment to the disbursements to account for the

change and follow the annual statement instructions. It is recommended that the Company report the cost of the common stock as a ledger asset and the unrealized gain as a non-ledger asset of interest due or accrued on investments.

Certificates of Deposit **\$173,945**

As of December 31, 2018 the Company had ten certificates of deposit with a total value of \$173,945. Each certificate of deposit was verified by direct confirmation from the respective depositories.

Cash Deposited in Banks **\$135,737**

This asset consisted of one checking account balance. The account was verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2018, by giving consideration to outstanding checks and deposits.

Interest Due or Accrued **\$ 8,021**

As noted under Common Stocks, the Company is reporting the market value of the stock as a ledger asset for \$9,521. The Company should be reporting the initial cost of \$1,500 as the ledger asset and the difference between market value and cost, \$8,021, as interest accrued on investments as it is unrealized at this time. It is recommended that the Company report the cost of the common stock as a ledger asset and the unrealized gain as a non-ledger asset of interest due or accrued on investments.

NFMRA Surplus Note **\$ 55,947**

The surplus note issued by NFMRA had a value of \$55,947 as of December 31, 2018. This item is deducted, as an asset not admitted in both the Company's 2018 Annual Statement

and the financial statements of this report in accordance with Statement of Statutory Accounting Principles No. 41.

Statement of Statutory Accounting Principles No. 41, Paragraph 10(b)(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ to the outstanding face amount of the capital or surplus notes. The ‘statement factor’ is equal to the total capital and surplus, including surplus notes, less the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus notes. If ‘statement factor’ is negative, the surplus note(s) shall be carried at zero.”

Calculation of the Company’s surplus note is as follows:

\$378,271	Admitted asset (including surplus note)
<u>66,166</u>	Less liabilities
\$312,105	Total capital, surplus and surplus note
\$312,105	
<u>5%</u>	of admitted assets
\$ 15,605	
Greater of \$15,605 or \$6,000,000	
\$ 15,605	
<u>- 6,000,000</u>	
\$(5,984,395)/15,975	= -374.61 statement factor

Unearned Premiums

\$ 62,473

The Company reported unearned premiums of \$62,473 in its December 31, 2018 Annual Statement. Amounts reported are calculated by applying an unearned factor of 34% to premiums collected during the year.

Premium Tax Liability **\$ 2,452**

The Company reported premium tax liability in its Annual Statement of \$2,452. The Company paid the same amount subsequently with its 2018 State of Nebraska Annual Tax Return.

Real Estate Tax Liability **\$ 1,241**

The Company reported real estate tax liability in its Annual Statement of \$1,241.

Policyholder's Surplus **\$256,158**

Policyholder's surplus, as determined by this examination, amounted to \$256,158 at December 31, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Fidelity Bond – It is recommended that the Company increase its fidelity bond coverage to \$25,000 as recommended by Exhibit R of the NAIC Handbook.

Reinsurance – It is recommended that the Company work with its reinsurer to include an entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

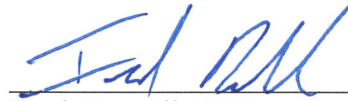
Common Stock – It is recommended that the Company report the cost of the common stock as a ledger asset and the unrealized gain as a non-ledger asset of interest due or accrued on investments.

Conflict of Interest Statements – It is recommended that the Company require its Directors and Officers to complete annual conflict of interest questionnaires that are reviewed by the Directors at the annual meeting.

ACKNOWLEDGMENT

The courteous cooperation extended by the Secretary/Treasurer of the Company during this examination is hereby acknowledged.

Respectfully submitted,



Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

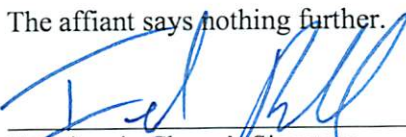
State of Nebraska,

County of Lancaster,

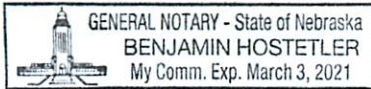
Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the Washington County Mutual Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the Washington County Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Isaak Russell on this 26 day of July, 20 19.



(SEAL)


Notary Public

My commission expires 3-3-21 [date].