

APR 07 2021

# CERTIFICATION

FILED

April 7, 2021

I, Bruce R. Ramage, 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

**WESTERN UNITED MUTUAL INSURANCE ASSOCIATION**

**AS OF**

**DECEMBER 31, 2019**

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. Ramage*  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**WESTERN UNITED MUTUAL INSURANCE ASSOCIATION**

**116 W. 3<sup>RD</sup> STREET, PO BOX 627**

**WILBUR, NEBRASKA 68465**

dated as of December 31, 2019, verified under oath by the examiner-in-charge on March 3, 2021, and received by the company on March 10, 2021, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 24<sup>th</sup> day of March 2020.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**WESTERN UNITED MUTUAL INSURANCE ASSOCIATION**

**as of**

**December 31, 2019**



Lincoln, Nebraska  
February 9, 2021

Honorable Bruce R. Ramage  
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:

**WESTERN UNITED MUTUAL INSURANCE ASSOCIATION**  
**116 W. 3<sup>rd</sup> Street, PO Box 627**  
**Wilber, NE 68465**

(hereinafter also referred to as the "Association") and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The Association was last examined as of December 31, 2014 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2019, 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 Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter

provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". 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 Association'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 Association's general plan of operation.

The Association'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 Association 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 Association's financial condition as of December 31, 2019.

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

## **DESCRIPTION OF ASSOCIATION**

### **HISTORY**

The Association was organized in 1879 and became incorporated under the laws of the State of Nebraska on February 16, 1896, as a mutual assessment fire and lightning association, with a corporate existence of fifty years unless previously dissolved according to law. On January 21, 1946, the original charter was extended an additional fifty years from February 16, 1946, and on April 21, 1977, was amended to be perpetual in existence.

At a special meeting held on April 21, 1977, the members approved an amendment to Article III of the Articles of Incorporation, thereby authorizing the Association to write insurance for its members of the kinds provided by Article II of Chapter 44 of the Revised Statutes of the State of Nebraska as amended from time-to-time and as provided by the By-Laws of the Association.

The Association acquired, by consolidation, Farmers Mutual Insurance Company of DeWitt, effective January 1, 2001. This consolidation was approved by the Nebraska Department of Insurance. To accomplish this consolidation, the Association changed its name from Western Union Mutual Insurance Company of Saline County to Western United Mutual Insurance Association.

The Association assumed, through a bulk reinsurance agreement, all the obligations, liabilities and rights of Farmers Mutual of Thayer County effective January 1, 2004. This bulk reinsurance agreement was approved by the Nebraska Insurance Department. Under this agreement the Association will perform all acts required under the provisions of the policy as originally issued or subsequently amended.

## **MANAGEMENT AND CONTROL**

### **Membership**

Article V, Section 3 of the Association's Articles of Incorporation states, "each person owning an in force policy of insurance issued by the Company shall be deemed a voting Member of the Company with the rights set forth in the By-Laws. Each Member shall be entitled to one vote on all matters submitted to the Members." Article II, Section 1 of the Association's By-Laws states, "the annual meeting of the Members shall be held not later than June 30 of each year..." Article II, Section 2 of the By-Laws states, "special meetings of the Members, for any purpose, may be called by the Board of Directors or at the written request of twenty-five Members."

### **Board of Directors**

Article VI, Section 1 of the Association's Articles of Incorporation states, "the number of members of the Board of Directors, which shall be not less than five (5) nor more than twenty-one (21) persons, shall be determined as set forth in the By-Laws. Each person elected to the Board of Directors of the Company must be a Member of the Company." Article III, Section 2 of the By-Laws states, "Directors shall be elected for a term of three years. The terms of office shall be staggered so that the same number of Directors, as near as may be, are elected at each annual meeting of the Members." Article III, Section 8 of the By-Laws states, "two-thirds of the elected Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than a quorum is present at a meeting, the Directors present may adjourn the meeting from time to time without further notice."

The following persons were serving as Directors at December 31, 2019:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
S. Scott Bartels	Western, Nebraska	2020
John L. Kastanek	Crete, Nebraska	2020
Kenneth J. Zoubek	Milligan, Nebraska	2020
Andy Schoen	Adams, Nebraska	2021
Dustin Weber	Exeter, Nebraska	2021
Eugene Wollenburg	DeWitt, Nebraska	2021
Randall Huls	Cortland, Nebraska	2022
Brian Isernhagen	Deshler, Nebraska	2022
Verdell Koch	DeWitt, Nebraska	2022

Directors receive \$75.00 per meeting attended. Directors receive the federally mandated rate per mile for traveling on Association business.

### Officers

The By-Laws, Article IV, Section 1 provide that, “the Officers of the Association shall be Chairman, Vice Chairman, and Secretary-Treasurer, each of whom shall be elected or appointed by the Board of Directors.”

The following Officers were duly elected and serving the Association at December 31, 2019:

<u>Name</u>	<u>Office</u>
John L. Kastanek	President
Randall Huls	Vice President
Kenneth V. Ripa	Secretary-Treasurer

Officers receive remuneration as follows: President, \$2,250 per year; Vice-President \$1,750; and the Secretary-Treasurer, \$47,500 per year.

### Executive Committee

The Association’s By-Laws, Article V, Section 1 provide that, “the Board of Directors may designate an Executive Committee, the majority of which shall be Directors. The General



Manager shall be an ex officio, non-voting member of the Executive Committee.” The committee is currently made up of President John Kastanek, Vice-President Randall Huls, and Secretary-Treasurer Kenneth Ripa. Article V, Section 1 of the By-Laws further provides that, “the Executive Committee shall have all the powers and authority of the Board of Directors when the Board of Directors is not convened, provided however, the Board of Directors reserves to itself alone the power to recommend to the Members any action required their approval. The Executive Committee shall act by a majority of its Members. The Executive Committee shall be subject to the control of the Board of Directors.”

### **Investment Committee**

The Association’s By-Laws, Article V, Section 2 provide that, “the Board of Directors shall designate an Investment Committee, the majority of which shall be Directors. The General Manager shall be an ex officio, non-voting member of the Investment Committee.” This committee is currently made up of President John Kastanek, Vice-President Randall Huls, and Secretary-Treasurer Kenneth Ripa. This committee shall be subject to the control of the Board of Directors.

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

The Association is protected by an Employee Dishonesty policy, which provides coverage up to \$25,000. Based upon the Associations size, the fidelity bond suggestions within the NAIC Financial Condition Examiners Handbook are between \$100,000 and \$125,000. It is recommended that the company increase its fidelity bond to \$100,000-\$125,000 in accordance with the suggested NAIC limits. In addition, the Association has an Insurance Agents Errors and Omissions policy in effect which provides coverage in the amount of \$5,000,000 with a deductible in the amount of \$5,000. An Insurance Company Combined Professional Liability

and Directors and Officers Liability Insurance Policy is also in effect and provides coverage of \$3,000,000 with a \$10,000 deductible. All of the above policies are written in authorized companies.

### **TERRITORY AND PLAN OF OPERATION**

The Association issues policies of insurance on rural and town dwellings, detached buildings, livestock and personal property against the hazards as specified by Subsections (5) and (18) of Section 44-201 R.R.S. Nebraska 1943, or as hereafter amended. Policies are issued for a one-year period with a requirement that the policies be rewritten every four years. All assessments are made annually in advance. No special assessments were levied during the period under review.

The Association, as a convenience for its policyholders and agents, makes available general liability insurance coverage written by Acceptance Indemnity Insurance Company of Raleigh, North Carolina, and Grinnell Mutual Reinsurance Company of Grinnell, Iowa. Accounting for the premiums and agents fees for this business is the responsibility of the Association.

Additionally, the Association's wholly owned subsidiary, Western United Mutual Agency, makes complimentary lines of coverage, such as automobile and commercial liability, available to both members and non-members.

### **REINSURANCE**

#### **Ceded**

The Company is a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA), and used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2019, the Company retained a liability up to an amount

equal to \$2,808 per million of the 2019 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2019 was noted as being \$1,891,587.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000, up to \$660,000 (\$1,160,000 as respects risks of single farm outbuildings and contents therein). Recoveries made which are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Company makes recoveries under this coverage but their net losses do not exceed their aggregate retention for the year, the amount recovered per risk between the single risk retention and 1/8<sup>th</sup> of 1% of the January 1 insurance in-force is to be refunded to NFMRA prior to March 1 of the next year. This excess per risk coverage is not applicable once the ultimate net losses exceed the ultimate retention.

This contract also provided that the Company retain for its own account the first \$1,000 of each risk, each loss, as respects mobile home risks located in trailer courts. NFMRA's limit of coverage shall be \$48,000 for losses in any one-trailer court; with two or more trailers in any one location constituting a trailer court.

### **General**

The contract reviewed contained standard insolvency clause, arbitration clause, offset clause, and errors and omissions clause. The contract also contained the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

## **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, 2019. All amounts are based on the findings of the current examination:

#### **STATEMENT OF INCOME AND DISBURSEMENTS**

	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Balance, beginning of year	\$2,860,266	\$3,045,320	\$4,518,808	\$4,133,136	\$4,926,152
<b><u>Income</u></b>					
Gross receipts from assessments	\$3,855,855	\$3,948,546	\$3,976,799	\$4,105,405	\$4,242,117
Gross membership fees	9,432	9,908	9,703	10,370	10,591
Less return on cancellations	<u>41,124</u>	<u>41,524</u>	<u>75,059</u>	<u>48,044</u>	<u>55,040</u>
Net received from members	\$3,824,163	\$3,916,930	\$3,911,443	\$4,067,731	\$4,197,668
Interest on investments	34,318	44,293	57,413	96,465	130,214
Liability premiums	252,179	257,575	255,676	259,925	266,779
Depreciation on furniture and equipment	1,354	1,360	2,120	3,856	4,268
Advance from reinsurer					80,213
Retention adjustment			5,276		
Prior year unpaid loss adjustment	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>14,520</u>
Total income	<b><u>\$4,112,014</u></b>	<b><u>\$4,220,158</u></b>	<b><u>\$4,231,928</u></b>	<b><u>\$4,427,977</u></b>	<b><u>\$4,693,662</u></b>
<b><u>Disbursements</u></b>					
Gross losses paid	\$4,151,437	\$1,380,247	\$3,108,115	\$1,588,626	\$1,884,304
Less discount and salvage	3,450		21,700	2,250	1,000
Less reinsurance recovered	<u>2,609,724</u>	<u>856,731</u>	<u>1,108,631</u>	<u>385,066</u>	<u>72,516</u>
Net losses paid	\$1,538,263	\$ 523,516	\$1,977,784	\$1,201,310	\$1,810,788
Adjusting expense	5,851	4,851	6,306	5,980	5,628
Commissions to agents	299,404	301,485	293,354	311,521	336,440
Expenses of agents	4,500	7,149	7,523		

**STATEMENT OF INCOME AND DISBURSEMENTS (continued)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Salaries and expenses of					
Directors and Officers	\$ 4,421	\$ 8,687	\$ 1,295	\$ 1,590	\$ 2,876
Salaries of office employees	155,188	152,298	167,621	168,961	171,476
Rent	20	170	100	145	
Repair on real estate	2,005	750	1,121	819	609
Taxes on real estate	731	770		2,009	1,050
Insurance department licenses					
& fees	49,215	46,962	47,158	52,944	50,364
All other taxes	7,657	15,532	21,556	8,921	216,537
Advertising, printing & stationary	28,557	32,637	29,244	28,252	27,714
Telephone & postage	10,300	10,153	13,975	10,493	11,155
Reinsurance premiums paid	1,403,653	1,264,892	1,417,300	1,420,462	1,440,157
Liability premiums	227,824	223,513	232,805	255,954	241,634
Office expenses	2,319	1,564	3,145	2,285	2,706
Company insurance	19,545	15,477	15,668	22,511	22,947
Underwriting expenses			1	1,776	
Investment expenses	12		3,672	3,753	4,456
Meeting expenses	218	1,305	74	768	292
Secretary/Treasurer expense		658	713	674	
Professional dues	5,451	6,953	8,383	8,078	7,465
Equipment breakdown premium	78,444	79,395	81,043	83,032	78,297
Utilities	4,204	4,579	4,116	3,845	3,511
Office employee training	100		433	680	485
Wire fee	6,256				
Office equipment lease	7,660	6,830	6,649	7,761	8,922
Stop payment fee	33	241	363	364	516
Auto debit set up fee	212	78	76	226	41
Professional services	4,540	4,225	5,150	5,705	6,328
Bank fees					348
Legal expense	5,529	4,060	1,530		
Office equipment purchase	37	318	431	670	17
Other	225	2,904	(13)	224	45
Employee benefits	1,900				
Software expense	3,785	5,925	15,521	13,223	13,162
Office equipment repair/supplies	17,302	10,554	16,911	14,379	13,139
Investment loss	29,115				
Memorials		525	100	75	150
Depreciation	3,698	3,704	4,464	6,200	6,612
Conril expense				3,761	17,606
Travel	1,528	1104	856	525	756
Change in accounts payable		(1,088)	218,125	2,509	(1,348)
Equipment purchased		3,994	12,298	3,653	930

**STATEMENT OF INCOME AND DISBURSEMENTS (continued)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Prior year adjustment			\$ 172	\$ 8,755	
Prior year unpaid loss adjustment	_____	_____	577	166	_____
Total disbursements	<u>\$3,926,960</u>	<u>\$2,746,670</u>	<u>\$4,617,600</u>	<u>\$3,634,962</u>	<u>\$4,503,814</u>
Balance, end of year	<u>\$3,045,320</u>	<u>\$4,518,808</u>	<u>\$4,133,136</u>	<u>\$4,926,151</u>	<u>\$5,116,000</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2019**

**ASSETS**

**Ledger Assets**

Real estate	\$ 69,535	
Bonds	2,052,958	
Common stock	13,222	
Cash in office	50	
Certificates of deposit	1,225,000	
Cash deposited in banks	1,429,415	
Reinsurance receivable	11,736	
Investment in subsidiary	50,000	
NFMRA surplus note	<u>264,084</u>	
Total ledger assets		<u>\$5,116,000</u>

**Non-Ledger Assets**

Furniture	\$ 11,220	
Unrealized capital gain(loss) on investments	<u>(35,066)</u>	
Total non-ledger assets		\$ (23,846)

**Assets Not Admitted**

Furniture	\$ 11,220	
Investment in subsidiary	50,000	
NFMRA surplus note	<u>264,084</u>	
Total assets not admitted		<u>\$ 325,304</u>
Total admitted assets		<u>\$4,766,850</u>

## LIABILITIES AND SURPLUS

Losses adjusted and unpaid	\$492,626	
Less reinsurance	<u>15,013</u>	
Net unpaid losses		\$ 477,613
Unearned premiums		1,736,308
Accrued premium taxes		19,641
Accounts payable		3,164
Income taxes payable		7,213
Payroll taxes payable		2,454
Advanced reinsurance		<u>80,213</u>
Total liabilities		<u>\$2,326,606</u>
Surplus as regards policyholders		<u>\$2,440,244</u>
Total liabilities and surplus		<u>\$4,766,850</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 Association to comply therewith:

**Reinsurance Clause** - It is recommended that the Company amend its reinsurance contract to include an arbitration clause, an offset clause, and an error and omissions clause. It is also recommended that the Company include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**Action:** The Association has complied with the recommendation.

**Real Estate** - It is again recommended that the Association expense the remaining asset balance of its carpeting (\$1,964.57) and shelving (\$327.80) by debiting depreciation expense and crediting accumulated depreciation in the amount of \$2,292.37.

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

**Common Stock** - It is recommended that the Association take action to ensure that its investment holdings are in compliance with the investment policy as approved by the Board of Directors.

**Action:** The Association has complied with the recommendation.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Real Estate**

**\$ 69,535**

On August 15, 1995, the Association purchased an office building in Wilber, Nebraska. The original purchase price of the building was \$30,000. The Association subsequently made capitalized improvements to the building in amount of \$87,189, including \$27,997 for an addition to the office building that was completed in 2009. The Association determined the useful life of the office building and capitalized improvements to be fifty years which has resulted in calculated annual depreciation of \$2,344 for the current period. The examination found that a useful life of fifty years for some of these capitalized improvements, carpeting and shelving, was not reasonable based on the Accounting Practices and Procedures Manual SSAP No. 19. No examinations changes were made as the amount was deemed immaterial however, it is again recommended that the Association depreciate capitalized improvements such as carpeting and shelving over a useful life of three to five years or expense such improvements in the current year.

### **Bonds**

**\$2,052,958**

The Association holds investments in six mutual funds which were confirmed by examiners. The following schedule reflects the Association's mutual fund holdings and the associated cost of each:

TIAA Cref Short Term Bond	\$ 249,870
Lord Abbett Floating Rate	400,000
Nuveen Floating Rate	250,000
Nuveen Muni Bond Fund	251,601
Lord Abbett Short Duration Fund	500,885
Lord Abbett Inflation Focused Bond	<u>400,602</u>
Total	<b><u>\$2,052,958</u></b>



It was noted that the Association does not maintain a custodial agreement with Fidelity Investments. It is recommended that the Association obtain a custodial agreement with Fidelity Investments that complies with the required provisions of Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

It was also noted that the Association does not maintain evidence of quarterly approval of investments. It is recommended that the Association document review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

**Common Stock** **\$ 13,222**

The Association has invested in one restricted private issue common stock, NanoNation Inc., which has been valued at zero (\$0) on the Association's annual statement. The Association also has an investment in NAMICO class B common stock with a reported value of \$13,222 on the annual statement. The Association's 60 shares of NAMICO were confirmed by examiners with the issuer.

**Cash in Office** **\$ 50**

**Certificates of Deposit** **\$ 1,225,000**

This asset consists of five certificates of deposits totaling \$1,225,000. All deposits were verified by certifications signed by officials of the respective banks.

**Cash** **\$ 1,429,415**

The Association maintains a checking account with Farmers & Merchants Bank located in Wilber, Nebraska. This deposit was verified by obtaining a certification executed by a bank officer. The amount indicated thereon was reconciled to the Association's records as of December 31, 2019, by giving consideration to outstanding checks. In addition, the Association has a money market account with Fidelity Investments. The money market deposits were

verified by confirmations received. The following schedule reflects amounts confirmed from the respective financial institutions:

Farmers & Merchants Bank Checking	\$ 459,729	
Money Market	<u>969,686</u>	
Total	<u>\$1,429,415</u>	
<b><u>NFMRA Surplus Notes</u></b>		<b><u>\$ 264,084</u></b>

The Association purchased a surplus notes issued by the Association’s reinsurer, NFMRA in 2015. The note has an interest rate of 2.5% per annum with a current balance of \$264,084. These surplus notes are not considered liabilities or claims against the assets of NFRMA. The principal and/or interest can be paid only when the amount of the surplus of the reinsurance association over all liabilities is double that of the amount of the principal and/or interest then being paid. The Association agreed to buy the notes in lieu of realizing substantial increases in their reinsurance rates. The amounts of the surplus notes were confirmed with NFMRA.

These surplus notes are non-admitted in the Association’s 2019 Annual Statement in accordance with SSAP No. 41 of the NAIC Accounting Practices and Procedures Manual. SSAP No. 41, paragraph 10(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ is equal to the total capital and surplus, including surplus notes. The ‘statement factor’ is equal to the total capital and surplus, including surplus notes, less than the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus. If ‘statement factor’ is negative, the surplus note(s) shall be carried at zero.”

Calculation of the NFMRA’s surplus notes is as follows:

\$ 5,030,934	Admitted assets (including surplus note)
<u>2,326,606</u>	Less liabilities
\$ 2,704,328	Total capital, surplus, and surplus note

\$ 4,766,850	
<u>5%</u>	of admitted assets
\$238,342.50	

Greater of \$238,343 or \$6,000,000

\$ 2,704,328
<u>- 6,000,000</u>
$$(3,295,672) / 2,704,328 = -1.22$ statement factor

**Reinsurance Receivable** **\$ 11,736**

This asset represents the amount due from NFMRA for claims paid in excess of retention.

**Investment in Subsidiary** **\$ 50,000**

This non-admitted asset represents the Association's investment in the Western United Agency.

**Furniture, Fixtures and Supplies** **\$ 11,220**

This non-admitted asset reflects the carrying value of the Association's office equipment and supplies. The total of these items is deducted as a non-admitted asset in both the Association's 2019 Annual Statement and the financial statements of this report in accordance with statutory accounting principles.

**Unrealized Capital Gain(Loss) on Investments** **\$ (35,066)**

This non-ledger asset reflects the Associations adjusting entry to report common stocks at market value in the 2019 Annual Statement.

**Unpaid Losses****\$ 492,626**

This amount consists of adjusted and unpaid losses at year-end for the loss years of 2017 through 2019. The following schedule illustrates the amount of adjusted and unpaid losses outstanding for each loss year:

2019	\$463,642
2018	13,198
2017	<u>15,786</u>
Total	\$492,626

Examination evidence revealed that the Association has met their retention for reinsurance coverage in 2017. Examination testing of the above amounts found the Association's amount for adjusted and unpaid losses to be reasonable and, as such, the amount has been accepted for purposes of this examination.

**Reinsurance Recoverable on Unpaid Losses****\$ (15,013)**

This contra-liability represents the projected 2017 unpaid losses the Association anticipates recovering from their reinsurer as retention was met. The Association's amount of reinsurance recoverable on unpaid losses has been accepted for purposes of this examination.

**Unearned Premiums****\$1,736,308**

This liability represents the portion of premiums received that are unearned as of the valuation date. The Association's unearned premium amount was recalculated by examiners and found to be accurate. The unearned premium amount reported has been accepted for purposes of this examination.

**Accrued Premium Taxes** **\$ 19,641**

This accrued liability represents premium taxes, licenses and fees incurred in 2019 and will be paid after the valuation date. This amount has been accepted for purposes of this examination.

**Accounts Payable** **\$ 3,164**

This accrued liability represents other expenses incurred in 2019 and will be paid after the valuation date. The examination amount has been accepted for purposes of this examination.

**Income Taxes Payable** **\$ 7,213**

This accrued liability represents income taxes incurred in 2019 and will be paid after the valuation date. The examination amount has been accepted for purposes of this examination.

**Payroll Taxes Payable** **\$ 2,454**

This accrued liability represents payroll taxes incurred in 2019 and will be paid after the valuation date. The examination amount has been accepted for purposes of this examination

**Advanced Reinsurance** **\$ 80,213**

This amount represents amounts received on reinsurance claims over \$40,000 as allowed under the reinsurance contract. The amount is due back the reinsurer if retention is not met for 2019. The examination amount has been accepted for purposes of this examination.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Real Estate** – It is again recommended that the Association depreciate capitalized improvements such as carpeting and shelving over a useful life of three to five years or expense such improvements in the current year.

**Fidelity Bond** - It is recommended that the company increase its fidelity bond to \$100,000-\$125,000 in accordance with the suggested NAIC limits.

**Custodial Agreement** - It is recommended that the Association obtain a custodial agreement with Fidelity Investments that complies with the required provisions of Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

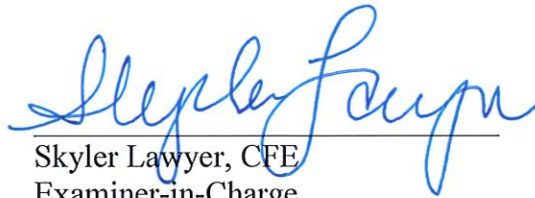
**Investment Approval** - It is recommended that the Association document review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

**ACKNOWLEDGMENT**

The courteous cooperation extended by the Officers and employees of the Association during this examination is hereby acknowledged.

In addition to the undersigned, Daniel Rousseau, AFE, Financial Examiner with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



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Skyler Lawyer, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,  
County of Lancaster,

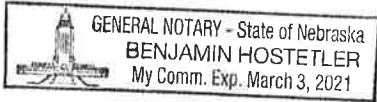
Skylar Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Western United Mutual Insurance Association
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 Western United Mutual Insurance Association 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.

*Skylar Lawyer*  
Examiner-in-Charge's Signature

Subscribed and sworn before me by *Benjamin Hostetler* on this *3<sup>rd</sup>* day of *March*, 20*21*.



(SEAL)

*Benjamin Hostetler*  
Notary Public

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