

# CERTIFICATION

March 15, 2012

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

Report of Examination of Financial Condition

**Republican Valley Mutual Protective Association**  
(an unincorporated mutual life insurance association)

Riverton, Nebraska

as of

December 31, 2010

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

**REPUBLICAN VALLEY MUTUAL PROTECTIVE ASSOCIATION**

(an unincorporated mutual life insurance association)

Located at

262 O'Sullivan St.  
Riverton, Nebraska 68972

Report of Examination

as of

December 31, 2010

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

MAR 15 2012

**FILED**

State of Nebraska

Department of Insurance

Riverton, Nebraska  
January 31, 2012

Honorable Bruce Ramage  
Director of Insurance  
State of Nebraska  
941 "O" Street, Suite 400  
Lincoln, NE 68508

Dear Sir:

Pursuant to your instructions and in accordance with statutory requirements, an examination has been conducted on the

**REPUBLICAN VALLEY MUTUAL PROTECTIVE ASSOCIATION**  
(an unincorporated mutual life insurance association)

Located at  
Riverton, Nebraska 68972

(hereinafter also referred to as the "Association") and the report of such examination is herewith submitted for your consideration and review.

**SCOPE OF EXAMINATION**

The Association was previously examined as of December 31, 2006. This examination covered the intervening period to December 31, 2010 and included such 2007 proceedings or transactions as were deemed pertinent. This examination has been conducted under the provision of Neb. Rev. Stat. §44-386.04, which states that, "the books and records of every such association and every Officer, Director, or employee thereof shall be subject to the inspection and examination of the Department of Insurance", and §44-386.08 of said Statutes which allows that, "the Director of Insurance may adopt rules and regulations for the administration and enforcement of the provisions of §44-386.01 to §44-386.07, and for the procedures for examination of books and records, for the requirement of reports, and for procedures for approval of changes or additions of evidence of insurance coverage to be used by the

associations". This examination has also been conducted in order to ascertain that the Association has complied with the provisions of the Neb. Rev. Stat. §44-386 along with other applicable insurance and corporate statutes.

The books and records of the Association, as presented to the examiner, were reviewed. Income and disbursement items were checked to the Association's 2010 Annual Statement filed with the Nebraska Department of Insurance. Previous year's income and disbursement items were checked to the applicable filed annual statements to the extent deemed appropriate.

### **HISTORY**

The Association was originally formed on May 10, 1951 as an unincorporated mutual life insurance association. Effective October 1, 1993, Franklin County Mutual Life Association merged into the Association. Effective November 1, 1996, Hall County Mutual merged into the Association. Effective July 1, 2006, Valley Mutual Protective Association merged into the Association. Effective February 1, 2010, Furnas County Mutual Protective Association merged into the Association.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

The Revised Articles of Association provide that, "the powers of this Association shall be vested in a Board of Directors consisting of not less than five members who shall serve until the next annual meeting, or until their successors are elected and qualified. If vacancies happen by resignation, or otherwise, while the Association is not in meeting, the remaining members of the Board of Directors

may make a temporary appointment until the next annual meeting of the membership, which shall then fill such vacancy for the remainder of said Directors' term."

The Revised Articles of Association provide that, "the Board of Directors shall have the power to make, adopt and/or change rules and regulations for the lawful conduct of the business of this Association, to elect Officers and appoint agents and prescribe the powers and duties thereof, to fill any vacancy on the Board of Directors until the membership at the association's annual meeting elects a Director for said vacancy, and generally have power to manage and conduct the business of this Association."

Those persons serving the Association as Board members at December 31, 2010, were as follows:

<u>Name</u>	<u>Address</u>
Joan Fries	Upland, Nebraska
Doug Zuellner	Campbell, Nebraska
Audrey Peil	Ayr, Nebraska
Marilyn Chisholm	Franklin, Nebraska
Eldon Worman	Hastings, Nebraska

### Officers

The Revised Articles of Association provides that, "the Officers of this Association shall be a President, Vice-President, Secretary and Treasurer. The President and Vice-President shall be elected from their own number by the Board of Directors. The Secretary-Treasurer shall be appointed by a majority vote of the Board of Directors... The Officers shall hold office until their successors are duly elected and qualified." Officers serving the Association at December 31, 2010 were as follows:

<u>Name</u>	<u>Office</u>	<u>2010 Remuneration</u>
Joan Fries	President	\$ 0.00
Audrey Peil	Vice President	0.00
Sharron K. Worman	Secretary-Treasurer	3,324.60

## **CORPORATE RECORDS**

The current Secretary-Treasurer, who was appointed in 2006, made available minutes of all annual and special meetings since 1992. The Secretary-Treasurer also made available for review the current Articles of Association and application form.

## **FIDELITY BOND**

The Association does not maintain any type of fidelity bond or other insurance coverage.

## **PLAN OF ASSOCIATION**

The objective of the Association, as set out in its Revised Articles of Association, is to insure the lives of its membership against, “the hazard of death by the execution of valid mutual obligations whereby each member agrees to pay into this Association the sum of \$1.25 within thirty days after receiving notice of the death of any member of this Association, out of which call or assessment there shall be paid the lawful and necessary expenses of this Association (which shall in no case exceed 20% of such call or assessment), the balance remaining to be paid to such beneficiary or beneficiaries as were named by the member or to his or her estate if no beneficiaries were named.”

As provided in the Revised Articles of Association, the expenses of the Association, “shall be limited to the actual costs of conducting the business of this Association, such as postage, printing, purchasing of books and records, and other similar articles necessary, and the sum of \$5.00 to each Officer and/or employee of this Association except the Secretary and Treasurer thereof, same to be computed upon the basis of the time which each such Officer and/or employee of this Association is

actually engaged in the business thereof. The Secretary and Treasurer of this Association shall be paid a salary not to exceed the sum of \$10.00 per day as provided by Section 44-386.”

**Membership**

The Revised Articles of Association state that, “the Association shall be limited to 2,500 members, all of whom shall, upon their initial application, be residents of Nebraska, and between the ages of 8 and 65 years, both inclusive (counting nearest birthday), and in good health, with no known terminal diseases.” A provision in the current application form states that a member may leave the territory embraced by the Association and shall retain membership.

**RECONCILIATION OF MEMBERSHIP**

A reconciliation of the Association membership for the current four-year period ending December 31, 2010 is reflected in the following schedule:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Membership, beginning	<u>1,403</u>	<u>1,217</u>	<u>1,083</u>	<u>969</u>
Add:				
New members	3			522*
Reinstated members	<u>1</u>	<u>    </u>	<u>    </u>	<u>2</u>
Total Additions	<u>4</u>	<u>    </u>	<u>    </u>	<u>524</u>
Deduct:				
Terminations as paid death claims	114	82	83	110
Terminations as unpaid death claims	7	13	9	
Terminations death not yet assessed	12	10		
Terminations due to non-payment	20	10	9	30
Terminations at request of member	<u>37</u>	<u>19</u>	<u>13</u>	<u>34</u>
Total Deductions	<u>190</u>	<u>134</u>	<u>114</u>	<u>174</u>
Membership, ending	<u>1,217</u>	<u>1,083</u>	<u>969</u>	<u>1,319</u>

\* - Reflects merger with Furnas County Mutual Life Association

## ACCOUNTS AND RECORDS

The current Secretary-Treasurer made available records of the Association from 2007 through the date of the on-site examination in January 2012.

The Association maintains an alphabetical file of all active membership applications. The Association maintains a membership listing alphabetically on which assessments are checked off as they are received. Individual claim files are established which include death certificate, original application and any change in beneficiary. Accounting records include a checkbook and a separate membership listing for each month's assessments mailed. Also maintained are deposit slips, a checkbook register and all canceled checks.

The Association's current billing cycle is on a monthly basis. Notification cards are sent to members each month. When the Association receives payments, the Secretary-Treasurer records each member's payment on a membership listing and reflects when payment was received.

The ratio of expenses paid, excluding losses, to total assessments and fees collected for the current four year period, as contained in the Association's filed Annual Statements, are reflected in the following schedule:

<u>Year</u>	<u>Ratio</u>
2007	10.93%
2008	12.05
2009	14.13
2010	12.35

The above ratios are within the maximums permitted by the Association's application form and Nebraska Insurance Statutes.

## FINANCIAL STATEMENTS

The following financial statements reflect the cash flow and transactions of the Association for the four-year period ending December 31, 2010, as reported in its filed Annual Statements:

<u>Income</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross assessments	\$179,971.80	\$143,342.98	\$116,274.29	\$173,506.41
Prior year assessments received	1,128.75	243.75	119.25	224.19
Prepaid assessments	3,947.45	3,273.40	4,059.35	4,279.59
Bal. of Valley Mutual acct. transfer	781.46			
Money from Furnas Co. merger				12,209.60
Assess. collected – not yet paid	<u>9,701.25</u>	<u>16,300.25</u>	<u>                    </u>	<u>                    </u>
<b>Total Income</b>	<b><u>\$195,530.71</u></b>	<b><u>\$163,160.38</u></b>	<b><u>\$120,452.89</u></b>	<b><u>\$190,219.79</u></b>
 <u>Disbursements</u>				
Claims paid	<u>\$164,170.00</u>	<u>\$129,355.00</u>	<u>\$120,900.00</u>	<u>\$145,650.00</u>
Salaries: Sec-Tres.	\$ 3,877.05	\$ 3,324.60	\$ 3,324.60	\$ 3,324.60
Asst. Sec-Tres.	3,900.00	3,600.00	3,600.00	3,600.00
Other compensation	41.45	550.80		
Board of Directors/mileage	70.00	70.00	125.00	160.65
Rent	1,430.00	1,320.00	1,320.00	1,320.00
Insurance Dept. fees/exam	2,358.16	5.00	5.00	5.00
Printing, stationary and postage	7,408.02	6,654.51	7,169.31	12,430.29
Telephone	91.12	25.36		
Tax preparation fee	100.00	175.00	110.00	120.00
Return checks and reimbursement on paid aheads	322.75	241.25	115.25	86.85
US Treasury for unclaimed property	70.00			
2007 assessment check paid		1,300.00		
Refund for a check paid in error			600.00	
Supplies	<u>                    </u>	<u>                    </u>	<u>57.86</u>	<u>381.36</u>
<b>Expenses paid</b>	<b><u>\$ 19,668.55</u></b>	<b><u>\$ 17,266.52</u></b>	<b><u>\$ 16,427.02</u></b>	<b><u>\$ 21,428.75</u></b>
<b>Total Disbursements</b>	<b><u>\$183,838.55</u></b>	<b><u>\$ 146,621.52</u></b>	<b><u>\$137,327.02</u></b>	<b><u>\$167,078.75</u></b>
<b>Net change in cash for the year</b>	<b><u>\$ 11,692.16</u></b>	<b><u>\$ 16,538.86</u></b>	<b><u>\$ (16,874.13)</u></b>	<b><u>\$ 23,141.04</u></b>

**BALANCE SHEET**

	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
<b><u>Assets</u></b>				
Cash deposited in bank	<u>\$27,730.67</u>	<u>\$35,868.53</u>	<u>\$28,934.65</u>	<u>\$52,268.09</u>
Total Assets	<u>\$27,730.67</u>	<u>\$35,868.53</u>	<u>\$28,934.65</u>	<u>\$52,268.09</u>
<b><u>Liabilities</u></b>				
Expenses incurred and not paid				\$ 275.40
Prepaid assessments	\$ 741.25	\$ 700.25	\$ 882.00	1,022.75
Claims assessed and not paid	<u>8,960.00</u>	<u>15,600.00</u>	<u>9,900.00</u>	<u>          </u>
Total Liabilities	<u>\$ 9,701.25</u>	<u>\$16,300.25</u>	<u>\$10,782.00</u>	<u>\$ 1,298.15</u>

**WORKING FUNDS**  
**December 31, 2010**

Cash in bank	\$61,242.25
Add: Deposits not recorded by bank	192.50
Less: Outstanding checks	<u>9,166.66</u>
Cash deposited in bank	\$52,268.09
Subtract: Deposits for assessments of final claims not fully paid	\$ 1,022.75
Add: Checks covering expenses for final benefits, which have not been made	<u>275.40</u>
Total working fund balance, as of December 31, 2010	<u>\$50,969.94</u>

**LEDGER ASSETS**

**Cash Deposited In Bank** **\$52,268.09**

Cash deposited in the Association's checking account was confirmed and reconciled to the bank statement after consideration of any outstanding checks.

## LIABILITIES

Expenses Incurred But Not Paid	\$ 275.40
Prepaid Assessments	<u>1,022.75</u>
Total Liabilities	<u>\$1,298.15</u>

Claims assessed were verified to the detail listings of collected assessments and assessments paid in advance at December 31, 2010.

## COMPLIANCE WITH PREVIOUS EXAMINATIONS

Recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Association.

1. Accounts and Records: It is recommended that the Association retain a fixed percentage of claims assessed in order to cover expenses. Expenses should be spread out over multiple assessments so actual claim payments vary as little as possible from month to month.

Action: The Association has complied.

2. Accounts and Records: It is recommended that the Association not pay claims until after all assessments associated with one billing have been received.

Action: It appears as if the Association is collecting a substantial amount of the assessment in the first month due which is enough to pay claims. There is a minimum amount of money that is received in the following months that would cover expenses. The Association is no longer expected to wait and pay claims until all money has been received as this could result in a working fund that is in violation of Nebraska §44-386. The Association's current treatment of claim payments is acceptable.

## COMMENTS AND RECOMMENDATIONS

1. Election of Directors and Officers: In the 2010 annual meeting minutes reviewed by the examiner, there is no indication that a Board of Directors was elected. It appears that the Association is in violation of Nebraska §44-386.03 which states in part, “at such annual meeting there shall be transacted such business of the Association as may come before it, which business shall include but not be limited to the election of Officers or Directors from among the members”. It is recommended that the Association comply with Nebraska §44-386.03 by electing Directors at annual meetings and keeping detailed documentation as to who is being elected and for what position.

## CONCLUSION

The courtesy and cooperation extended by the Secretary-Treasurer, Sharron K. Worman, of the Association during the course of this examination is hereby acknowledged.

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

Respectfully submitted,



Andrea Szwanek, CFE  
Financial Examiner  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

I, Andrea Szwaneck, 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 Republican Valley.
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 Republican Valley 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.

Andrea Szwaneck  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Andrea Szwaneck on this 26<sup>th</sup> day of March, 2012.



(SEAL)

Tracy A. Gruhn  
Notary Public

My commission expires 4/7/2015 [date].

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GENERAL NOTARY - State of Nebraska  
TRACY A. GRUHN  
My Comm. Exp. April 7, 2018

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