

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

JUL 22 2015

FILED

# CERTIFICATION

July 22, 2015

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, 2014

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

Take notice that the proposed report of the financial examination of

**WESTERN UNITED MUTUAL INSURANCE ASSOCIATION**

dated as of December 31, 2014, verified under oath by the examiner-in-charge on May 20, 2015, and received by the company on July 8, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 8 day of July, 2015.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**Western United Mutual Insurance Association**

**as of**

**December 31, 2014**



Wilber, NE  
May 19, 2015

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

Dear Sir:

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

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

(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, 2010, by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2014, and includes such subsequent transactions as were deemed 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 both the NAIC Financial Condition Examiners Handbook (Handbook) and 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, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Association. 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, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Association's property and interests were reviewed. 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.

Data reflecting the Association's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report".

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. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

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, 2014.

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 Restated 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 Restated 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 Bylaws. 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 state, "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 state, "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.”

Directors serving the Association at December 31, 2014 were:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
George J. Hynek	Wilber, Nebraska	2015
Robert Schoen	Beatrice, Nebraska	2015
Eugene Wollenburg	DeWitt, Nebraska	2015
Verdell Koch	DeWitt, Nebraska	2016
Randall Huls	Cortland, Nebraska	2016
S. Scott Bartels	Western, Nebraska	2017
John L. Kastanek	Wilber, Nebraska	2017
Kenneth J. Zoubek	Milligan, Nebraska	2017

### 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, 2014:

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

Officers receive remuneration as follows: Chairman, \$2,250 per year; Vice-Chairman, \$1,750; and the Secretary-Treasurer, \$42,000 per year. The Officers and Directors receive \$75.00 per meeting attended. All Officers and Directors receive the federally mandated rate per mile for traveling on Association business.

### 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 must be Directors. The General Manager

shall be an ex officio, non-voting member”. The committee is currently made up of Chairman John Kastanek, Vice-Chairman 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 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 must be Directors. The General Manager shall be an ex officio, non-voting member”. This committee is currently made up of Chairman John Kastanek, Vice-Chairman Randall Huls, and Secretary-Treasurer Kenneth Ripa. This committee shall be subject to the control of the Board of Directors.

### **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.

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

The Association is protected by an Employee Dishonesty policy, which provides coverage up to \$25,000. In addition, the Association has two Insurance Agents, Errors and Omissions policies in effect. Both policies provide coverage in the amount of \$4,000,000 with a deductible in the amount of \$5,000. These policies cover two separate groups of agents, as limits associated with having only one policy were deemed inadequate. 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.

### **REINSURANCE**

During each year covered by this examination, the Association had in effect a reinsurance agreement with the Nebraska Farmers Mutual Reinsurance Association (NFMRA), Wahoo, Nebraska. The term of each reinsurance agreement was for a period of one year. The latest agreement was executed as of January 1, 2015.

At the time of the execution of the reinsurance agreement in effect on December 31, 2013, the Association, as a member Association, represented that it had the sum of \$1,119,883,752 of fire insurance in-force and \$1,119,883,752 of wind insurance in-force covered by this agreement.

The coverage under this agreement is as follows:

Aggregate - NFMRA is liable for 100% of the amount, if any, by which the Association's aggregate ultimate net losses incurred during the term of this contract exceed your 2014 Retention (\$2,700 per million). The Association's aggregate retention for 2014 is \$1,511,843

Excess Per Risk - Prior to the Association incurring ultimate net losses exceeding their aggregate retention mentioned above, NFMRA will be liable for 100% of the excess greater than \$40,000.00

on a single risk up to and equal to \$460,000.00 (\$1,600,000 as respects to risks of a single farm outbuilding or contents therein). If the Association's net losses do not exceed the aggregate retention for the year, the amount recovered is to be refunded to NFMRA prior to March 1 of the following year.

Mobile Home Risk- The Association shall retain the first \$1,000 of each risk, each loss, as respects to mobile home risks located in trailer courts. Also, limit of coverage shall be \$48,000 for losses in any one trailer court. Two or more trailers in one location shall constitute a trailer court.

Limit Per Risk- Single risks in excess of \$1,200,000 as respects to farm outbuildings and machinery pertaining to farmowners policies or \$500,000 for all other covered property and/or policies, any one risk shall be pro-rata reinsured by each member company.

The contract reviewed contained a standard insolvency clause, but did not contain an arbitration clause, an offset clause, or an errors and omissions clause. The contract also did not contain 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 financial statements reflect the Association's operations during the examination period and the financial condition of the Association at December 31, 2014 and its transactions during the year 2014 as determined through this examination.

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance, beginning of year	<u>\$2,486,675</u>	<u>\$2,595,607</u>	<u>\$3,433,547</u>	<u>\$3,383,907</u>
<b><u>Income</u></b>				
Gross receipts from assessments	\$3,015,357	\$3,024,765	\$3,128,263	\$3,294,320
Gross membership fees				9,816
Less return on cancellations	<u>53,062</u>	<u>58,416</u>	<u>57,907</u>	<u>56,891</u>
Net received from members	\$2,962,295	\$2,966,349	\$3,070,356	\$3,247,245
Income on investments	13,651	10,916	40,226	52,263
Liability premiums	239,387	238,491	251,279	253,167
Gain (loss) on sale of investments		258,571		
Service charges	11,121	10,123	10,397	
Depreciation on furniture & equipment	1,656	2,164	2,250	2,027
Other adjustments	<u>272,222</u>	<u>          </u>	<u>94,503</u>	<u>6,726</u>
Total Income	<u>\$3,500,332</u>	<u>\$3,486,614</u>	<u>\$3,469,011</u>	<u>\$3,561,428</u>
<b><u>Disbursements</u></b>				
Gross losses paid	\$1,725,084	\$ 998,085	\$1,681,464	\$11,820,904
Less discount and salvage	10,190	17,151	15,300	16,200
Less reinsurance recovered	<u>365,907</u>	<u>31,649</u>	<u>2,501</u>	<u>9,937,306</u>
Net losses paid	<u>\$1,348,987</u>	<u>\$ 949,285</u>	<u>\$1,663,663</u>	<u>\$1,867,398</u>
<b><u>Expenses</u></b>				
Adjusting expense	\$ 8,147	\$ 5,489	\$ 5,523	\$ 15,646
Commissions to agents	229,236	240,315	244,327	248,261
Expenses of agents	415	7,260	413	435
Expenses of Directors and Officers	4,130	3,366	3,452	3,353
Salaries of office employees	139,218	137,756	135,022	153,038
Rent	55	55	298	145
Repair of real estate	548	596	2,630	1,446
Taxes on real estate	983	962	854	769
Insurance department licenses and fees	43,336	35,713	34,223	39,010
All other taxes	11,605	11,223	10,166	10,381
Advertising, printing and stationery	20,121	25,702	23,209	25,857
Telephone and postage	10,492	12,068	13,101	13,616

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Reinsurance premiums paid	\$ 795,323	\$ 874,981	\$ 1,058,371	\$ 1,317,504
Liability premiums	205,531	210,513	220,482	211,904
Office expenses	2,547	2,527	3,074	2,192
Insurance coverage	18,060	10,874	21,868	22,414
Meeting expense	100	393	865	136
Professional dues	5,221	5,689	5,589	6,441
Equipment breakdown premium			22,679	76,416
Utilities	4,277	4,233	4,362	4,265
Office equipment lease	13,687	13,392	13,348	8,747
Stop payment fee	148	124	229	71
Auto debit set up fee	222	94	122	136
Wire fee		15		
Professional services	3,330	3,765	3,967	4,963
Legal expenses		0	2,162	713
Secretary/treasurer expense		40	623	731
Equipment purchases	173	3,914	806	1,731
Other expenses	86	64,332	(19)	96
Employee benefits	2,100	2,100	2,100	3,900
Software expense	4,085	5,150	3,717	7,339
Office equipment repair/supplies	10,791	11,445	10,130	10,854
Investment loss	511,228		5,368	14,823
Investment expense			32	
Office employee training	409	83	1,107	
Building depreciation	4,000	4,507	4,594	4,373
Memorials	50	100		50
Travel	1,896	1,191	628	240
Unrealized losses in prior year assets			297	
Change in accounts payable	<u>(9,136)</u>	<u>(579)</u>	<u>(4,731)</u>	<u>5,677</u>
 Total expenses	 <u>\$2,042,413</u>	 <u>\$1,699,389</u>	 <u>\$1,854,988</u>	 <u>\$2,217,671</u>
 Total disbursements	 <u>\$3,391,400</u>	 <u>\$2,648,674</u>	 <u>\$3,518,651</u>	 <u>\$4,085,069</u>
 Balance, end of year	 <u>\$2,595,607</u>	 <u>\$3,433,547</u>	 <u>\$3,383,907</u>	 <u>\$2,860,266</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2014**

**ASSETS**

**Ledger Assets**

Real estate	\$ 81,254	
Common stock	2,043,222	
Cash in office	50	
Cash deposited in banks	315,896	
NFMRA surplus notes	<u>419,844</u>	
Total ledger assets		\$2,860,266

**Non-Ledger Assets**

Furniture, fixtures, and supplies	\$ 3,304	
Unrealized capital gain(loss) on investments	<u>(26,787)</u>	
Total non-ledger assets		\$ (23,483)

**Assets Not Admitted**

Furniture, fixtures, and supplies	\$ 3,304	
NFRMA surplus notes	<u>419,844</u>	
Total assets not-admitted		<u>\$ 423,148</u>
Total admitted assets		<u>\$2,413,635</u>

## LIABILITIES AND SURPLUS

Unpaid losses	\$ 1,159,073
Reinsurance recoverable on paid and unpaid losses	<u>(1,128,639)</u>
Net unpaid losses	\$ 30,434
Unearned premiums	1,386,564
Accrued premium taxes	15,834
Liability premium payable	<u>10,909</u>
Total liabilities	<u>\$ 1,443,741</u>
Surplus as regards policyholders	<u>\$ 969,894</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:

**Investment Activity** - It is recommended that the Board of Directors comply with Neb. Rev. Stat. 44-5105 and implement policies and procedures that will provide better control and oversight of the Association's investments, including adopting a written investment policy.

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

**Real Estate** – It is 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.

**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.

**Preferred Stock and Common Stock** - It is recommended that the Association reduce the value of its restrictive private issue preferred and common stock to zero (\$0) in future annual statement filings. Further, restricted private issue securities are not recommended as an authorized investment for an insurer of this size.

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

**Cash** - It is recommended the Association reconcile its investment cash account formerly utilized with its investment broker to zero (\$0) by debiting an expense account (investment reconciliation error/expense) and crediting the cash account (cash in investment account).

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

### **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

#### **Real Estate**

**\$ 81,254**

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.

#### **Common Stock**

**\$ 2,043,222**

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.

In addition to the individual common stocks, the Association also holds investments in eight mutual funds which were confirmed by examiners. The following schedule reflects the Association's mutual fund holdings and the associated cost of each:

Lord Abbett Floating Rate	\$260,000
Lord Abbett Short Duration Fund	260,000
Lord Abbett Total Return	260,000
Nuveen Floating Rate	250,000
Nuveen Short Term	250,000
Pimco Low Duration	250,000
Western Asset Adjusting Rate	250,000
Western Asset Short Term	250,000
Total	<u>\$2,030,000</u>

The Association's common stock holdings are in violation of the investment policy that was approved by the Board of Directors. For 2014, the Association had a surplus to gross premium ratio between 50-100% which, per the Association's investment policy, would limit equity investments to no more than 10% of surplus. Using the year-end 2013 surplus, which would govern 2014 investments, the Association would only be allowed to invest up to approximately \$167,000 in equity securities. 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.

**Cash** **\$ 315,946**

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, 2014, by giving consideration to outstanding checks. In addition, the Association has several money market accounts. The money market accounts offer a better rate of return than the Association's checking account. The money market deposits were verified by confirmations received from the various banking

institutions. The following schedule reflects amounts confirmed from the respective financial institutions:

Cash in office	\$ 50
Farmers & Merchants Bank Checking	3,108
First State Bank Checking	476
Farmers & Merchants Bank Money Market	3,016
First State Bank Money Market	6,394
Security First Bank Money Market	2,704
Pinnacle Bank Money Market	5,596
Smith Barney Money Market	291,959
Union Bank & Trust Co. Money Market	<u>2,643</u>
Total	<u>\$315,946</u>

**NFMRA Surplus Notes**

**\$ 419,844**

The Association purchased two surplus notes issued by the Association’s reinsurer, NFMRA. The first surplus note issued in 2005 has an interest rate of 4% per annum with a current balance of \$44,844. The second surplus note issued in 2015 has an interest rate of 2.5% per annum with a current balance of \$375,000. 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 2014 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:

\$7,206,699	Admitted assets (including surplus note)
<u>6,031,077</u>	Less liabilities
\$1,175,622	Total capital, surplus, and surplus note

\$7,206,699	
<u>5%</u>	of admitted assets
\$ 360,335	

Greater of \$360,335 or \$6,000,000

\$ 1,175,622
<u>- 6,000,000</u>
\$(4,824,378) / 1,175,622 = -4.10 statement factor

**Furniture, Fixtures and Supplies** **\$ 3,304**

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 2014 Annual Statement and the financial statements of this report in accordance with statutory accounting principles.

**Unrealized Capital Gain(Loss) on Investments** **\$ (26,787)**

This non-ledger asset reflects the Association’s adjusting entry to report common stocks at market value in the 2014 Annual Statement.

**Unpaid Losses** **\$ 1,159,073**

This amount consists of adjusted and unpaid losses at year-end for the loss years of 2009 through 2014. The following schedule illustrates the amount of adjusted and unpaid losses outstanding for each loss year:

2014	\$1,033,629
2013	93,153
2012	28,244
2011	2,190
2010	0
2009	<u>1,857</u>
Total	\$1,159,073

Examination evidence revealed that the Association has met their retention for reinsurance coverage for all of the above loss years with the exception of 2012 and 2011. 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** **\$(1,128,639)**

This contra-liability represents the amount the Association anticipates recovering on unpaid losses from their reinsurer. This amount represents the gross unpaid losses calculated above less the amounts for 2012 and 2011 in which the reinsurance aggregate retention was not met. Examination evidence determined that the Association's gross losses for 2012 and 2011 will not meet the retention with the inclusion of the unpaid loss amounts above. The Association's amount of reinsurance recoverable on unpaid losses has been accepted for purposes of this examination.

**Unearned Premiums** **\$ 1,386,564**

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.

**Taxes, Licenses and Fees** **\$ 15,834**

This accrued liability represents premium taxes, licenses and fees incurred in 2014 and will be paid after the valuation date. The examination amount has been accepted for purposes of this examination.

**Liability Premium Payable**

**\$ 10,909**

This accrued liability represents premium (liability) costs that were incurred in 2014 and will be paid after the valuation date. The examination amount has been accepted for purposes of this examination.

**Reinsurance Payable**

During the course of the examination it was determined that the Association received a duplicate reinsurance payment for a 2010 loss year claim from the Nebraska Farmers Mutual Reinsurance Association (NFMRA). The total amount of the payment was \$6,143 which should be recorded as an amount payable from the Association to the reinsurer. No exam change was made as the amount was a one-time matter and was deemed immaterial.

The Association also placed twelve facultative reinsurance policies with NFMRA during 2014 for which they never received a remittance notice. While the Association had not received a billing statement, the Association could have contacted NFMRA to obtain the amount owed or generated an estimate based on the total amount of risk ceded multiplied by the average reinsurance rates charged per thousand of ceded risk. Examiners contacted NFMRA and determined that the amount of ceded premium owed by the Association totaled \$15,169. No exam change was made as the amount was a one-time matter and deemed immaterial.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**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.

**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.

**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.

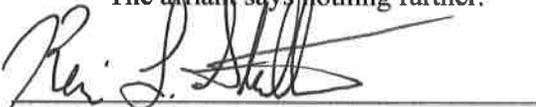
State of Nebraska,

County of Lancaster,

Kevin L. Stubbs, 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 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.

  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Kevin Stubbs on this 20 day of May, 2015.



(SEAL)

  
Notary Public

My commission expires Dec 24, 2017 [date].