

CERTIFICATION

August 1st, 2014

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

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2013

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.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
AUG 01 2014

FILED

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Bruce R. Ramage

DIRECTOR OF INSURANCE

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CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

dated as of December 31, 2013, verified under oath by the examiner-in-charge on July 2, 2014, and received by the company on July 8, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 21 day of July, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

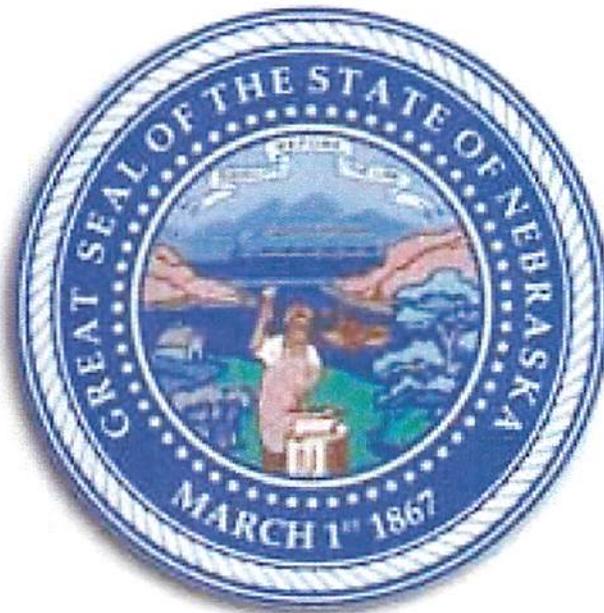
EXAMINATION REPORT

OF

WASHINGTON COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2013



Blair, Nebraska
June 30, 2014

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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, 2009 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, 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 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 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, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. 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 Company'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 Company's general plan of operation.

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

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. The Company'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 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, 2013.

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 "Washington County Mutual Insurance Company". The Company's Amended By-Laws allow for them 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

Membership

The Company's Amended Articles of Incorporation states, "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." The Amended Articles of Incorporation and Amended By-Laws further provide that ten members present shall constitute a quorum. According to the Amended By-Laws, the annual meeting is to be held in Blair, Nebraska on the second Friday after January 1st of each year.

Board of Directors

Section 5 of the Amended By-Laws require 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, 2013:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
James Anderson	Blair, Nebraska	2014
Daniel Magill	Herman, Nebraska	2014
John Wolsmann Sr.	Blair, Nebraska	2014
Wesley Andersen	Kennard, Nebraska	2015
Robert Petersen	Blair, Nebraska	2015
Donald Rasmussen	Blair, Nebraska	2015
Gerald Kobs	Blair, Nebraska	2016
Jeffrey Quist	Blair, Nebraska	2016
Leland Vogt	Blair, Nebraska	2016

Each Director received \$50.00 for each meeting attended.

Officers

The Company’s Amended Articles of Incorporation provide, “the members of this association shall elect ... a President, Vice-President, Secretary, Treasurer, and such other Officers as are necessary to carry on the business of the Company.”

The Company’s Amended By-Laws state, “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, 2013:

<u>Name</u>	<u>Office</u>
Robert Petersen	President
James Anderson	Vice-President
Rose Marie Brummer	Secretary & Treasurer

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Nebraska. The Amended By-Laws provide that the Company may insure farm property, real and personal, county schoolhouses, county churches, parsonages, and dwellings located in Washington and adjoining counties. One salaried agent produced business for the Company and received commissions off 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. Commissions are retained by the Company.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages protecting the Company's interests at December 31, 2013, were as follows:

1. Continuous Position Schedule Fidelity Bond on the Secretary-Treasurer in the amount of \$5,000.
2. Fire and Extended Coverage policy on the Home Office in the amount of \$190,000, and the contents thereof in the amount of \$25,000.
3. General Liability-Office Insurance in the amount of \$2,000,000, and medical payments in the amount of \$5,000 per person with a provision of \$1,000,000 for each accident.
4. Insurance Company Combined Professional Liability and Directors and Officers Liability Insurance with limits of liability of \$1,000,000.

5. The Company's agent is listed on an Errors and Omissions policy with Nebraska Farmers Agency, with a \$1,000,000 limit of liability.

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, 2013.

At the time of the execution of the reinsurance agreement in effect on December 31, 2013, with NFMRA, the Company, as a member company, represented that it had the sum of \$38,703,843 of fire insurance in-force and \$38,703,843 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 year exceed \$2,700 per million of the fire and wind insurance in force, whichever is greater, as of January 1, 2013.

Excess Per Risk - Prior to the Association incurring ultimate net losses, exceeding their aggregate retention mentioned above, on a single risk up to and equal to \$460,000.00, NFMRA will be liable for 100% of the excess greater than \$40,000.00. 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.

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.

ACCOUNTS AND RECORDS

The accounting records consist of a combined cash receipts and disbursements journal, an asset ledger and an in-force and premium register. Such records are well maintained and sufficient for the needs of the Company.

BODY OF REPORT

FINANCIAL STATEMENTS

The following financial statements reflect the Company's operations during the examination period and the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination.

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Balance, beginning of year	<u>\$400,388</u>	<u>\$351,581</u>	<u>\$288,374</u>	<u>\$311,821</u>
<u>INCOME</u>				
Gross receipts from assessments	\$138,962	\$146,098	\$157,868	\$173,927
Less return on cancellations	<u>515</u>	<u>1,772</u>	<u>1,282</u>	<u>2,185</u>
Net received from members	\$138,447	\$144,326	\$156,586	\$171,741
Interest on investment	4,716	4,164	1,772	957
Other interest	1,439	1,439	1,439	1,310
Rent	5,500	6,000	6,000	6,000
Collapse premium	396	546	580	806
Liability and other premiums	20,169	20,203	19,836	22,399
Refund from NFMRA			10,480	9,254
Principal payment on surplus note				26,079
Miscellaneous receipts	<u>633</u>	<u> </u>	<u>432</u>	<u> </u>
Total income	<u>\$171,299</u>	<u>\$176,678</u>	<u>\$197,124</u>	<u>\$238,545</u>

STATEMENT OF INCOME AND DISBURSEMENTS (cont.)

<u>DISBURSEMENTS</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross losses paid	\$ 86,725	\$212,259	\$ 79,815	\$ 66,086
Less reinsurance recovered	<u> </u>	<u>100,719</u>	<u>55,028</u>	<u>22,662</u>
Net losses paid	<u>\$ 86,725</u>	<u>\$111,540</u>	<u>\$ 24,787</u>	<u>\$ 43,424</u>
Liability premium	\$ 17,306	\$ 18,350	\$ 17,956	\$ 20,220
Direct liability	2,291	2,257	2,257	2,313
NAMIC dues	1,043	968	1,165	1,172
Building insurance	754	824	1,896	
Electrical repairs	407	613		
Plumbing repairs			640	
Copy machine				428
Office repairs				437
Salaries of office employees	15,400	16,071	16,469	16,436
Salaries and expenses of Directors	2,540	1,840	1,890	2,550
Roof and ceiling repairs	1,830			
Supplies	333	265	375	337
Bonus	2,500	2,500	2,500	2,500
Taxes on real estate	1,168	1,140	1,139	1,123
Insurance department licenses & fees	1,802	3,134	1,949	2,166
All other taxes	8,175	7,002	9,501	9,292
Advertising, printing & postage	5,099	6,547	4,997	5,987
Telephone & utilities	4,426	4,684	4,622	4,684
Reinsurance premiums paid	50,433	51,919	70,947	71,356
Misc.	10,273	10,121	10,218	9,534
Surety bond	100	100	100	100
Penalty for early withdrawal of CD		13		
Remodeling and new carpet	7,501			
990 Form			270	275
Carpet cleaning	<u> </u>	<u> </u>	<u> </u>	<u>408</u>
Total expenses	<u>\$133,381</u>	<u>\$128,345</u>	<u>\$148,890</u>	<u>\$151,318</u>
Total disbursements	<u>\$220,106</u>	<u>\$239,885</u>	<u>\$173,677</u>	<u>\$194,741</u>
Balance, end of year	<u>\$351,581</u>	<u>\$288,374</u>	<u>\$311,821</u>	<u>\$355,625</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2013

ASSETS

Real estate	\$ 3,121	
Common stocks	1,500	
Certificates of deposit	220,000	
Cash deposited in banks	<u>132,504</u>	

Total ledger assets \$357,125

Non- Ledger Assets

NFMRA surplus note	\$ 9,892	
Deferred gain on common stock	<u>5,751</u>	

Total non-ledger assets \$ 15,643

Assets Not Admitted

NFMRA surplus note	<u>\$ 9,892</u>	
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Total assets not admitted \$ 9,892

Total admitted assets \$362,876

LIABILITIES AND SURPLUS

Net unpaid losses	\$ 5,000	
Unearned premiums	68,697	
Premium taxes	2,297	
Real estate taxes	<u>1,091</u>	

Total liabilities \$ 77,084

Surplus as regards policyholders \$285,792

Total liabilities and surplus \$362,876

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:

Other Cash Deposited in Banks – It is recommended that the Company report interest earned on the savings account.

Action: This recommendation is no longer applicable.

Unearned Premium - It is recommended that the Company report an unearned premium reserve in future annual statements.

Action: The Company has complied with this recommendation.

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. The property was acquired in 1960 for \$20,000. The building has been fully depreciated and the \$3,121 represents the 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 2013, the Company received rent from its tenant totaling \$6,000. The Company does not charge itself rent for occupancy of the building.

Common Stock

\$ 7,251

The Company owns 30 shares of NAMIC common stock valued at \$1,500 on the Company's general ledger. The market value of the stock is \$7,251. The difference between cost and market value is \$5,751 and has been included in the balance sheet as a non-ledger asset.

The certificate was inspected and its value was checked to the NAIC Securities Valuation Office website.

Certificates of Deposit **\$220,000**

This asset consists of eleven certificates of deposit in the amount of \$220,000, which are held with three separate banks located in Nebraska. All deposits were verified by certifications signed by officials of the respective banks.

Other Cash Deposited in Banks **\$132,504**

This asset consists of a checking account with Washington County Bank. The balance at December 31, 2013 for the checking account was \$132,504. These deposits were verified by certifications signed by officials at the Washington County Bank.

Surplus Note **\$ 9,892**

The surplus note issued by NFMRA had a value of \$9,892 as of December 31, 2013. This item is deducted, as an asset not admitted in both the Company's 2013 Annual Statement and the financial statements of this report 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' 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. If 'statement factor' is negative, the surplus note(s) shall be carried at zero."

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

\$ 362,876	Admitted asset (including surplus note)
<u>77,085</u>	Less liabilities
\$ 285,791	Total capital, surplus and surplus note

\$ 362,876
5% of admitted assets
\$ 18,144

Greater of \$18,144 or \$6,000,000

\$ 285,791
- 6,000,000
\$(5,714,209)/285,791 = -20.0 statement factor

Net Unpaid Losses **\$ 5,000**

The Company did not report outstanding losses on the annual statement. The Company paid a loss in 2014 on a 2011 claim of \$5,000. 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.

Unearned Premium **\$ 68,696**

The Company is reporting 9 months of unearned premium as of 12/31/13 per advice received from their reinsurer. This appears appropriate as all policies are renewed annually with an effective date of October 1.

Real Estate Taxes **\$ 1,090**

The real estate taxes were reviewed and amounted to \$1,090 in 2013.

Premium Taxes **\$ 2,297**

This amount consists of the 2013 premium taxes due at year-end and paid in 2014.

Surplus as Regards Policyholders **\$285,791**

The surplus as regards members, as determined by this examination, amounted to \$285,791.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

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.

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

ACKNOWLEDGEMENT

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

Respectfully submitted,

Elizabeth Hofker

Elizabeth Hofker, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Elizabeth Hofker, 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 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 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.

Elizabeth Hofker
Examiner-in-Charge's Signature

Subscribed and sworn before me by Elizabeth Hofker on this 2 day of July, 2014.



(SEAL)

TERRI A. KELLER
Notary Public

My commission expires Dec 24, 2017 [date].