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**FILED**

**APR 27 2009**

**Department of Insurance  
State of Idaho**

Attorneys for Department of Insurance

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
STATE OF IDAHO**

IN THE MATTER OF:	)	
	)	
Western Community Insurance Company	)	<b>ORDER ADOPTING</b>
	)	<b>REPORT OF EXAMINATION</b>
Idaho Certificate of Authority: 1287	)	<b>AS OF DECEMBER 31, 2007</b>
NAIC Company Code: 39519	)	
	)	Docket No. 18-2539-09
	)	
	)	
	)	
	)	

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The Report of Examination as of December 31, 2007 (Report) of *Western Community Insurance Company* (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 8<sup>th</sup> day of April 2009 by the Examiner-in-Charge, David W. Emery, CFE, FLMI. The verified (attested) copy of the Report was filed with the Department effective April 8<sup>th</sup>, 2009. Previously, a draft copy of the Report was delivered to the Company on March 25, 2009, with the verified Report being transmitted to the Company

electronically (PDF file, via e-mail) on April 8<sup>th</sup>, 2009 to Mr. Paul Brent Roberts, Treasurer. The verified Report is attached hereto and incorporated herein as Exhibit A.

#### WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Roberts on April 16, 2009 and received via U.S. First Class mail by the Department on April 20, 2009. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.


#### RESPONSE

The Company made a written submission (as provided for under § 41-227(5), Idaho Code) containing responses to the examination report in a letter signed by Mr. Roberts dated April 16, 2009 and received via U.S. First Class mail by the Department on April 20, 2009. Further, the Company requested that the written submission become a public record of the Department. This written submission is attached and incorporated herein as Exhibit C.

#### ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and fully considering the written submission attached hereto as Exhibit C, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 27<sup>TH</sup> day of April 2009.

  
William W. Deal, Director  
IDAHO DEPARTMENT OF INSURANCE

### CERTIFICATE OF SERVICE

I hereby certify that on this 27<sup>th</sup> day of April 2009, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Paul Brent Roberts, Treasurer	<u>     X     </u>	certified mail
Western Community Insurance Company	<u>          </u>	first class mail
275 Terra Vista Dr.	<u>          </u>	hand delivery
Pocatello, Idaho 83201	<u>          </u>	Facsimile
proberts@idfbins.com	<u>     X     </u>	e-mail

Mr. Phillip R. Joslin, Executive Vice-President & CEO		certified mail
Western Community Insurance Company	<u>          </u>	first class mail
275 Terra Vista Dr.	<u>          </u>	hand delivery
Pocatello, Idaho 83201	<u>          </u>	facsimile
pjoslin@idfbins.com	<u>     X     </u>	e-mail

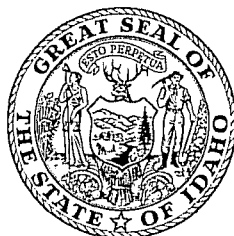
Georgia Siehl, CPA, CFE	<u>          </u>	certified mail
Bureau Chief / Chief Examiner	<u>          </u>	first class mail
Idaho Department of Insurance	<u>     X     </u>	hand delivery
700 W. State St., 3 <sup>rd</sup> Floor	<u>          </u>	facsimile
Boise, Idaho 83720-0043	<u>          </u>	
e-mail: Georgia.Siehl@doi.idaho.gov	<u>     X     </u>	e-mail



William R. Michels, MBA, CPA, CFE  
Examination Supervisor  
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

WESTERN COMMUNITY INSURANCE COMPANY

(NAIC Company Code 39519)

as of

December 31, 2007

EXHIBIT

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

C.L. "BUTCH" OTTER  
Governor

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WILLIAM W. DEAL  
Director

Pocatello, Idaho  
April 8, 2009

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
P. O. Box 83720  
Boise, Idaho 83720-0043

The Honorable Alfred W. Gross  
Commissioner  
Chair, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P. O. Box 1157  
Richmond, Virginia 23218

The Honorable Morris J. Chavez  
Superintendent of Insurance, Insurance Division of New Mexico  
NAIC Secretary, Western Zone  
Public Regulation Commission  
State of New Mexico  
PO Box 1269  
Santa Fe, New Mexico 87504-1269

Dear Director, Commissioner and Superintendent:

Pursuant to your instructions, in compliance with Idaho Code Section 41-219(1), and in accordance with generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007 of:

**WESTERN COMMUNITY INSURANCE COMPANY**

**275 TIERRA VISTA DRIVE**  
**POCATELLO, IDAHO 83201**

hereinafter referred to as "the Company," at its offices in Pocatello, Idaho. Also the Idaho Department of Insurance is hereinafter referred to as the "Department."

The following Report of Examination is respectfully submitted.

*Equal Opportunity Employer*

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2003, through December 31, 2007. The examination was conducted at the Pocatello, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Idaho Code Section 41-219(1), the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

A Letter of Representation was signed by the Company attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker & Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's IT systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2007 certified public accountant's statutory audit report and work papers during the examination of the Company.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

## PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1999 through December 31, 2002.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior exam report. Unless otherwise mentioned in the COMMENTS AND RECOMMENDATIONS section of this report, the prior report exceptions were adequately addressed by the Company.

## HISTORY AND DESCRIPTION

The Company was incorporated on April 4, 1980 as a stock insurance company under its current name. The Certificate of Authority was issued and the Company commenced operations on August 18, 1980 conducting multi-line insurance business in Idaho. The Company provided commercial multiple peril, inland marine, worker's compensation, other liability - occurrence, private passenger auto liability, and burglary and theft coverages in the State of Idaho. The Company operated under the provisions of Title 41 of the Idaho Code.

On March 11, 1999, the Company was issued its Certificate of Authority to commence writing business in the State of Oregon. The Company was authorized to write property, casualty (excluding Workers' Compensation), surety, and marine and transportation coverages.

On July 8, 1999, the Company was issued its Certificate of Authority to commence writing business in the State of Washington. The Company was authorized to write property, vehicle, general casualty, surety, and marine and transportation coverages.

Subsequent to May 1, 2003, the Company ceased writing and renewing all workers' compensation policies that were in force on that date. This action was approved by the Company's Board of Directors at their February 12, 2003 meeting.

The Company leases office space from its ultimate parent, Farm Bureau Mutual Insurance Company of Idaho (FBMIC). During March 2002, FBMIC moved to a new home office building located at 275 Tierra Vista Drive, Pocatello, Idaho; therefore, the Company's statutory home office was also relocated to that address.

### Capital Stock

As of December 31, 2007, the Company had authorized capital of 1,000,000 shares of \$20 par value common stock, of which 167,091 of the authorized shares were issued and outstanding for capital in the amount of \$3,341,820. Of the 167,091 shares outstanding, Farm Bureau Finance Company held 161,970 shares or 96.94% of the outstanding shares

The capital stock register was reviewed and reconciled with the respective capital accounts, and a chronological listing of shares issued and redeemed during the examination period was made. The Company's capital stock certificate book included stubs for outstanding issues, cancelled certificates, which had been redeemed, and affidavits for lost certificates.

The activity in the capital structure during the period covered by this examination was as follows:

<u>Date</u>	<u>Description</u>	<u>Shares</u>	<u>Common Capital Stock</u>	<u>Gross Paid-In &amp; Contributed Surplus</u>
12/31/2002	Balances, December 31, 2002	<u>167,197</u>	<u>\$3,343,940</u>	<u>\$276,094.79</u>
01/24/2003	Shares Issued	1	20	67.93
01/24/2003	Shares Redeemed	(2)	(40)	(94.38)
05/05/2003	Shares Issued	1	20	68.81
05/05/2003	Shares Redeemed	(1)	(20)	(61.97)
02/01/2005	Shares Redeemed	(2)	(40)	(73.15)
02/24/2005	Shares Issued	1	20	78.69
07/27/2005	Shares Issued	600	12,000	20,754.00
07/27/2005	Shares Redeemed	(700)	(14,000)	(24,213.00)
01/27/2006	Shares Redeemed	(8)	(160)	(360.65)
02/14/2006	Shares Issued	2	40	169.66
03/08/2006	Shares Issued	1	20	84.83
03/18/2006	Shares Issued	<u>1</u>	<u>20</u>	<u>84.83</u>
	Change during the period	<u>(106)</u>	<u>\$ (2,120)</u>	<u>\$(3,494.40)</u>
12/31/2007	Balances, December 31, 2007	<u>167,091</u>	<u>\$3,341,820</u>	<u>\$272,600.39</u>

### Dividends to Stockholders

No dividends were declared or paid to stockholders during the period by this examination.



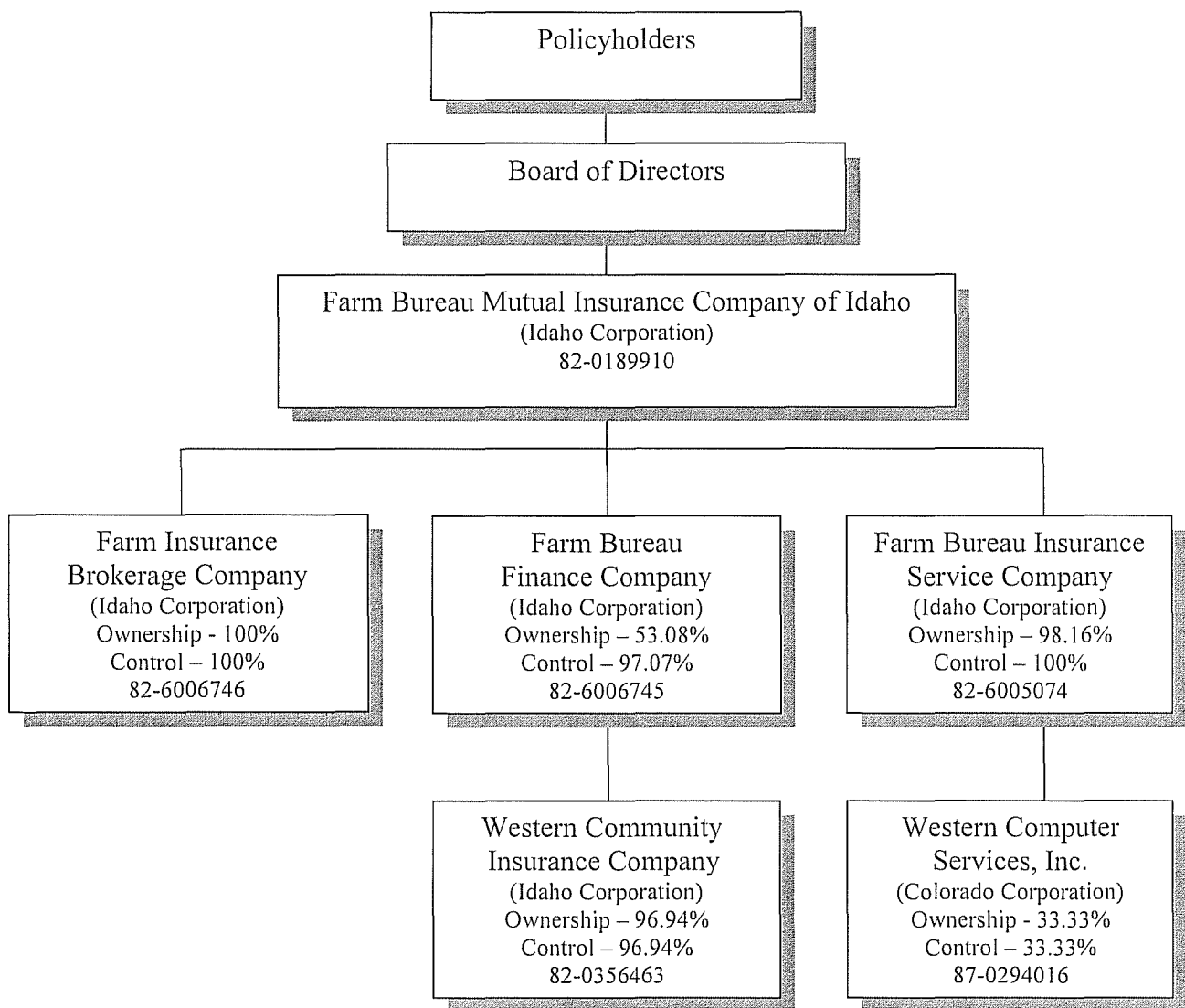
## Idaho Insurance Guaranty Association

The Company is a member of the Idaho Insurance Guaranty Association, pursuant to Idaho Code Section 41-3606.

## MANAGEMENT AND CONTROL

### Insurance Holding Company System

The Company was a member of an insurance holding company system, as defined in Idaho Code Section 41-3801. The Company's "Ultimate Controlling Person" was Farm Bureau Mutual Insurance Company of Idaho (FBMIC). An organizational chart of the system was as follows:



Changes noted, since the examination as of December 31, 2002, were the change in the percentage of ownership of Farm Bureau Finance Company (FBFC) from 53.27% to 53.08% (various stockholders own the remaining non-voting stock of FBFC), Farm Bureau Insurance Service Company from 96.14% to 98.16% and Western Community Insurance Company from 96.87% to 96.94%. Farm Bureau Finance

Company owned 99.26% of Western Community Investment Company as of December 31, 2002. Effective January 3, 2005, Western Community Investment Company was liquidated and its assets were transferred to its parent company, Farm Bureau Finance Company. The transfer was based on its 2004 year-end financial statements.

### Directors

The following persons were serving as directors at December 31, 2007:

<u>Name</u>	<u>Business Address</u>
Brandon (Scott) Bird	Pocatello, Idaho
Robert Callihan	Potlatch, Idaho
Danny Ferguson	Rigby, Idaho
Marjorie French	Princeton, Idaho
Albert Johnson	Georgetown, Idaho
Terry Jones	Emmett, Idaho
Curtis Krantz	Caldwell, Idaho
Michael McEvoy	Middleton, Idaho
Gerald Marchant	Oakley, Idaho
Carl Montgomery	Eden, Idaho
Ricky Pearson	Hagerman, Idaho
Frank Priestley (Chairman)	Franklin, Idaho
Dean Schwendiman	Newdale, Idaho
Bryan Searle	Shelley, Idaho
Mark Trupp	Driggs, Idaho

### Officers:

The following persons were serving as officers at December 31, 2007:

<u>Name</u>	<u>Position</u>
Frank Priestley	President
Phillip Joslin	Executive Vice President and CEO
Carl Montgomery	First Vice President
Loyal Heyer	Vice President-Marketing & Assistant Secretary
Gordon Crystal	Vice President-Claims & Assistant Secretary
Richard Peterson	Vice President-Legal Affairs & Assistant Secretary
Dan Hoffa	Vice President-Operations & Assistant Treasurer
Rick Keller	Secretary
Paul Roberts	Treasurer
Tim Stronks	Director of Policy Services & Assistant Secretary

Biographical affidavits for each Director and Officer filed with the Idaho Department of Insurance were reviewed.

## Committees

On April 9, 2003, the Board of Directors approved the appointment of an Audit Committee; however, there were no records in the board minutes or board resolutions relating the appointment of audit committee members during the period under examination.

The 2007 audit committee consisted of the following members:

Robert Callihan	Albert Johnson	Curtis Krantz
Carl Montgomery	Frank Priestley	Dean Schwendiman

## Corporate Governance

As part of the Department's transition to the NAIC's risk focused exam approach, a review of the Company's corporate governance was conducted. Interviews of the senior management team and selected Board members were accomplished immediately subsequent to the examination entrance conference (week of June 9, 2008) at the Company headquarters in Pocatello, Idaho. Inherent risk, mitigating controls and residual risk were assessed by members of the exam team for the Company's corporate governance environment.

Some of the strengths noted in the corporate governance area during the interview process included: 1) the management team has a significant history with the Company; 2) the management team meets weekly, with informal discussions taking place amongst the team almost daily; 3) ethics is highly regarded, and there is an organization-wide "values" statement; 4) there have been informal discussions/dialogues amongst management with regard to succession planning; 5) the examination noted the effective use, and high quality, of reporting, including presentation packages, from senior management to the Board; 6) senior management is actively engaged in risk assessment; 7) the examination found the Board to be well-informed and actively engaged in the oversight and corporate governance of Company.

Senior management and Board members interviewed included:

<u>Name</u>	<u>Position Being Interviewed</u>
Phillip Joslin	Chief Executive Officer Chief Information Officer
Paul Roberts	Chief Financial Officer/Treasurer Investment Management
Randy Nordquist	Chief Actuary
Gordon Crystal	Director of Claims
Frank Priestley	Chairman of the Board and President
Susan Feit	Underwriting Officer
Brandon (Scott) Bird	Board Member
Tim Stronks	Underwriting Officer
Richard Peterson	Legal Counsel

## Conflict of Interest

The Company adopted a conflict of interest policy, which required the directors, officers, and office management personnel to disclose annually, on a prescribed written form, any affiliation with or material interest in any operation or activity which conflicts or may potentially conflict with their official duties

with the Company. Completed conflict of interest forms were reviewed for the period under examination and no potential conflict of interests were noted.

### Contracts and Agreements

As of December 31, 2007, the Company was party to several agreements with affiliated companies for management services, reinsurance and consolidated taxes. The agreements are summarized as follows:

#### 1. Management Agreement

Effective January 1, 1999, the Company entered into a management agreement with Farm Bureau Mutual Insurance Company of Idaho (FBMIC), the Company's ultimate parent. Pursuant to the agreement, FBMIC agreed to provide complete management services for the lines of business written by the Company. The services provided include, but are not limited to, marketing, underwriting, collection of premiums, accounting, processing, and the adjustment and payment of claims.

FBMIC was compensated for its management services by a fee of 17% of direct premiums written by the Company. Such services included, but are not limited to, management, marketing, underwriting, processing, travel, home office rent, employee expenses, personnel, data processing, equipment, actuarial, secretarial, accounting, collection of premiums, and processing of adjusting and paying claims.

The agreement also included a provision for the Company to pay an additional 2% of its direct written premium to FBMIC for use of its county office facilities, plus actual reimbursement (on a cost basis) for supplies, printing, telephone, postage, insurance, and other general expenses.

The agreement provided for the fees to be paid by the Company on a monthly basis within 30 days of receipt of the billing from FBMIC.

The management fees paid by the Company to FBMIC, during the period covered by this examination, were as follows:

Year	Amount
2003	\$3,220,221
2004	\$5,174,870
2005	\$5,912,928
2006	\$6,862,655
2007	\$6,854,401

#### 2. Reinsurance Agreement

Effective July 1, 2005, The Company entered into a reinsurance agreement with Farm Bureau Mutual Insurance Company of Idaho (FBMIC), whereby, the Company cedes 100% of all its direct written business to FBMIC. This agreement replaced an earlier agreement dated January 1, 1998. In conjunction with this, the Management Agreement also provided that FBMIC will arrange for excess reinsurance coverage facilities and provide reinsurance reporting services for the Company on the business written, which is subject to the terms of the agreement. FBMIC and the Company, in proportion to their respective retentions on the business, shall share the reinsurance costs.

FBMIC agreed to provide the Company all necessary reports and statistical data within 15 days after the close of each month. The Company agreed to make payments to FBMIC based on these reports within 15 days of their receipt from FBMIC. Premiums are payable to FBMIC as they are collected.

Either party may terminate this agreement by giving the other a written notice at least 12 months before termination is to be effective.

### 3. Consolidated Income Tax Allocation Agreement

On January 26, 1998, the Company entered into a consolidated income tax allocation agreement with Farm Bureau Mutual Insurance Company of Idaho, along with other corporate entities included in the holding company system. The other entities included were Farm Insurance Brokerage Company, Farm Bureau Finance Company, Farm Bureau Insurance Service Company of Idaho and Western Community Investment Company, all of which are Idaho corporations. It was noted that Western Community Investment Company merged into Farm Bureau Finance Company in 2005 and was no longer a party to the agreement.

The Company along with the other entities acknowledge that they have previously authorized FBMIC to include them in its consolidated federal income tax returns for the tax years, which ended on December 31, 1992, 1993, 1994, 1995, and 1996, and further authorize FBMIC to include them in future consolidated income tax returns, unless consent is specifically withdrawn by formal notice to FBMIC.

The parties to the agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group has filed or will file a consolidated income tax return by applying the liability method to each member of the group as if it were a separate taxpayer.

The amount of federal income tax allocated to each member was computed by applying the current marginal income tax rate for the year being allocated to the separately computed taxable income before the elimination of items considered on a consolidated basis, such as, net capital gains and gains or losses from Form 4797 transactions, less each member's share of the dividends received deduction.

FBMIC and the Company are insurance companies, which are taxed under Idaho Code Section 41-405 and not subject to Idaho corporation income tax; therefore, they were not subject to state income tax allocation, under the terms of the agreement.

The parties made estimated tax payments based on their allocation of federal taxes for the previous year. Settlements of balances due or refunds receivable were determined by subtracting the estimated payments made for the year from the federal tax allocated to each party for that year.

This agreement continues on a year-to-year basis until such time as a party gives the remaining parties 30 days written notice of cancellation.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

During the period covered by the examination, there were no changes made to the Company's Articles of Incorporation.

The Company's Bylaws were amended twice during the period under examination, once on July 23, 2003 and again on April 12, 2005. Copies of the amended bylaws were filed and approved by the Idaho Department of Insurance.

#### Minutes of Meetings

The minutes of meetings of the Company's policyholders and Board of Directors were reviewed for the examination period. The review indicated that the meetings were held in compliance with the Bylaws, and were well attended.

The minutes reflected the annual elections of the Board of Directors and Officers, acceptance of the independent auditors' reports, reporting of investment transactions, and approval of policyholder dividends, salaries, and amendments to the Company's bylaws.

The minutes of the July 22, 2004 Directors' meeting acknowledged the receipt, review and acceptance of the statutory examination reports as of December 31, 2002, conducted by the Idaho Department of Insurance.

### FIDELITY BOND AND OTHER INSURANCE

Insurance coverages, for the protection of the Company, were maintained throughout the period covered by this examination. Coverages in effect as of December 31, 2007, are summarized as follows:

#### Fidelity Bond

Fidelity and employee dishonesty coverage is provided to the Company and other named subsidiary entities up to a single loss and aggregate limit of \$1,000,000 which exceeded the minimum amount recommended by the NAIC Financial Condition Examiners Handbook.

#### Other Insurance

The Company was also a named insured on a number of other insurance policies, which included the following coverages:

Commercial Property	Worker's Compensation
Commercial General Liability	Professional Liability
Commercial Inland Marine	Directors' and Officers' Liability
Commercial Auto Liability	Commercial Occurrence Excess coverage

The insurance companies providing the coverages to the Company were authorized insurers in the State of Idaho. It appears that the Company maintained adequate coverages for risks to which the Company may be exposed.

### PENSION AND INSURANCE PLANS

All of the employees performing the operations of the Company were employees of the Farm Bureau Mutual Insurance Company of Idaho, as provided pursuant to the Management Agreement between the two companies. The Company had no employees and provided no employee benefits directly.

## Stock Option Plan

On March 2, 2002, the Company granted to its key officers stock options to purchase 8,100 shares of the Company's common stock at \$83.85 per share, of which 2,000 shares of this options were exercised and redeemed as of December 31, 2007. On December 30, 2003, the Company granted to a key officer a stock option to purchase 500 shares of the Company's common stock at \$91.49 per share. The Company's obligation for the difference between the stock option exercise price and the book value per share of the Company at year-end 2007 has been accrued and included in "Other Expenses" on page 3 of the 2007 annual statement. The Company's liability on the outstanding 6,600 shares under option was \$237,542 at December 31, 2007.

## TERRITORY AND PLAN OF OPERATION

The Company was licensed, as a property and casualty insurer, in the States of Idaho, Oregon, and Washington. The Company had not written any business in the State of Oregon and a small amount written in the State of Washington during the period covered by this examination. In Idaho, the Company operated under Certificate of Authority No. 1287 and concentrated mainly on commercial multiple peril, commercial auto liability, private auto liability, auto physical damage, inland marine, and workers' compensation lines of business. Subsequent to May 1, 2003, the Company ceased writing and renewing all workers' compensation policies that were in force on that date. This action was approved by the Company's Board of Directors at their February 12, 2003 meeting.

### Producer Licensing

Western Community utilizes the Farm Bureau captive agency/producer force. It is comprised of seven agencies and 146 producers. It has procedures in place for the appointment of agencies and producers. The Company also has reporting mechanisms in place to track the status of producer licensure, policy retention, and agency status relative to premiums in force, premiums paid, losses paid, loss ratios, and reserves.

The Company provides producers with Underwriting Guidelines and Rating Manuals. Producer training bulletins are provided online at the Company intranet website. A standard Career Agent's Contract is used by the Company with all its captive agents.

The Company provided lists of active and terminated producers for reconciliation with the Department list of appointed and terminated producers. There were no exceptions found.

A sample of both active and terminated producers was reviewed to determine compliance with Idaho Code Sections 41-1004(1), 41-1018(1) and (2), and 41-1019(2) and (4) relative to proper licensure and appointment of producers and timely notification to the Department of producer appointments and terminations. It was determined that one (1) producer was not notified timely of termination of his appointment pursuant to Idaho Code Section 41-1019(4). The Company indicated that since this was a voluntary retirement, a termination letter to the producer was not required. The statutes, however, make no exceptions.

It is recommended that the Company amend the current procedures to ensure that all terminated producers receive notification of appointment termination pursuant to Idaho Code, including those retiring.

The commission schedules for career and special agents were reviewed. All commissions were found to be properly paid based on premium written or charged-back based on cancellations. No exceptions were noted.

### STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2007, the Company provided the following securities in trust for the protection of its policyholders and creditors, as a statutory deposit, through the Idaho Director of Insurance and held by U.S. Bank, in compliance with Idaho Code Section 41-316A:

<u>Description</u>	<u>Par Value **</u>	<u>Statement Value***</u>	<u>Fair Value *</u>
<u>Municipal Bonds</u>			
Ada & Canyon Cntys JT SD #3, 4.8%, 7/30/2017	\$ 100,000	\$ 98,938	\$ 102,761
Austin TX Gen Oblig, 4.5%, 9/1/2015	100,000	100,000	103,304
Boise Wastewater Facility Rev., 4.6%, 2/1/2014	100,000	95,943	102,267
Boise Wastewater Rev., 4.7%, 2/1/2015	100,000	99,183	102,286
Canyon Cnty ID Sch Dist., 5.375%, 7/30/2017	100,000	104,031	107,481
Clark Cnty VN, 5.0%, 6/1/2016	100,000	107,648	107,848
Garland TX, 5.0%, 2/15/2021	100,000	97,046	105,457
Idaho St Bldg Auth, 4.25%, 9/1/2012	115,000	114,565	118,711
Jefferson Cnty Idaho Sch Dist., 5.4%, 8/1/2010	100,000	100,000	100,183
King Cnty WA, 4.9%, 12/1/2018	100,000	99,643	103,493
University ID Univ Rev., 4.0%, 4/1/2022	100,000	98,926	96,296
Valley Cnty ID, 4.4%, 8/1/2011	<u>100,000</u>	<u>100,458</u>	<u>100,732</u>
Total	<u>\$1,215,000</u>	<u>\$1,216,381</u>	<u>\$1,250,819</u>

\* - The fair market value amounts were taken from the December 2007 statement of the custodian bank.

\*\* - Confirmed with the Idaho Department of Insurance

\*\*\* - Bonds are generally stated at amortized cost unless designated by NAIC as "medium or below quality" in which case the bonds are carried at fair value.

The following securities were held by Wells Fargo Bank (confirmed with the custodial bank) and approved by the State Treasurer, for Workers Compensation deposit requirements pursuant to Idaho Code Section 72-302:

<u>Description</u>	<u>Par Value**</u>	<u>Statement Value</u>	<u>Fair Value *</u>
Ada & Canyon County Jt SD #2, 4.5%, 7/30/2013	\$200,000	\$201,361	\$204,570
Ada & Canyon County Jt SD #2, 4.8, 7/30/2018	100,000	100,907	102,745
Cassia & Twin Falls Cntys ID Jt Sch Dist, 5.5%, 8/1/2012	200,000	211,614	214,610
Idaho Health Fac. Holy Cross Rev., 5.25%, 12/1/2012	100,000	101,131	101,778
Idaho St Bldg Auth Bldg Rev., 4.5%, 9/1/2023	100,000	97,259	101,292
University of Idaho Student Fee Rev., 5%, 4/1/2013	<u>100,000</u>	<u>102,574</u>	<u>105,668</u>
Total	<u>\$800,000</u>	<u>\$814,846</u>	<u>\$830,663</u>

\* - The fair market value amounts were taken from the December 2007 statement of the custodian bank.

\*\* - Confirmed with the Idaho Industrial Commission



This deposit with the Idaho Industrial Commission is required because the Company is still authorized to write Workers Compensation policies; however, as mentioned earlier in this report, the Company ceased writing Workers Compensation policies in May of 2003.

Also, U.S. Bank at Oregon held the following securities as a statutory deposit, pursuant to section 731-624 of the Oregon Code:

<u>Description</u>	<u>Par Value**</u>	<u>Statement Value</u>	<u>Fair Value *</u>
Pierce Cnty WAS Sch Dist., 5.375%, 12/1/2015	\$115,000	\$121,009	\$124,355
Oregon St. Dept Administrative Svcs., 5.25%, 5/1/2017	100,000	104,923	106,767
Vincennes University In Ser Rev., 5.0%, 12/1/2021	100,000	104,649	105,890
Total	<u>\$315,000</u>	<u>\$330,581</u>	<u>\$337,012</u>

\* - The fair market value amounts were taken from the December 2007 statement of the custodian bank.

\*\* - Confirmed with the Oregon Department of Insurance

### GROWTH OF THE COMPANY

The Company's Growth for the years indicated, as taken from its Annual Statements (or as adjusted by the examination report), is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2002 *	\$18,783,427	\$ 4,104,999	\$14,678,428	\$1,018,587
2003	19,208,531	3,604,710	15,603,822	850,672
2004	25,893,570	9,389,625	16,503,945	850,477
2005	28,416,917	10,900,131	17,516,786	1,035,148
2006	31,510,119	12,672,000	18,838,119	1,296,296
2007 *	\$32,122,951	\$12,002,218	\$20,120,733	\$1,295,765

\* As determined by Examination

### LOSS EXPERIENCE

The ratios of losses and underwriting expenses incurred to premiums earned, as reported in the Company's annual statements for the five year period ending December 31, 2007, are reported below:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Loss/UW Expenses Incurred*</u>	<u>Total Losses &amp; Expenses</u>	<u>Ratio of Losses &amp; Expenses to Premiums Earned</u>
2002	\$196,621	\$148,109	\$(334,659)	\$(186,550)	(94.9%)
2003	238,987	167,900	(196,043)	(28,143)	(11.8%)
2004	206,302	125,185	(372,304)	(247,119)	(119.8%)
2005	190,855	213,242	(575,952)	(362,710)	(190.0%)
2006	166,323	125,839	(819,955)	(694,116)	(417.3%)
2007	\$135,274	\$ 58,150	\$(774,987)	\$(716,837)	(529.9%)

\* Expenses are negative since the company receives ceding commissions larger than the general expenses each year.

## REINSURANCE

### Assumed

As of December 31, 2007, the Company participated in the following two reinsurance pools that were formed by American Agricultural Insurance Company (AAIC), an Indiana company with its administrative office located at Schaumburg, Illinois.

#### Domestic Broker Assumed Pool

In this Pool, AAIC retroceded the property reinsurance it assumed on business other than from Farm Bureau Companies to the pool participants. The Company participated in 0.1% of this Pool.

#### International Broker Assumed Pool

In this Pool, AAIC retroceded the property reinsurance it assumed on policies that cover exposures primarily outside the United States. The Company participated in 0.1% of this Pool.

### Ceded

As mentioned earlier, under a reinsurance agreement effective July 1, 2005 (which replaced an earlier agreement dated January 1, 1998) between the Company and its ultimate parent, Farm Bureau Mutual Insurance Company of Idaho (Farm Bureau), the Company agreed to cede 100% of its premium on all direct lines of business and class group to Farm Bureau. The ceded premium shall be paid to Farm Bureau when collected from the insureds. The Company receives a ceding commission of 33% of the ceded premium. Reporting and settlements of the transactions are made on a monthly basis.

The Company pays all federal and states taxes, including premium tax on all business ceded. Farm Bureau pays all agent commissions and overwrites on all business issued by Farm Bureau agents for the Company; however, the Company reimburses Farm Bureau for these commissions. Farm Bureau shall maintain reserves with respect to unearned premiums under this agreement. A review of the agreement disclosed that it contained an acceptable insolvency clause, as well as provisions for arbitration and inspection of records.

This agreement may be terminated by either party upon giving the other written notice at least 12 months before termination is to be effective.

The reinsurance policies were reviewed by Taylor-Walker & Associates, Idaho Department of Insurance consulting actuaries, to determine if they qualify for reinsurance accounting treatment as defined in SSAP 62. In summary, it was their opinion that all of the current reinsurance contracts transfer both types of risk – insurance risk and timing risk – necessary for reinsurance accounting treatment.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

#### Policy Forms

The Company provided copies of the form filing lists and letters from the Department verifying no discrepancies between the Department records of forms in use and that provided by the Company. The Company was unable to provide documentation that the Department received its filing certification for the 2004 forms.

Western Community currently writes the following policies:

- Commercial Package Policy (CPP)
- Crime
- Commercial Auto
- Inland Marine
- Commercial Umbrella
- Substandard Auto (personal lines)
- Commercial Property and Allied Lines
- General Liability
- Garage
- Business owner's Policy (BOP)

As required under file and use statute Idaho Code Section 41-1812, the Company has properly filed all forms used in the State of Idaho.

### Underwriting

The Company had a comprehensive Agent Underwriting Manual and Rating Manuals for the scope of the examination. The underwriting manual and yearly rating manuals included all requirements necessary for writing properties in specific products. Included were the rating tables and rating factors, along with the applicable discounts, used to quote products.

A review of the Company's underwriting methods was performed through reviewing samples of new business, declinations, cancelled/non-renewals, and renewals. The samples were randomly generated utilizing ACL statistical software, after the data provided by the Company was reconciled to the Annual Statement and General Ledger for accuracy and completeness.

The new business sample was reviewed to determine compliance with the following Idaho Code sections: Unfair Trade Practice statute, Idaho Code Section 41-1323; Insurance rates, Idaho Code Section 41-1842; and, Producer licensing and appointment, Idaho Code Section 41-1018. Review of the new business sample determined there were no violations of Idaho Code. A random sample within the new business sample was generated in ACL for the purpose of manually recalculating premiums to verify their accuracy. The sample size was determined utilizing the Financial Examiner's Handbook based on risk assessment of the premium cycle. The financial examiner and IT examiner both determined the risk to be that of Medium Reliance with Medium Risk for the premium cycle; therefore, a sample size of 22 was utilized. The manual re-calculation of premiums determined that the premiums had been properly calculated according to the Company's underwriting guidelines and rating manuals.

The renewal policy sample was reviewed to determine compliance with Idaho Code Section 41-1842 relative to insurance rate increases. Due to time constraints, and since the accuracy of the computer generated premiums was proven with the manual re-calculation of a random selection of policies in the new business sample, the examiner did not manually re-calculate the renewal premiums of those policies. Instead, the examiner utilized the Company's analyzer pages, which specify the coverages, rating factors, discounts, and premium calculations. The Company provided a breakdown on the one policy renewal for which the examiner was not able to verify the reason for the significant change in premium. Changes in coverages, additions or deletions of property, changes in the rating factors, changes in driver or vehicle classifications, and changes in applicable discounts were the primary reasons for renewal premium increases or decreases. In some cases the premium data supplied by the Company included renewal premiums for the 2008 renewal year that was collected in 2007. No exceptions were found in this review.

The sample of cancellations/non-renewals were reviewed to determine compliance with Idaho Code Title 41, Chapter 13 relative to Unfair Trade Practices; Idaho Code Section 41-1842(b)(ii) relative to the required notification of insureds no less than ten days prior to cancellation due to non-payment of premium, and Idaho Code Section 41-1842(4)(a) relative to notification no less than 45 days prior to

cancellation for change in risk. The examiner found no exceptions relative to Idaho Code Section 41-1842(b)(i) relative to the required notification of insureds no less than ten days prior to cancellation due to non-payment of premium, and Idaho Code Section 41-1842(4)(a) relative to notification no less than 45 days prior to cancellation for change in risk, or Idaho Code Title 41, Chapter 13 for Unfair Trade Practices.

The declination sample was reviewed to determine compliance with Idaho Code Title 41, Chapter 13 and, Unfair Trade Practice statute, Idaho Code Section 41-1323. The examiner also determined that 54, or 63% of the policies, within the declined sample of 86, were not actually declined risks, but were transfers within the Company to other policies. Therefore, those 54 policies represent cancellations and not actual declinations.

In the underwriting and rating of policies, the Company applies pricing discounts to offset some of the large premium increases caused by the move to the current ISO rating structure. In responding to the examiner inquiries regarding the use of the discounts, the Company stated they do not have any specific guidelines other than the good judgment of the supervisor or manager who are to review the account client experience, reported loss history, and the risk exposure. There appears to be a discrepancy in the application of the discounts, as some applicants received no discount while others received a 50% discount. Discounts have been applied when an agent is in a competitive situation. Other than the use of TRAP (Total Risk Assessment Package – used to obtain a credit score, a CLUE auto and property score, and an MVR at one time) scores in the underwriting of construction risks, there appear to be no guidelines. The agents have the ability to give up to a 30% discretionary discount. Based upon this review, the underwriting criteria/guidelines for the granting of a discretionary discount do not appear to be adequately documented.

#### Gramm-Leach-Bliley Act

Review of the Company's practices relative to consumer privacy found that the Company is in compliance with Idaho Code Section 41-1334 and I.D.A.P.A. 18.01.48 s 100. The Company website provides a copy of the privacy terms, applicants are supplied with a copy of the Company's privacy policy upon issue and annually upon renewal, and the Agent's Manual specifically address the issue of privacy and ethics.

The Company annually sends out Privacy Notices informing policyholders of their rights and explaining with whom information is shared and of their right to opt out.

#### Credit Scoring

During the scope of the examination, the Company utilizes a TRAP score or credit bureau report (CBR) when determining whether to underwrite building contractors. However, beginning in 2008, the Company began requiring TRAP scores for four different categories: contractors; all trucker risks regardless of the number of vehicles; risks with 5 or more power units; and risks with \$25,000 or more in contractor's equipment. The Company does not accept any of those risks if the CBR of the principal is less than 500.

Credit score restrictions as defined by Idaho Code Section 41-1843 does not apply to commercial lines insurance. Therefore, it was determined that the Company is in compliance with Idaho Code.

#### Rate Filings

Idaho Code does not require the filing and approval of property/casualty rates. Idaho Code Section 41-1406 was repealed. Idaho Department of Insurance Bulletin 91-1 requests property and casualty

companies file their rates. It is the Company's position that it will not file rates unless it is required to do so.

### Treatment of Policyholders

#### Complaints

The Company provided three complaint logs, two from Marketing and Sales and one Quality Control Log, for examination and procedures for processing written complaints. The logs combine the complaints received by Farm Bureau Mutual and Western Community. All logs and file documentation are maintained in paper format. The Company indicated that 99% of those received in the Marketing and Sales Department are via telephone. Those written complaints, which are received by the Underwriting Department, are logged into the Quality Control Log and then forwarded to the appropriate department head for response. The Company received 164 written complaints during the scope of the examination period.

The Quality Control Log and was a record of Department complaints received during the scope of the examination. When reconciling the Control Log with the complaint log information provided by the Department, it was determined that ten complaints were not found on the Control Log. The Company responded and provided documentation for each of the missing complaints.

Review of all the complaint logs determined that none were in compliance with Idaho Code Section 41-1330, which requires the log to provide the following information:

- a. state
- b. total number of complaints
- c. classification by line of business
- d. nature of complaint
- e. disposition of complaint
- f. time it took to process each complaint.

In response, the Company stated that there is no need for those items as they can tell the line of business from the state and line of business from the policy number, and that, since there are less than 50 complaints per year, they are easy to count. It is recommended that the Company add the necessary fields to bring the complaint logs into compliance. They have agreed to make the recommended changes in order to make the logs easier to read and review. It should be noted that e-mail would be considered a written form of communication and, as such, would be required to be logged.

Review of the sample complaint files determined that the Company had responded promptly and appropriately. However, not all documentation relative to each complaint is kept in the complaint file.

#### Claims

The Company maintains a claims procedures manual. The manual has instructions for initial claims handling, investigations, acceptance/denial of claims, fraud, and complaints. It was determined that the Company has acceptable procedures in place for the handling of claims.

In order to determine code compliance relative to the handling of claims, samples of denied and paid claims were reviewed. Claims were reviewed to determine compliance with Idaho Code relative to appropriateness and timeliness of payment/denial.

The Company has eight contracts in place to handle such needs as rental cars, emergency road service, replacement or repair of windshields, etc., in order to provide consistent and reasonably priced services. The Safelite (windshield) and Quest (road service) contracts are automatic and are paid via EFT. The Company receives statements from each entity, and the payment is electronically transferred from the Company accounts. Quest does not verify coverage prior to providing service, but Safelite does verify coverage first.

One claim was determined to have been improperly paid in that the deductible was subtracted from the maximum limits of the policy instead of from the repair estimate submitted to the Company for payment. Therefore, the Company is not in compliance with Idaho Code Section 41-1329(8) for attempting to settle a claim for less than the policy entitles the insured. The Company agreed that the claim had not been properly paid. Subsequently, the insured was paid an additional amount for the claim. At the suggestion of the examiner, the Company randomly reviewed twelve additional claims from the adjuster of record to verify it was not a common practice. The review found no additional errors by the adjuster.

Review of the denied claims sample did not identify any claims that were denied inappropriately. However, the documentation in the files, in the case of windshield repairs and road service, was non-existent. The examiner had to request documentation as to why these claims were denied. In general, the closed without pay/denied claims files were poorly documented. In many instances the claims for windshield and road service were not timely closed.

The Company's litigation management procedures are found in the Claims Operations Guide used by both Farm Bureau Mutual and Western Community.

### Fraudulent Claims

The Claims Operations Guide mentions the need to monitor for fraudulent claims and provides guidance of the indicators of property fraud. There is no separate Fraud Manual to address the issue of fraud prevention and the reporting of fraud both internal and external. The Company provided copies of all suspected fraud reported to the Department.

It was determined that the Company was in compliance with Idaho Code relative to fraud prevention and reporting.

### Advertising and Sales Material

The examiner reviewed the advertising, which was provided by the Company. The only advertising provided in which the Company was directly mentioned was relative to the claims hotline, and one brochure on workers' compensation insurance which is no longer sold by the Company.

The Company's website was reviewed. The website provided generalized information on the products available, but instructed the consumer to contact their local agent. One of the links was to a list of local agents in Idaho. The Company markets commercial insurance in Washington and Idaho and is licensed in Oregon.

The Company's advertising and website were determined to be in compliance with Idaho Code. No exceptions were noted.

Other market conduct recommendations which covered items that were not included in the Report, due to the materiality threshold or items that were related to proprietary, operational issues can be found in the Management Letter presented to the Company.

## ACCOUNTS AND RECORDS

### General Accounting

The Company used OLIE (On Line Information Executive), an interactive system on its mainframe computer using PCs connected to its LAN (Local Area Network) and WAN (Wide Area Network). OLIE was used to capture data for Policy Management, Claims Management, Accounts Payable and Receivable, General Ledger, etc.

The Policy Management System of OLIE was used to issue policies, pay commissions, create general ledger entries, set up policy accounts receivable and all other reporting needed by the Company. The Claims Management System used the information on OLIE to verify policy coverage information before setting up reserves or claims. Once coverage was verified, claims payments were made with checks written and general ledger entries created. All management reporting for claims was generated from data processed by the system.

Information from the Policy Management System and the Claims Management System were fed into the Accounts Payable/Receivable Systems. This included claim payments, commissions, policy balances due, and other payables. Billing, reports and general ledger entries were produced and used by its accounting systems. The systems were written and maintained in the Information Systems Department of the Company. All the systems were somewhat dependent on each other, in that they use information captured and provided by each other.

The Company compiled its annual statement utilizing a Freedom A/S 2000 software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual. The investment portfolio was maintained on SunGard's Enterprise Portfolio System (EPS). The Company's independent auditors maintained the fixed assets.

### Independent Accountants

Deaton & Company, Chartered, Pocatello, Idaho was the Company's independent auditor for the period covered by this examination. Deaton & Company has been the Company's independent auditor since 1987.

The independent auditor's report issued for the year ending December 31, 2007, indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Company on a statutory basis. In compliance with Rule No. 62 (IDAPA 18.01.62), the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2007 workpapers and supporting documentation were made available and reliance was placed on these workpapers, when possible, during this examination. When the auditor's workpapers were used, such workpapers were denoted to indicate that utilization.

## Actuarial Opinion

A statement of actuarial opinion regarding the unpaid losses and loss adjustment expenses reported by the Company in its 2007 annual statement was made by Randall S. Nordquist. The opinion stated that Mr. Nordquist was an employee of the Company and appointed by the Company's Board of Directors on November 6, 2007 to render this opinion. Mr. Nordquist was a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society. The opinion stated that the amounts of the reserves:

- a. meet the requirements of the insurance laws of Idaho;
- b. are consistent with reserves computed in accordance with accepted actuarial standards and principles;
- c. make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

The identified actuarial items are listed as follows:

Note: Pages and schedules referenced below pertain to the 2007 Annual Statement.

### Loss Reserves

A Reserves for Unpaid Losses (Page 3, Line 1)	\$253,108
B Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	None
C Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$19,086,000
D Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	\$6,366,000
E Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)	None
F Other Loss Reserve Items	None

### Premium Reserves

G Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	None
H Reserve for Net Unearned Premiums for Long Term Duration Contracts	None
I Other Premium Reserve Items	None

The following were taken into consideration in determining the above amounts:

1. Materiality Standard expressed in \$US	\$1,000,000
2. Statutory Surplus	\$20,120,733
3. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$0
4. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	
4(a) Nontabular Discount	\$0
4(b) Tabular Discount	\$0
5. The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$253,108
6. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	



6(a) Asbestos, as disclosed in the Notes to Financial Statements	\$0
6(b) Environmental, as disclosed in the Notes to Financial Statements	\$0
7. The total claims made extended loss and loss expense reserves (Schedule P Interrogatories)	
7(a) amount reported as loss reserves	\$0
7(b) amount reported as unearned premium reserves	\$0
8. Other items	None

See the “NOTES TO FINANCIAL STATEMENTS” section, later in this report, for discussion of the Department’s examining actuaries’ analysis.

### Evaluation of Controls and Information Systems

An on-site, limited EDP exam was conducted for the Idaho Department of Insurance by IS Specialist, Jenny L. Jeffers, CISA, AES (Certified Information Systems Auditor, Automated Examination Specialist) of Examination Resources, LLC at the Company’s Pocatello office. Ms. Jeffers' review coincided with the examination period. Additionally, an on-site review of controls was conducted at the premises of an affiliated service bureau, *Western Computer Services, Inc.* (WCSI) located in Sandy, Utah. Western Computer is a downstream, non-insurance subsidiary of Western Community’s ultimate parent, FBMIC. Hardware infrastructure, as well programming services, were reviewed. The EDP examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) from the NAIC’s Financial Condition Examiners Handbook.

#### Scope

In summary, the functional areas reviewed by the information systems specialist included:

- ISQ Section A – Management and Organizational Control
- ISQ Section B – Logical and Physical Security
- ISQ Section C – Changes to Applications
- ISQ Section D – System and Program Development
- ISQ Section E – Contingency Planning
- ISQ Section F – Service Provider Controls
- ISQ Section G – Operations
- ISQ Section H – Processing Controls
- ISQ Section I – E-Commerce Controls
- ISQ Section J – Network and Internet Controls

The information system specialist’s findings were presented to the Company in the Management Letter.

## SUBSEQUENT EVENTS

Subsequent to the examination date of December 31, 2007, the Company had the following plans for software changes:

- The Shared Commercial System (SCS) project is a web based data entry system being developed by Western Computer Services Inc. that will allow for one-touch entry of policy information. The Company is currently in a testing phase with experienced Home Office processing and underwriting people working in a test environment to make sure it can handle the policies written with all their variables. There is still a significant amount of programming that has to be done. The first phase of implementation will be Home Office only and the Company hopes to take that step no later than 3<sup>rd</sup> quarter of 2009.
- Nexus is the name the Company has given the project to convert the legacy systems to a new system for the personal lines policy administration, billing, claims, and accounting system. The Company has chosen to purchase the claims, billing and personal lines policy administration systems from established insurance system vendors. The Company is currently working on the accounting system and claims system, with billing and then policy administration coming in separate phases thereafter. This total transformation is planned to be completed by April of 2011.

## FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2007
- Liabilities, Surplus and Other Funds as of December 31, 2007
- Statement of Income, For the Year Ending December 31, 2007
- Capital and Surplus Account, For the Year Ending December 31, 2007
- Reconciliation of Capital and Surplus, December 31, 2002 through December 31, 2007

ASSETS  
As of December 31, 2007

	<u>Ledger</u>	Non <u>Admitted</u>	Net <u>Admitted</u>
Bonds (Note 1)	\$19,801,748	\$ 0	\$19,801,748
Preferred Stock	0	0	0
Common Stock (Note 2)	1,059,287	0	1,059,287
Real Estate – Occupied by the Company	0	0	0
Real Estate – Held for the Production of Income	0	0	0
Cash and Short term Investments (Note 3)	287,210	0	287,210
Other Invested Assets	0	0	0
Investment Income Due and Accrued	269,657	0	269,657
Premiums in Course of Collection (Note 4)	1,174,957	52,955	1,122,002
Premiums Deferred and Not Yet Due (Note 4)	9,555,962	0	9,555,962
Other Amounts Receivable from Reinsurance	7,943	0	7,943
Net Deferred Tax Asset	19,142	0	19,142
Electronic Data Processing Equipment	0	0	0
Furniture and Equipment	0	0	0
Receivable from Parent, Subsidiaries and Affiliates	0	0	0
Rounding	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$32,175,906</u>	<u>\$52,955</u>	<u>\$32,122,951</u>

LIABILITIES, SURPLUS AND OTHER FUNDS  
As Of December 31, 2007

Losses (Note 5)	\$ 253,108
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	665
Loss Adjustment Expenses (Note 5)	0
Other Expenses	257,791
Taxes, licenses and fees	23,577
Current federal income taxes	1,123
Unearned premiums	23,546
Ceded reinsurance premiums payable (Note 6)	9,225,649
Funds Held by Company Under Reinsurance Treaties	0
Amounts withheld or retained by company	562,448
Payable to Parent, Subsidiaries and Affiliates	1,654,310
Rounding	<u>1</u>
Total Liabilities	<u>\$12,002,218</u>
Common Capital Stock	3,341,820
Gross Paid-in and Contributed Surplus	272,600
Unassigned funds (surplus)	<u>\$16,506,313</u>
Total Surplus	<u>20,120,733</u>
Total Liabilities, Surplus and Other Funds	<u>\$32,122,951</u>

STATEMENT OF INCOME  
For The Year Ending December 31, 2007

<u>Underwriting Income</u>	
Premiums earned	\$ 135,274
Deduct:	
Losses Incurred	\$ 58,150
Loss Expenses Incurred	0
Other Underwriting Expenses Incurred	(774,987)
Rounding	1
Total Underwriting Deductions	<u>\$ (716,836)</u>
Net Underwriting Gain (Loss)	<u>\$ 852,110</u>
<u>Investment Income</u>	
Net Investment Income Earned	\$ 831,214
Net Realized Capital Gains (Losses)	23,726
Rounding	1
Net Investment Gain (Loss)	<u>\$ 854,941</u>
<u>Other Income</u>	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	\$ (111,650)
Miscellaneous Income (Loss)	27,987
Total Other Income	<u>\$ (83,663)</u>
Net Gain From Operations Before Dividends and Federal Income Taxes	\$1,623,388
Dividends to policyholders	0
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	\$1,623,388
Federal Income Taxes Incurred	<u>327,622</u>
Net Income (Loss)	<u>\$1,295,765</u>

CAPITAL AND SURPLUS ACCOUNT  
For the Year Ending December 31, 2007

Surplus, December 31, 2006	\$18,838,119
Net Income (Loss)	\$ 1,295,765
Net Unrealized Capital Gain (Losses)	(37,929)
Change in net deferred income tax	(118)
Change in non-admitted assets	24,896
Rounding	1
Net change in surplus for the year	<u>\$ 1,282,615</u>
Rounding	(1)
Surplus, December 31, 2007	<u>\$20,120,733</u>

RECONCILIATION OF CAPITAL AND SURPLUS  
December 31, 2002 through December 31, 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Prior Year Surplus, December 31	<u>\$14,678,428*</u>	<u>\$15,603,822</u>	<u>\$16,503,945</u>	<u>\$17,516,786</u>	<u>\$18,838,119</u>
Net income	850,672	850,477	1,035,147	1,296,296	1,295,765
Change in unrealized gains (losses)	88,067	(13,909)	(26,073)	72,853	(37,929)
Change in net deferred income tax	(10,193)	(9,395)	10,914	8,392	(118)
Change in non-admitted assets	(3,065)	72,950	3,141	(55,789)	24,896
Change in Paid-in Capital	(20)	0	(2,020)	(80)	0
Change in Paid-in Surplus	(67)	0	(3,454)	(21)	0
Other Adjustments	<u>0</u>	<u>0</u>	<u>(4,814)</u>	<u>(318)</u>	<u>1</u>
Net Change for the Year	<u>\$ 925,394</u>	<u>\$ 900,123</u>	<u>\$ 1,012,841</u>	<u>\$ 1,321,333</u>	<u>\$ 1,282,615</u>
Rounding	0	0	0	0	(1)
Current Year Surplus, December 31	<u>\$15,603,822</u>	<u>\$16,503,945</u>	<u>\$17,516,786</u>	<u>\$18,838,119</u>	<u>\$20,120,733*</u>

\* Per Examination

## NOTES TO FINANCIAL STATEMENTS

<u>Bonds (Note 1)</u>	<u>\$19,801,748</u>
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During the examination period the Company had a steady growth in its bond investments. The amount invested in bonds increased from \$14,108,363 in 2002 to \$19,801,748 in 2007. Bonds are reported at amortized value for statutory accounting purposes. The Company invests in a mixture of corporate and municipal bonds. In general, the Company exercises a conservative “hold to maturity” policy for the bond portfolio.

<u>Common Stock (Note 2)</u>	<u>\$1,059,287</u>
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The Company invested in only common stock (no preferred stock). The total amount invested in the stock portfolio had a steady increase during the examination period. In 2002 the Company reported a \$746,546 investment and in 2007 it had \$1,059,287 invested in common stock. Common stock is reported at its fair market value for statutory accounting purposes. The Company’s total stock investments did not exceed the amount allowed by Idaho Code Section 41-714.

<u>Cash and Short-term Investments (Note 3)</u>	<u>\$287,210</u>
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The Company had \$286,596 in its checking accounts and CD’s, and short term investments of \$614, which is made up of cash equivalents held by the custodian bank. These amounts were properly reported on Schedule DA, Part 1 and Schedule E, Part 1 of the 2006 Annual Statement.

<u>Premiums in Course of Collection</u>	<u>\$1,122,002</u>
<u>Premiums Deferred and Not Yet Due (Note 4)</u>	<u>\$9,555,962</u>

These amounts represent the amount of premium receivable for the Company. The Premiums in Course of Collection are those premiums billed and currently due. The Premiums Deferred and Not Yet Due are those premiums billed but the premium is due in the future. These amounts were reviewed by the examiners using statistical samples generated by ACL. No exceptions were noted in the review.

Losses (Note 5)	\$253,108
<u>Loss Adjustment Expenses</u>	<u>\$ -0-</u>

The actuarial portion of the examination was conducted for the Idaho Department of Insurance by R. Glenn Taylor, ACAS, MAAA and Randal D. Ross, ACAS, MAAA of the firm Taylor-Walker & Associates, Inc. Based upon the examining actuaries’ final report and supporting analyses, the Company’s 2007 Annual Statement was within the examination indicated reasonable range of reserves. Therefore, there were no recommended adjustments to the Company’s booked loss reserves.

Loss adjustment expenses (LAE) are borne by the parent. Additionally, the Company’s potential liability for premium deficiency reserves was also reviewed based on the estimates of ultimate losses and LAE. A review of historical loss and expense ratios did not indicate that such a reserve should be established.

<u>Ceded Reinsurance Premium Payable (Note 6)</u>	<u>\$9,225,649</u>
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This amount represents the amount of ceded reinsurance premiums that are payable to the Company’s parent, Farm Bureau Mutual Insurance Company of Idaho, since the Company has a contract that provides for the ceding of 100% of its premiums to the parent.

## SUMMARY, COMMENTS AND RECOMMENDATIONS

### Summary

The results of the examination disclosed that as of December 31, 2007, the Company had admitted assets of \$32,122,951, liabilities of \$12,002,218, and surplus as regards policyholders of \$20,120,733. The Company was in compliance with the minimum capital and surplus requirements of Idaho Code Section 41-313.

### Comments and Recommendations

<u>Page</u>	<u>Description</u>
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- |    |   |
|----|---|
| 10 | <u>Producer Licensing</u> It is recommended that the Company amend the current procedures to ensure that all terminated producers receive notification of appointment termination pursuant to Idaho Code, including those retiring. |
| 16 | <u>Treatment of Policyholders</u> It is recommended that the Company add the necessary fields to bring the complaint logs into compliance.  |

## CONCLUSION

The courteous assistance and cooperation extended by the Company's Officers and staff during the course of this examination is acknowledged and appreciated.

In addition to the undersigned, Ann McClain, CIE, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, ACS, AIS, Senior Market Conduct Examiner, and Kelvin Ko, CFE, Senior Insurance Examiner, from the Idaho Department of Insurance; Taylor-Walker & Associates, Inc., Actuarial Consultants; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,



David W. Emery, CFE, FLMI  
Senior Insurance Examiner  
Department of Insurance  
State of Idaho

AFFIDAVIT OF EXAMINER

State of Idaho  
County of Ada

David W. Emery, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the Western Community Insurance Company for the period from January 1, 2003 through December 31, 2007, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

David W. Emery

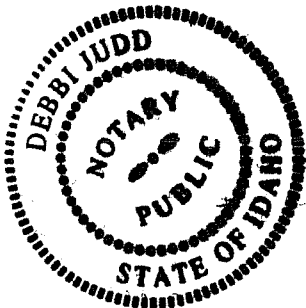
David W. Emery, CFE, FLMI  
Examiner-in-Charge  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 8<sup>th</sup> day of April, 2009 at Boise, Idaho

Debbi Judd

Notary Public

My commission Expires: 7/30/2010





C.L. "BUTCH" OTTER  
Governor

State of Idaho  
**DEPARTMENT OF INSURANCE**

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

RECEIVED  
WILLIAM W. DEAL  
Director  
2009 APR 20 AM 11:49  
STATE OF IDAHO  
DEPT OF INSURANCE

**WAIVER**

In the matter of the Report of Examination as of December 31, 2007, of:

**WESTERN COMMUNITY INSURANCE COMPANY  
275 TIERRA VISTA DRIVE  
POCATELLO, IDAHO 83201**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 8<sup>th</sup> day of April 2009, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 16 day of April, 2009

PAUL B. ROBERTS

Name (print)



Name (signature)

TREASURER

Title

EXHIBIT

**B**



275 Tierra Vista Drive • P.O. Box 4848 • Pocatello, Idaho • 83205-4848 • Phone: (208) 232-7914 • Fax: (208) 232-3608

April 16, 2009

William R. Michels  
Examination Supervisor  
Idaho Department of Insurance  
P O Box 83720  
Boise, ID 83720-0043

2009 APR 20 AM 11:12  
RECEIVED  
STATE OF IDAHO  
DEPARTMENT OF INSURANCE

Dear Mr. Michels:

Please include the following company comments with the recommendations section of the examination report for Western Community Insurance Company.

Producer Licensing The Company has implemented procedures to ensure that retiring agents are notified that their appointment with the company has been terminated.

Treatment of Policyholders The Company has modified the complaint log to include all of the required categories.

I have attached the examination waiver form for the company.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul B. Roberts'.

Paul B. Roberts  
Treasurer

cc: Phillip R. Joslin, Executive Vice President & CEO

Exhibit  
C