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APR 18 2008

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:)	
)	
Nez Perce Farmers County Mutual)	ORDER ADOPTING
Fire Insurance Company)	REPORT OF EXAMINATION
)	AS OF DECEMBER 31, 2006
Idaho Certificate of Authority: 1922)	
NAIC Company Code: N/A)	Docket No. 18-2458-08
)	
)	
)	
)	

The Report of Examination as of December 31, 2006 (Report) of the Nez Perce Farmers County Mutual Fire Insurance Company (Company), an Idaho domestic county mutual fire insurer doing business under the provisions of chapter 31, title 41, Idaho Code, was completed by an examiner of the Idaho Department of Insurance (Department). The Report was signed the 17th day of March 2008 by the Examiner-in-Charge, David W. Emery, CFE, FLMI. The verified (attested) copy of the Report was

filed with the Department effective March 17, 2008. Previously, a draft copy of the Report was delivered to the Company, with the verified Report being transmitted to the Company (via U.S. First Class mail) on March 25, 2008 to Ms. Rita L. Blewett, Secretary-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 Ms. Blewett on April 4, 2008 and received by the Department on April 11, 2008 (via U.S. First Class mail). 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.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, 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 18TH day of April 2008.



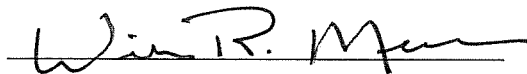
William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of April 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Ms. Rita Blewett, Secretary/Treasurer	<u> X </u>	certified mail
Nez Perce Farmers County Mutual	<u> </u>	first class mail
Fire Insurance Company		
P.O. Box 140	<u> </u>	hand delivery
Kendrick, Idaho 83537	<u> </u>	facsimile
	<u> </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 rd Floor	<u> </u>	facsimile
Boise, Idaho 83720-0043	<u> X </u>	e-mail
e-mail: Georgia.Siehl@doi.idaho.com		



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

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

NEZ PERCE FARMERS COUNTY MUTUAL FIRE INSURANCE COMPANY

as of

December 31, 2006

FILED	3/17/08	<i>jel</i>
	date	initial
ADOPTED	4/18/08	<i>jel</i>
	date	initial
STATE OF IDAHO Department of Insurance		

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
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Boise, Idaho 83720-0043
Phone (208)334-4250
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WILLIAM W. DEAL
Director

Kendrick, Idaho
March 17, 2008

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

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, 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, 2006 of:

NEZ PERCE FARMERS COUNTY MUTUAL FIRE INSURANCE COMPANY

408 E. MAIN STREET
KENDRICK, IDAHO 83537

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

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2002, through December 31, 2006. The examination was conducted at the Kendrick, Idaho office of the Company by an examiner from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, 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.

PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1997 through December 31, 2001.

The prior examination report had no recommendations for the Company.

HISTORY AND DESCRIPTION

The Company was organized and incorporated as a domestic county mutual fire insurance company under the laws of the State of Idaho during 1904. It received its first Certificate of Authority during 1905 and commenced operations in that year. The Company currently operates under a Certificate of Authority, which allows it to insure property in the following seven counties in the State of Idaho:

Benewah	Lewis
Clearwater	Nez Perce
Idaho	Shoshone
	Latah

In 2003 the Company merged with Idaho Farmers County Mutual Fire Insurance Company. Nez Perce Farmers County Mutual Fire Insurance Company was the surviving company. The merger was approved by the Idaho Department of Insurance in August 2003. This is discussed later in this examination report under "Corporate Records – Article of Incorporation and By-laws."

MANAGEMENT AND CONTROL

The Company was controlled by a Board of Directors, which consisted of eleven members (see Idaho Code §§ 41-3109 and 41-3110). The Directors managed the affairs of the Company and were members of the corporation and policyholders. The officers of the Company consisted of a President, Vice President, Secretary and Treasurer. The annual members and board of directors meetings of corporate members were held on the first Saturday of May. The Board of Directors met twice annually, the first Saturday of May and the first Saturday of November.

Directors

The following persons were serving as directors at December 31, 2006:

<u>Name</u>	<u>Business Address</u>
Douglas Ashburn	Genesee, ID
Rita Blewett	Kendrick, ID
Dennis Burgess	Craigmont, ID
Maurice Heier	Kendrick, ID
F. Joe Larson	Weippe, ID
Doris Pettichord	Orofino, ID
Clarence Riggers	Lenore, ID
Helen Riggers	Lenore, ID
Lawrence Wemhoff	Kamiah, ID
Y. Jean White	Orofino, ID
William White	Orofino, ID

The present number of elected Directors complied with Section 41-3109, Idaho Code.

Officers:

The following persons were serving as officers at December 31, 2006:

Dennis Burgess	President
Lawrence Wemhoff	Vice President
Rita Blewett	Secretary/Treasurer

Committees

There are no provisions for the appointment of committees, and there is no record of any having been appointed.

Conflict of Interest

A resolution of the Board of Directors provided that any officer, director or responsible employee disclose to the Board of Directors any material interest or affiliation which conflicted with the duties of such person on behalf of the Company. The Directors and Officers of the Company submitted conflict of interest disclosure statements for all years under review. A review of these statements disclosed that none of the persons subject to disclosure had any interest or relationship, which would be in conflict with the interests of the Company.

CORPORATE RECORDS

Articles of Incorporation and By-Laws

In August 2003, the Company merged with Idaho Farmers County Mutual Fire Insurance Company. The members of Idaho Farmers County Mutual Fire adopted the plan for merger on May 23, 2003 and the member of Nez Perce Farmers County Mutual Fire Insurance Company adopted the merger on June 13, 2003. Nez Perce Farmers County Mutual Fire Insurance Company was the surviving company. The

merger was approved by the Idaho Department of Insurance in August 2003. With the merger the Company filed amended Articles of Incorporation and amended By-Laws with the Department. The Department approved the amended Articles of Incorporation on August 8, 2003 and approved the amended By-Laws on August 12, 2003.

Minutes of Meetings

The minutes of the meetings of the Directors were reviewed for the period of examination. The minutes appear to adequately reflect the activities of the Company for the years 2002 through 2006. The Directors reviewed all investment activity as required by Idaho Code Section 41-704.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company has been maintained throughout the period under examination. Coverages in effect as of December 31, 2006, are summarized as follows:

Treasurers Position Scheduled Bond: The Secretary/Treasurer of the Company is covered under a bond issued by Western Surety Company. The bond provides coverage for \$50,000.

Employers Liability: This is a workers compensation package which provides coverage for bodily injury up to \$100,000 for each accident and \$100,000 for disease related claims (each employee) up to a limit of \$500,000.

Professional Liability and Directors & Officers Liability: Coverage of professional liability for \$1,000,000 per claim and in the aggregate, and coverage of directors & officers liability for \$1,000,000 per claim and in the aggregate.

The professional liability coverage meets the requirements of NAIC recommendations, and the insurers providing the various coverages to the Company are licensed or authorized in the State of Idaho. The certification signed by management acknowledged that no losses had been suffered due to dishonest or fraudulent acts.

PENSION AND INSURANCE PLANS

The Company has only one employee and provides Medical insurance for her. Vacation and holidays are also granted by the Company.

TERRITORY AND PLAN OF OPERATION

As mentioned earlier in this report, the Company was licensed only in the State of Idaho as a domestic county mutual fire insurance company, and is doing business in seven counties in Idaho.

The Company provided fire and lightning and extended coverage up to \$200,000 per policy and retains a maximum of \$25,000. Policies were issued for the full cash value of the property. Policy rates levied against its members ranged from \$2.50 to \$10.00 per \$1,000 of insurance coverage depending on type of dwelling and occupancy.

The Company's business was produced by its Directors acting in the capacity of agents. The agents are compensated a commission of \$20.00 per policy written plus \$8.00 per \$12,000 of coverage (or fractions

thereof) as contained therein. A \$25.00 incentive bonus was also paid for each policy written on a new member. The Directors also serve as claims adjusters for the Company and are compensated at the rate of \$20.00 per hour and \$.35 per mile.

Insurance policies were sold to those individuals owning insurable property within the licensed territory or having insurable interest therein.

Insured persons must agree to become members of the Company, abide by its By-laws and pay their pro-rata share of losses incurred by the members as they are levied by periodic assessments.

GROWTH OF THE COMPANY

The insurance in force and surplus to policyholders schedule for the five-year period under review was as follows:

<u>Year</u>	<u>Number of Members</u>	<u>Insurance In Force</u>	<u>Surplus to Policyholders</u>
2002	327	\$20,909,313	\$480,650
2003*	573	\$37,254,658	\$684,761
2004	548	\$41,115,254	\$658,278
2005	484	\$39,575,212	\$630,667
2006	483	\$38,273,565	\$659,573

* After merger with Idaho Farmers County Mutual Fire Insurance Company

LOSS EXPERIENCE

The ratio of net losses paid to net assessments/premium income collected during the period under review was as follows:

<u>Year</u>	<u>Net Assessments/ Premium Income</u>	<u>Net Losses Paid</u>	<u>Ratio</u>
2002	\$56,739	\$3,045	5.37%
2003	\$70,215	\$10,357	14.75%
2004	\$98,328	\$15,873	16.14%
2005	\$90,503	\$69,302	75.57%
2006	\$94,063	\$29,958	31.85%

REINSURANCE

As of December 31, 2006, the Company ceded business through one excess of loss reinsurance agreement. The agreement, No. 8955, was with General Reinsurance Corporation, a Delaware domiciled company, which was licensed to transact business in the State of Idaho. The agreement consisted of Excess Loss and Catastrophe (Excess Loss) coverage. The agreement was effective on January 1, 2002 and was summarized as follows:

Excess Of Loss

Company's
Retention
\$25,000

Reinsurer's
Limit of Liability
\$175,000

Catastrophe

Amount Written
By Company

Company's
Retention

Reinsurer's
Catastrophe Cover

Over limits of first
Treaty

The greater of 100% of annual
assessment income excluding
member fees and quota share
treaty premium paid or \$50,000

90% of the next \$250,000 of
the ultimate net loss up to a
maximum of 90% of
\$500,000 for all losses.

The agreement contained the standard insolvency clause and a termination and arbitration provision. The termination provision provided that the agreements may be terminated by either party upon (90) days written certified notice. The agreement appeared to comply with the risk transfer provisions of SSAP No.62, paragraphs 9-16. In conclusion, no exceptions were noted in the review of the reinsurance treaty.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The underwriting rules of the Company were set forth in the Bylaws. The Articles of Incorporation contained a provision that the liability of each member was not limited.

Premium and/or assessment rates were as follows:

<u>RISK</u>	<u>RATE</u>
<u>Fire and Lightning</u>	A policy fee of \$4 each (5) years plus \$2.50 - \$10.00 per year for each \$1000 of insurance coverage (Frame/brick or Manufactured Homes)
<u>Extended Coverage</u>	\$.70 for each \$1000 of insurance
<u>Glass</u>	\$8 per \$100, \$10.50 per \$250 and \$14 per \$500 of coverage
<u>Personal Property & Theft</u>	\$2 per \$1000 of theft as long as theft coverage equals personal property coverage
<u>Vandalism & Malicious Mischief</u>	\$.10 per \$1000
<u>Broad Form Perils</u>	\$.43 per \$1000
<u>Special Form Perils</u>	\$.51 per \$1000
<u>Theft and Upset - Farm Machinery</u>	\$1.50 per \$1000

In addition, each policy was assessed \$20.00 fixed charge each year for the purpose of encouraging members to consolidate many small policies so that rates were competitive and would equalize the cost of administering small policies versus combined policies.

Treatment of Policyholders

Claims settlement files for all claims settled during the examination period were reviewed by the examiner. It was determined that the Company handled claims settlement in a prompt and timely manner. A review of the Company's complaint register disclosed that no complaints were filed during the examination period nor had any complaints been filed with the Idaho Department of Insurance.

Advertising and Sales Materials

As noted previously, the Company's business was produced by its Directors acting in the capacity of agents. The Directors/Agents were not required by statute to be licensed by the Idaho Department of Insurance.

The Company did not utilize any formal means of advertising such as newspapers, radio or television.

ACCOUNTS AND RECORDS

General Accounting

The Company maintained a manually posted general ledger and general journal, plus a cash disbursements and receipts journal. Premium, claims and commission data was calculated by the Company and sent to General Reinsurance Corporation via quarterly reinsurance statements. A review by the examiner determined the supporting workpapers were adequate and accurately established the Company's financial position at the end of the calendar year.

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FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2006
- Liabilities and Surplus as of December 31, 2006
- Statement of Income, For the Year Ending December 31, 2006
- Capital and Surplus Account, For the Year Ending December 31, 2006
- Reconciliation of Capital and Surplus, December 31, 2002 through December 31, 2006

ASSETS
As of December 31, 2006

Admitted
Assets

Cash: Deposited in Bank (Note 1)	<u>\$708,974</u>
Totals	<u>\$708,974</u>

LIABILITIES AND SURPLUS
As of December 31, 2006

Losses and Loss Adjustment Expenses Due and Payable	\$ 3,029
Unearned Premium Reserve (Note 2)	44,482
Commissions Payable To Agents	<u>1,890</u>
Total Liabilities	\$ 49,401
Surplus To Policyholders (Note 3)	<u>659,573</u>
Total Liabilities and Surplus	<u>\$708,974</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Changes</u>	<u>Per</u> <u>Examination</u>
<u>Income Received During Year</u>			
Assessments or Premiums collected during 2006	\$143,433	\$ 0	\$143,433
Deduct Premiums for reinsurance ceded to other Companies	<u>49,370</u>	<u>0</u>	<u>49,370</u>
Net income "on writings"	<u>\$94,063</u>	<u>\$ 0</u>	<u>\$94,063</u>
Membership Fees & Expense Constant	\$ 11,483		\$ 11,483
Interest on Surplus	<u>22,511</u>	<u>\$ 0</u>	<u>22,511</u>
Total Income Receipts	<u>\$128,057</u>	<u>\$ 0</u>	<u>\$128,057</u>
<u>Disbursements During Year</u>			
Gross amount of Losses paid and incurred during 2001	\$ 51,735	\$ 0	\$51,735
Deduct reinsurance recovered	<u>21,776</u>	<u>0</u>	<u>21,776</u>
Net amount of Losses paid	<u>\$ 29,959</u>	<u>\$ 0</u>	<u>\$20,560</u>
Claims adjustment expense	\$ 1,194	\$ 0	\$ 1,194
Commissions paid to agents	6,463	0	6,463
Salaries to officers	35,483	0	35,483
Other compensation to officers	1,052	0	1,052
Salaries to employees	2,832	0	2,832
Payroll taxes	3,267	0	3,267
Licenses and insurance department fees	500	0	500
Director's fees & expenses	1,061	0	1,061
Agent's expense	4,869	0	4,869
Employee medical insurance	9,772	0	9,772
Catastrophe insurance	7,500	0	7,500
Liability, Bond and Workers Comp. Insurance expense	5,942	0	5,942
Office expense	6,423	0	6,423
Other expense	<u>951</u>	<u>0</u>	<u>951</u>
Total Funds Disbursed	<u>\$117,268</u>	<u>\$ 0</u>	<u>\$117,268</u>
Net income/(loss) during year	<u>\$ 10,789</u>	<u>\$ 0</u>	<u>\$ 10,789</u>

RECONCILIATION OF SURPLUS
December 31, 2002 through December 31, 2006

<u>DESCRIPTION</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus To Policyholders					
December 31, previous Year	<u>\$456,920</u>	<u>\$480,650</u>	<u>\$684,761</u>	<u>\$658,278</u>	<u>\$630,667</u>
Change in Non-ledger Liabilities	(16,376)	(18,577)	(35,358)	14,161	18,117
Net Income (Loss)	<u>40,106</u>	<u>222,688</u>	<u>8,875</u>	<u>(41,772)</u>	<u>10,789</u>
Surplus To Policyholders					
December 31, current Year	<u>\$480,650</u>	<u>\$684,761</u>	<u>\$658,278</u>	<u>\$630,667</u>	<u>\$659,573</u>

NOTES TO FINANCIAL STATEMENTS

Cash (Note 1) \$708,974

The Company's cash deposits consisted of the following described accounts:

<u>DEPOSITORY</u>	<u>LOCATION</u>	<u>AMOUNT</u>	<u>TYPE</u>
Wells Fargo Bank Northwest, NA	Kendrick, Idaho	\$ 110,755	Checking and Money Market Rate Savings and (1) CD
Sterling Savings	Lewiston, Idaho	45,922	Money Market Checking and (1) CD
Banner Bank,	Lewiston, ID	90,000	(1) CD
US Bank	Lewiston, ID	140,677	(9) CDs and Checking Account
Latah Federal Credit Union	Kendrick, ID	10,395	(1) CD and Share Account
Bank of America, NA – Idaho	Clarkston, Idaho	26,624	Money Rate Savings
Zions Bank	Lewiston, Idaho	20,000	(1) CD
Potlatch #1 Federal Credit Union	Lewiston, ID	82,762	(2) CDs and Share Account
First Allied	Cottonwood, ID	91,833	Money Fund and (1) CD
D. A. Davidson & Co.	Lewiston, ID	<u>90,006</u>	Money Fund
	Total	<u>\$708,974</u>	

The deposits were verified by written confirmation with the respective depositories and reconciled to the Company's records and bank statements. The deposits comply with Section 41-3114, Idaho Code.

Unearned Premium Reserve (Note 2) \$44,482

The Company computed the unearned premium reserve by the monthly pro-rata straight-line method, in accordance with Section 41-606 (3), Idaho Code. The Company reported the captioned liability and had surplus over liabilities of not less than \$50,000, which allowed the Company to bill and collect assessments on the advanced premium basis as prescribed by Section 41-3112A Idaho Code. Because the Company met the aforementioned surplus requirement, the Company was exempt from the limitations as to the Emergency Fund imposed by Section 41-3112 (3) Idaho Code.

Surplus to Policyholders (Note 3) \$659,573

The Company's surplus to policyholders at December 31, 2006 was \$659,573, as reported in its 2006 Annual Statement. This represents an increase of \$28,906 from the previous year.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

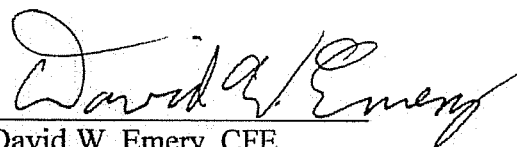
The results of the examination disclosed that as of December 31, 2006, the Company had admitted assets of \$708,974, liabilities of \$49,401, and surplus as regards policyholders of \$659,573. The Company was in compliance with the requirements of Idaho Code Sections 41-3112A.

There were no examination recommendations or comments noted by the examiner.

CONCLUSION

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

Respectfully submitted,

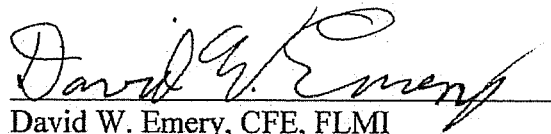


David W. Emery, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

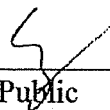
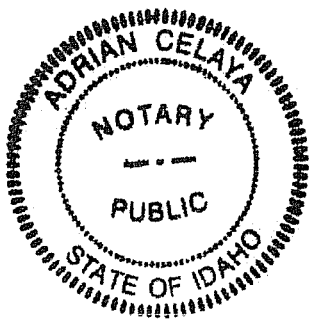
State of Idaho
County of Ada

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 Nez Perce Farmers County Mutual Fire Insurance Company for the period from January 1, 2002 through December 31, 2006, 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, CFE, FLMI
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 17th day of March, 2008 at Boise, Idaho



Notary Public

My commission Expires: 6/18/2010

State of Idaho

DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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

WILLIAM W. DEAL
Director

2008 APR 11 11:11 AM
DEPT OF INSURANCE

WAIVER

In the matter of the Report of Examination as of December 31, 2006, of:

NEZ PERCE FARMERS COUNTY MUTUAL FIRE INSURANCE COMPANY

**408 E. MAIN STREET
KENDRICK, IDAHO 83537**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 17th day of March 2008, 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 4th day of April, 2008

Rita L. Blewett

Name (print)

Rita L. Blewett

Name (signature)

Secretary / Treasurer

Title