

AUG 14 2019

FILED

CERTIFICATION

August 14, 2019

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

**THE GERMAN FARMERS MUTUAL ASSESSMENT
INSURANCE ASSOCIATION OF HALL COUNTY, INC.**

as of

December 31, 2018

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Range

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

THE GERMAN FARMERS MUTUAL ASSESSMENT INSURANCE

ASSOCIATION OF HALL, COUNTY, INC.

151 TILDEN ROAD

CAIRO, NE 68824

dated as of December 31, 2018 verified under oath by the examiner-in-charge on July 10, 2019 and received by the company on July 12, 2019, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 26th day of July 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

**THE GERMAN FARMERS MUTUAL ASSESSMENT INSURANCE ASSOCIATION OF
HALL COUNTY, INC.**

as of

December 31, 2018



Cairo, Nebraska
June, 18 2019

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

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

**THE GERMAN FARMERS MUTUAL ASSESSMENT INSURANCE ASSOCIATION OF
HALL COUNTY, INC.
151 Tilden Road
Cairo, NE 68824**

(hereinafter also referred to as the "Association") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Association was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made of the Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". All items pertaining to management and control were reviewed. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members and Board of Directors held during the examination period, were read and noted. Attendance at meetings and election of Directors and Officers were also noted.

The fidelity bond and other insurance coverages protecting the Association's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was inspected and a survey was made of the Association's general plan of operation.

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the substantive examination process.

All accounts and activities of the Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. The assets were verified and evaluated and the liabilities were determined in order to present the statement of the Association's financial condition as of December 31, 2018.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF ASSOCIATION

HISTORY

The Association was organized as an unincorporated mutual fire and lightning insurance association on March 25, 1892. On June 1, 1970, insurance against windstorm and tornado was added. On February 23, 1952, the name of the Association was determined to be “The German Farmers Mutual and Storm Assessment Insurance Association of Grand Island” and on January 12, 1957, the name was changed to “The German Farmers Mutual Fire, Storm, and Hail Assessment Insurance Association of Grand Island, Nebraska.” On April 12, 1984, the name was changed to “The German Farmers Mutual Assessment Insurance Association of Hall County, Incorporated.” At the same time, the Association changed from an unincorporated association into an incorporated insurance association.

MANAGEMENT AND CONTROL

Membership

Article III of the Association’s By-Laws states that “prospective applicants may be residents or nonresidents of Hall and adjoining Counties, be of good repute, and all property to be covered by the policy must be located in Hall, Merrick, Nance, Howard, Sherman, Buffalo, Clay, Adams, and Hamilton Counties in Nebraska, or be scheduled as to its location.” The applicants become members upon the approval of the Board of Directors. The By-Laws also state that, “members have one vote-regardless of the number of policies a member may hold, and only one member of a number who all have an equity in one policy is permitted to vote in meetings.”

Article IV of the By-Laws states, “the annual meeting of the Members of the Corporation will be held on the fourth Saturday of January of each year at a place designated in the notice.” The members present at any called meeting constitutes a quorum. The annual meeting of the members

was not held on the fourth Saturday in January. It is recommended that the annual meeting of the Members be held on the fourth Saturday of January of each year.

Board of Directors

Article I of the Association’s By-Laws state that the, “management of the affairs of the Corporation shall rest with a Board of twelve policyholders, who must be members of the Corporation, and shall constitute the Board of Directors.” The terms of the Board of Directors are staggered with four Directors elected at each annual meeting of the Members for a term of three years. Article I, section 4 of the By-Laws states, “vacancies in the Board shall be filled by majority vote of the Board until the next annual meeting.” Nine members shall constitute a quorum at all meetings.

Article I of the Association’s By-Laws provide that "the regular meetings of the Board of Directors shall be held on the third Saturday of January and the first Saturday of July..." The regular meetings of the Board of Directors were not held on the third Saturday in January and the first Saturday in July. It is recommended that the regular meetings of the Board of Directors are held on the third Saturday in January and the first Saturday in July or amend the By-Laws to allow for alternative meeting dates.

The following persons were serving as Directors at December 31, 2018:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Eldon Kroeger	Doniphan, Nebraska	2019
Kathleen Mettenbrink	Grand Island, Nebraska	2019
Gregory Niemoth	Grand Island, Nebraska	2019
Jerald Placke	Libory, Nebraska	2019
Joe Boehle	Libory, Nebraska	2020
Harvey Hadenfeldt	Wood River, Nebraska	2020
Michael Peters	Libory, Nebraska	2020
Roy Stoltenberg	Cairo, Nebraska	2020
Craig Harders	Wood River, Nebraska	2021
William Kurz	Palmer, Nebraska	2021

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Shane Moeller	Cairo, Nebraska	2021
Keith Ostermeier	Grand Island, Nebraska	2021

Directors received \$15.00 per hour plus 53.5¢ per mile for each meeting attended.

Officers

Article I of the Association’s By-Laws provide that, “the Officers of the Corporation may consist of a President, one or more Vice-Presidents, a Secretary, a Treasurer and such other Officers and assistant Officers as may be deemed necessary...” Each Officer shall be elected by the Board of Directors.

The following is a listing of Officers elected and serving the Association at December 31, 2018:

<u>Name</u>	<u>Office</u>
Roy Stoltenberg	President
Michael Peters	Vice-President
Cindy Yoder	Secretary
Mary Stoltenberg	Treasurer

FIDELITY BOND AND OTHER INSURANCE

The Association does not maintain a fidelity bond as recommended by the NAIC Financial Condition Examiners Handbook. It is recommended that the Association obtain a fidelity bond in the amount of \$75,000 as recommended by the NAIC Financial Condition Examiners Handbook.

The Association has a combined professional liability and Directors & Officers liability insurance policy in force at December 31, 2018 which provided coverage of \$1,000,000 per claim and in aggregate, and subject to a \$10,000 per claim deductible. In addition, an insurance agents

and brokers liability insurance policy having a \$2,000,000 limit per claim and in aggregate, and subject to a \$2,500 per claim deductible was also in force.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current Certificate of Authority, the Association is licensed to transact business in Nebraska. As allowed in the Articles of Incorporation, the Association currently writes fire, storm, and hail coverage on property located in Hall, Merrick, Nance, Howard, Sherman, Buffalo, Clay, Adams, and Hamilton counties in Nebraska.

Appraisers are designated by the Board. Appraisers serve as both agents and claim adjusters, as well as appraise property for underwriting purposes. The appraiser's territory is generally acknowledged as being either east or west of Highway 281 in Nebraska. Appraisers receive a 40% commission on new and increased insurance written by the Association. Appraisers also receive 75% of the commissions on any liability policies written by another insurer, namely Acceptance Casualty Insurance Company. The Association retains the other 25% of the liability commission. Appraisers also receive \$16.00 per hour and 50¢ per mile while on Association business.

REINSURANCE

Ceded

The Association is a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA), and used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2018, the Association retained a liability up to an amount equal to \$2,700 per million of the 2018 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Association's preliminary aggregate retention for 2018 was noted as being \$790,118.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000, up to \$660,000. Recoveries made which are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Association makes recoveries under this coverage but their net losses do not exceed their aggregate retention for the year, the amount recovered per risk between the single risk retention and 1/8th of 1% of the January 1 insurance in-force is to be refunded to NFMRA prior to March 1 of the next year. This excess per risk coverage is not applicable once the ultimate net losses exceed the ultimate retention.

This contract also provided that the Association retain for its own account the first \$1,000 of each risk, each loss, as respects mobile home risks located in trailer courts. NFMRA's limit of coverage shall be \$48,000 for losses in any one-trailer court; with two or more trailers in any one location constituting a trailer court.

General

The contract reviewed contained a standard insolvency clause, arbitration clause, offset clause, and an errors and omissions clause. The contract did not contain the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual. It is recommended that the Association include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual

BODY OF REPORT

FINANCIAL STATEMENTS

The following statement of assets and liabilities, together with the accompanying statement of income and disbursements, reflects the financial condition of the Association at December 31, 2018. All amounts are based on findings of the current examination.

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Balance, beginning of year	\$ 969,816	\$ 920,563	\$1,382,597	\$1,659,801	\$1,774,967
<u>Income</u>					
Gross receipts from assessments	\$1,141,886	\$1,320,475	\$1,505,333	\$1,644,302	\$1,833,856
Membership and policy fees	555	685	820	875	1,065
Less return on cancellations	<u>12,768</u>	<u>19,825</u>	<u>13,248</u>	<u>22,807</u>	<u>29,035</u>
Net received from members	\$1,129,673	\$1,301,335	\$1,492,905	\$1,622,370	\$1,805,886
Interest on investments	2,651	3,425	6,357	10,690	16,208
Other interest	246	492	5,534	2,209	6,450
Liability premiums	81,434	90,877	103,789	117,896	134,993
Vacancy permits	625	1,375	1,375	1,000	625
Miscellaneous	39,430	60,370	2,687	1,596	6,439
Reinsurance premium refund	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>62,224</u>
Total revenue	<u>\$1,254,059</u>	<u>\$1,457,875</u>	<u>\$1,612,646</u>	<u>\$1,755,762</u>	<u>\$2,032,824</u>

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Disbursements</u>					
Gross losses paid	\$1,728,125	\$ 437,203	\$ 502,144	\$ 722,715	\$ 780,820
Less discount and salvage	350	25	575	19,150	925
Less reinsurance recovered	<u>1,119,801</u>	<u>188,796</u>	<u>34,435</u>	<u>27,270</u>	<u> </u>
Net losses paid	\$ 607,974	\$ 248,383	\$ 467,133	\$ 676,296	\$ 779,895
Adjusting expense		17	1,133		1,862
Legal expenses on losses					506
Commissions to agents	62,033	70,197	93,204	106,748	111,107
Salaries of agents	30,192	23,408	30,261	32,400	36,626
Expenses of agents	12,107	9,296	10,351	11,506	11,589
Salaries and mileage of					
Directors and Officers	4,050	2,267	2,367	3,231	2,579
Salaries of office employees	43,680	45,427	48,840	49,920	60,480
Employee office expense	1,815	2,268	2,365	2,519	2,454
Other taxes					20,279
Postage	2,368	1,954	2,545	2,842	3,380
Insurance department licenses					
& fees	11,651	15,668	17,017	19,430	241
All other taxes	6,058	5,615	6,308	6,533	7,699
Advertising, printing & stationary	8,606	4,090	5,827	11,477	10,550
Telephone	3,378	3,693	3,937	4,412	5,060
Reinsurance premiums paid	326,046	472,173	537,976	593,796	664,978
Liability premiums	71,683	78,212	91,743	104,896	119,370
Insurance expense	107,261	8,020	8,250	8,231	8,408
Meeting expense/dues	<u>4,410</u>	<u>5,153</u>	<u>6,187</u>	<u>6,357</u>	<u>6,588</u>
Total disbursements	<u>\$1,303,312</u>	<u>\$ 995,841</u>	<u>\$1,335,442</u>	<u>\$1,640,595</u>	<u>\$1,853,653</u>
Balance, end of year	<u>\$ 920,563</u>	<u>\$1,382,597</u>	<u>\$1,659,801</u>	<u>\$1,774,967</u>	<u>\$1,954,139</u>

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2018

ASSETS

Ledger Assets

Certificates of deposit	\$1,240,000	
Other cash deposited in banks	601,187	
Surplus notes	<u>112,952</u>	
Total ledger assets		<u>\$1,954,139</u>

Assets Not Admitted

Surplus note	\$ <u>112,952</u>	
Total assets not admitted		<u>\$ 112,952</u>
Total admitted assets		<u>\$1,841,187</u>

LIABILITIES AND SURPLUS

Losses adjusted and unpaid	\$ <u>78,730</u>	
Net unpaid losses		\$ 78,730
Unearned premiums		721,928
Other liabilities		<u>9,549</u>
Total liabilities		<u>\$ 810,207</u>
Surplus as regards policyholders		<u>\$1,030,980</u>
Total liabilities and surplus		<u>\$1,841,187</u>

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Association to comply therewith:

Principal Office - Article IV of the Articles of Incorporation state the principal office will be Route 2, P.O. Box 96, Grand Island, Nebraska. This is no longer the principal of office of the Association and it is recommended that the Association amended the Articles of Incorporation to include the new principal office in Cairo, Nebraska.

Action: The Association has complied with this recommendation.

Reinsurance Clause- It is recommended that the Association amend its reinsurance contract to include an arbitration clause, an offset clause, and an error and omissions clause. It is also recommended that the Association include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

Action: The Association has partially complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Certificates of Deposit **\$1,240,000**

The Association had twenty six Certificates of Deposit at December 31, 2018 with a reported balance of \$1,240,000. These certificates were verified by confirmations received from the issuing depositories or brokers.

Other cash deposited in banks **\$ 601,187**

The Association maintains a checking account in a FDIC insured state bank. The deposits were verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking account was reconciled to the Association's records as of December 31, 2018, by giving consideration to outstanding checks and deposits.

Surplus Note **\$ 112,952**

The surplus note issued by NFMRA had a value of \$112,952 as of December 31, 2018. This item is deducted as an asset not admitted in both the Association’s 2018 Annual Statement and the financial statements of this report in accordance with Statement of Statutory Accounting Principles No. 41.

Statement of Statutory Accounting Principles No. 41, Paragraph 10(b)(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ to the outstanding face amount of the capital or surplus notes. The ‘statement

factor' is equal to the total capital and surplus, including surplus notes, less the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus notes. If 'statement factor' is negative, the surplus note(s) shall be carried at zero."

Calculation of NFMRA's surplus note is as follows:

\$1,841,187	Admitted asset (including surplus note)
<u>810,207</u>	Less liabilities
\$1,030,980	Total capital, surplus and surplus note

\$1,841,187	
<u>5%</u>	of admitted assets
\$ 92,059	

Greater of \$92,059 or \$6,000,000

\$1,030,980	
<u>- 6,000,000</u>	
\$(4,969,020)/1,030,980 = -4.82	statement factor

Net Unpaid Losses **\$ 78,730**

The Association reported a gross liability for unpaid losses amounting to \$78,730 in its December 31, 2018 Annual Statement. A loss development calculation was completed and it indicated that the reserve established at December 31, 2013 was sufficient by \$36,684.

Unearned Premiums **\$ 721,928**

The Association reported unearned premiums of \$721,928 in its December 31, 2018 Annual Statement. Amounts reported are calculated by taking the net amount of premiums received multiplied by forty percent.

Surplus as Regards Policyholders **\$1,030,980**

Policyholder's surplus, as determined by this examination, amounted to \$1,030,980 at December 31, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Meeting of the Members and Board of Directors – It is recommended that the annual meeting of the Members be held on the fourth Saturday of January of each year and that the regular meetings of the Board of Directors be held on the third Saturday in January and the first Saturday in July or amend the By-Laws to allow for alternative meeting dates.

Fidelity Bond – It is recommended that the Association obtain a fidelity bond in the amount of \$75,000 as recommended by the NAIC Financial Condition Examiners Handbook.

Entire Agreement Clause – It is recommended that the Association include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

ACKNOWLEDGMENT

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Skyler Lawyer", written over a horizontal line.

Skyler Lawyer, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

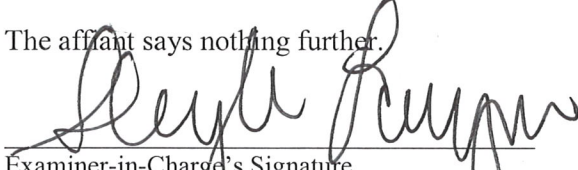
State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

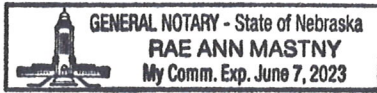
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of The German Farmers Mutual Assessment Insurance Association of Hall County, Inc.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of The German Farmers Mutual Assessment Insurance Association of Hall County, Inc. was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 10th day of July, 2019.

(SEAL)



Rae Ann Mastny
Notary Public

My commission expires _____ [date].