

AUG 03 2018

# CERTIFICATION

FILED

August 3, 2018

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

**KNOX COUNTY FARMERS MUTUAL INSURANCE COMPANY, INC.**

as of

December 31, 2017

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

**KNOX COUNTY FARMERS MUTUAL INSURANCE COMPANY, INC.**

dated as of December 31, 2017 verified under oath by the examiner-in-charge on  
July 31, 2018 and received by the company on July 31, 2018, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 1st day of August 2018.

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**

**KNOX COUNTY FARMERS MUTUAL INSURANCE COMPANY, INC.**

**as of**

**December 31, 2017**



Bloomfield, Nebraska  
July 17, 2018

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
1135 M Street, Suite 300  
Lincoln, Nebraska 68501

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:

**KNOX COUNTY FARMERS MUTUAL INSURANCE COMPANY, INC.**  
**212 N. Broadway**  
**Bloomfield, NE 68718**

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The Company was last examined as of December 31, 2012 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2017, 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 Company’s operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter

provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed. 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 Company'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 Company'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 Company's financial condition as of December 31, 2017.

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

## **DESCRIPTION OF COMPANY**

### **HISTORY**

The Farmers Mutual Fire Insurance Company of Knox County, Nebraska was organized under the laws of the State of Nebraska on March 18, 1893, as a mutual assessment company for the purpose of insuring farm properties, country school, country churches and parsonages and their contents against loss by fire and lightning. Dwellings, garages, barns and personal property of members living in fire protected towns and cities were also insured. Its amended Articles of Incorporation allowed for an existence of ninety-nine years from February 19, 1934, unless sooner dissolved by law. A sister company, namely Farmers Mutual Whirlwind and Tornado Insurance Company of Knox County, Nebraska, was organized on July 3, 1905, for the purpose of providing windstorm and tornado coverage on like properties. Its corporate existence likewise was for ninety-nine years from February 19, 1934, unless sooner dissolved by law.

These two companies were merged into a single consolidated corporation under and pursuant to the provisions of the applicable Nebraska Statutes. Said consolidation was effective March 29, 1984. The consolidated corporation was named Knox County Farmers Mutual Insurance Company, Incorporated. Its purpose is to continue the business of the two consolidated companies as an assessment insurance company insuring the properties of its members against loss as set forth in its By-Laws. The Company's Articles of Incorporation provide that, "the duration of this corporation shall be perpetual."

### **MANAGEMENT AND CONTROL**

#### **Members**

The Company's Articles of Incorporation state that, "every person, corporation, association or partnership insuring in this corporation shall be a member thereof and entitled to one vote which

may be cast in person or by proxy... the members present shall constitute a quorum for the transaction of business.” The Company's By-Laws provide that, “the regular annual meeting of said Company shall be the first Tuesday in February in each year and shall be held in the City of Bloomfield, Knox County, Nebraska, at which time said corporation shall elect its Officers and transact other regular business.”

### **Board of Directors**

The Company's Articles of Incorporation state that, “the general management of this corporation shall be vested in a Board of not less than five nor more than nine Directors, who shall be elected at the annual meeting of the corporation and shall act as such Directors until their successors are elected and qualified. A Director of this corporation must be a member thereof and reside within the territory embraced by the By-Laws.”

The Company's By-Laws state that, “the Officers to be elected at said annual meeting shall consist of at least five Directors and no more than nine Directors in whom management of said corporation shall vest, and a majority of whom shall constitute a quorum for the transaction of business. Directors shall be elected for a term of one year. Vacancies in said board shall be filled by the other Directors, to serve until the next annual meeting. All members of the Board of Directors so chosen by the members of this corporation shall be members in good standing of this corporation. The Board of Directors so chosen at the regular meeting of said corporation shall hold a regular meeting of said board on or before the first Tuesday in March of each year in the City of Bloomfield, Knox County, Nebraska...”

The following persons were serving as Directors at December 31, 2017:

<u>Name</u>	<u>Residence</u>
Loren Bratetic	Bloomfield, Nebraska
Kelly Bruns	Bloomfield, Nebraska
Richard Eisenhower	Bloomfield, Nebraska
Kenneth Gill	Bloomfield, Nebraska
Alvin Kathol	Hartington, Nebraska
Martin Kleinschmit	Hartington, Nebraska
Edward Lange Jr.	Hartington, Nebraska
Kevin Mackeprang	Bloomfield, Nebraska
Marlan Rolfes	St. Helena, Nebraska

Each Director receives \$50 per meeting attended. They also receive a fee of \$15 plus 50 cents per mile for each appraisal or loss adjustment. In addition, Directors receive \$25 per day plus mileage of 50 cents per mile while attending to incidental business of the Company.

### Officers

The Company's By-Laws state that the, "...Board shall choose from their own number a President, Secretary and a Treasurer."

The following is a listing of Officers elected and serving the Company at December 31, 2017:

<u>Name</u>	<u>Office</u>
Richard Eisenhower	President
Kevin Mackeprang	Secretary
Kelly Bruns	Treasurer

### TERRITORY AND PLAN OF OPERATION

As evidenced by a current Certificate of Authority, the Company is licensed to transact business in the state of Nebraska. The Company's By-Laws provide that, "the district in which this corporation may do business shall be limited to the State of Nebraska for which Knox Co Farmers Mutual Insurance Company is licensed to write insurance."



The Company's By-Laws also state that, “the purpose of this corporation is to insure for a term of four years or less, against loss or damage, the urban and rural buildings, including churches, parsonages, schools, dwelling houses, garages, barns and other outbuildings as well as personal property of members of this corporation, excluding commercial property...the Directors so chosen at the regular meeting of said corporation, if licensed to do so, shall be the agents of said corporation to solicit new members for this organization.” The Company had four licensed agents as of December 31, 2017. The agents receive a 10 percent commission for each new policy and 9 percent on renewal policies written.

The Company, as a convenience for its members and agents, makes available general liability insurance coverage written by Grinnell Mutual Reinsurance Company (Grinnell). Commissions received by the Company are transferred and disbursed to the agent responsible for the production of such business.

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

The Company's By-Laws state that, “the Treasurer so chosen by the Board of Directors shall give bond in the sum of \$100,000, conditioned for the faithful performance of the duties of the office and the accounting for all moneys coming into their hands.” A fidelity bond on the Treasurer in the amount of \$100,000 was in-force at December 31, 2017.

### **REINSURANCE**

#### **Ceded**

The Company has a reinsurance contract with Grinnell, which became effective January 1, 2011, and continues until terminated at the end of any calendar year with 90 days written notice. This contract establishes the Company as a member of Grinnell. Coverage applies to all policy forms and endorsements issued by the Company once they are filed and accepted by

Grinnell. The Company is issued a coverage schedule each calendar year setting the premium rates, individual occurrence retention limit, individual occurrence coverage limits, and aggregate loss attachment point.

The Property Per Risk Excess of Loss coverage for 2017 has the Company's individual occurrence retention at \$125,000. For the first layer, Grinnell is liable for losses in excess of the retention, up to a limit of \$1,000,000 for livestock/poultry/horse operations, commercial and public property, farm products storage structures, and dwelling. For the second layer, Grinnell is liable up to a limit of \$4,000,000 for farm machinery and equipment storage buildings. For the third layer, Grinnell is liable for 100% in excess of \$5,000,000 for each loss with maximum recovery of \$15,000,000 per risk.

The Property Aggregate Excess of Loss coverage for 2017 has the Company's aggregate net loss retention at \$400,000. Grinnell is liable for all aggregate losses in excess of this retention.

Facultative coverage is available for exposures that exceed the individual occurrence limit. The Company does not have any exposures that are applicable.

### **General**

The contract reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses.

**BODY OF REPORT**

**FINANCIAL STATEMENTS**

The following financial statements reflect the Company's operations during the examination period and the financial condition of the Company at December 31, 2017. All amounts are based on the current examination:

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Balance, beginning of year	<u>\$1,377,136</u>	<u>\$1,663,342</u>	<u>\$1,617,413</u>	<u>\$1,804,881</u>	<u>\$1,906,612</u>
<b><u>Income</u></b>					
Gross receipts from assessments	\$ 637,841	\$ 618,315	\$ 659,610	\$ 726,807	\$ 775,137
Return on cancellations	<u>5,975</u>	<u>4,251</u>	<u>11,710</u>	<u>          </u>	<u>          </u>
Net received from members	\$ 631,866	\$ 614,064	\$ 647,900	\$ 726,807	\$ 775,137
Interest on investments	9,750	9,586	9,818	17,661	20,526
Liability sold for AIC		70,030	76,172	79,829	69,673
Liability premium GMRC direct	<u>27,564</u>	<u>34,539</u>	<u>31,290</u>	<u>52,280</u>	<u>51,833</u>
Total revenue	<u>\$ 669,180</u>	<u>\$ 728,219</u>	<u>\$ 765,180</u>	<u>\$ 876,577</u>	<u>\$ 917,169</u>

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Disbursements</u></b>					
Gross losses paid	\$ 85,136	\$ 366,286	\$ 159,669	\$ 398,900	\$ 643,363
Less discount and salvage	2,922	1,500		5,106	17,503
Less reinsurance recovered	<u>41,323</u>	<u>12,112</u>	<u>22,492</u>	<u>96,446</u>	<u>111,570</u>
Net losses paid	\$ 40,891	\$ 352,674	\$ 137,177	\$ 297,348	\$ 514,290
Adjusting expense	8,126	8,598	10,769	9,377	16,021
Commissions paid to agents	48,917	51,566	47,930	50,038	71,744
Expenses of agents		96	1,149	398	753
Salaries and expenses of Directors and Officers	13,840	13,204	14,802	18,039	38,755
Rent	6,600	6,600	5,400	3,900	4,481
Insurance department licenses and fees	2,034	10,363		545	
All other taxes	30,363	25,277	23,903	27,605	24,105
Advertising, printing and stationery	1,005	3,142	2,168	2,107	3,897
Telephone, postage and utilities	2,387	2,356	1,680	2,891	12,052
Reinsurance premiums paid	143,038	189,880	212,137	211,797	225,780
GMRC direct	27,564	34,539	32,833	52,193	52,337
Interest on borrowed money	500	500	500		
Miscellaneous	751	618	2,610	783	7,097
Premium refunds				9,202	6,342
Liability premiums for Acceptance Casualty and Grinnell Mutual	56,958	66,528	72,375	74,498	77,738
Federal and state employee WH		<u>8,207</u>	<u>12,279</u>	<u>14,125</u>	<u>8,357</u>
Total disbursements	<u>\$ 382,974</u>	<u>\$ 774,148</u>	<u>\$ 577,712</u>	<u>\$ 774,846</u>	<u>\$1,063,749</u>
Balance, end of year	<u>\$1,663,342</u>	<u>\$1,617,413</u>	<u>\$1,804,881</u>	<u>\$1,906,612</u>	<u>\$1,760,032</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2017**

**ASSETS**

**Ledger Assets**

Certificates of deposit	\$1,590,230	
Cash deposited in banks	<u>169,802</u>	
Total ledger assets		<u>\$1,760,032</u>
Total admitted assets		<u>\$1,760,032</u>

**LIABILITIES AND SURPLUS**

Losses adjusted and unpaid	\$ 0	
Claims reported but not adjusted	77,606	
Less reinsurance	<u>(74,576)</u>	
Net unpaid losses		\$ 3,030
Unearned premiums		348,812
Premium tax liability		<u>4,336</u>
Total liabilities		\$ 356,178
Surplus as regards members		<u>\$1,403,854</u>
Total liabilities and surplus		<u>\$1,760,032</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 Company to comply therewith:

**Surplus Note** – It is recommended that the Company list the surplus note on Annual Statement page 5 line 11, “Other Assets”. The note should then be non-admitted on Annual Statement page 5 line 22.

**Action:** The Company disposed of Surplus Note in 2017, thus this recommendation no longer applies.

**Premium Tax Liability** - It is recommended that the Company accrue for premium taxes within the Annual Statement on page 5 line 34, “Premium Tax Liability”.

Action: The Company has not complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

**Documentation Maintenance** - It is recommended that Company maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A).

Action: The Company has complied with this recommendation.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Investments**

**\$1,590,230**

The Company is moving away from Certificates of Deposit and moving those monies into stocks, bonds, mutual funds and a sweep account to gain better yield. On June 29, 2016 the Company deposited \$190,000 into an Insured Cash Sweep (ICS) savings account with Brunswick State Bank. This savings account allows limited deposits and withdrawals. This savings account allows Brunswick State Bank to trade funds with other banks, thereby the Company can have a balance exceeding \$250,000 and still be federally insured.

### **Other Cash Deposited in Banks**

**\$ 169,802**

The Company maintains these funds in a checking account with a local bank. These deposits were verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2017, by giving consideration to outstanding checks.

### **Return on Cancellations**

**\$ 6,342**

The Company reported a liability for premium refunds on page 4, line 23 in the amount of \$6,342 in the December 31, 2017 Annual Statement. The amount should be accounted for as return on cancellations on page 3, line 6 of the Annual Statement. It is recommended that premium refunds be accounted for on the Income Statement within the Annual Statement on page 3 line 6 “Return of cancellations”.

**Amount of Losses Adjusted and Unpaid** **\$ 3,030**

The Company did not report prior year unpaid claims on page 5, line 25 of the 2017 Annual Statement in the amount of \$3,030. The Company had included this amount on line 26. It is recommended that the Company report all prior year unpaid claims on page 5, line 25 of the Annual Statement.

**Net Unpaid Losses** **\$ 3,030**

The Company reported a gross liability for unpaid losses amounting to \$77,606 in its December 31, 2017 Annual Statement. The Company also reported reinsurance recoverable in the amount of \$74,576, reflecting a net unpaid loss of \$3,030.

**Unearned Premiums** **\$ 348,812**

The Company reported unearned premium as \$348,812 in its Annual Statement. The amount is calculated by taking 45% of the premium received during the year. Liability premiums, which are forwarded on to Acceptance Casualty Insurance Company and Grinnell are not reserved for.

**Premium Tax Liability** **\$ 4,336**

The Company did not report a premium tax liability in its Annual Statement. The liability amount reported in the 2017 State of Nebraska Annual Premium Tax Return was \$3,418. Company also reported Nebraska State Withholding in the amount of \$918 for a total liability amount of \$4,336. It is again recommended that this amount be accrued and reported within the Annual Statement on page 5, line 34, "Premium Tax Liability".

**Member's Surplus** **\$1,403,854**

Surplus as regards policyholders amounted to \$1,403,854 at December 31, 2017, as developed through this examination.

### **Conflicts of Interest Statements**

The Company has the Board of Directors sign conflicts of interest statements when they are considered to be new Board members. Board members are elected on an annual basis and thus should be signing conflict of interest statements on an annual basis. It is recommended that the Company have all Board of Directors sign conflict of interest statements annually.

### **SUBSEQUENT EVENT**

#### **INVESTMENTS**

The Company is changing its investment strategy and is moving away from certificates of deposit and into money markets, stocks, and bonds. On October 3, 2017 the Company formed an investment policy with the help of the financial advisor Hensen Webb Group. The Company will be investing into the RBC Investment Portfolio. On December 19, 2017, the Company signed a custodial agreement with Comerica Bank. The Company made its first purchase in the portfolio on February 12, 2018 in the amount of \$700,000.

#### **COMPUTER SYSTEM**

On January 18, 2017, the Company signed an agreement with IMT Computer Services Co. to customize a software program that would bring all investments, claims, premiums, general ledger together into one program. Full implementation of the software is scheduled for either the end of 2018 or early 2019.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Return on Cancellations** - It is recommended to the Company that premium refunds be accounted for on the Income Statement within the Annual Statement on page 3, line 6 “Return of cancellations”.



**Premium Tax Liability** - It is recommended that the Company accrue for premium taxes within the Annual Statement on page 5, line 34, “Premium Tax Liability”.

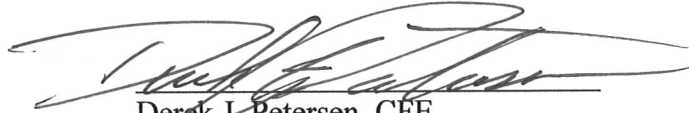
**Amount of Losses Adjusted and Unpaid** - It is recommended that the Company report all prior year unpaid claims on page 5, line 25 of the Annual Statement.

**Conflict of Interest Statements** – It is recommended that the Company have all Board of Directors sign a conflict of interest statement on an annual basis.

**ACKNOWLEDGMENT**

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Derek J. Petersen', written over a horizontal line.

Derek J. Petersen, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

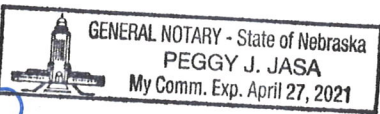
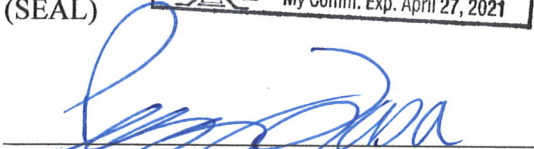
Derek J. Petersen, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Knox County Farmers Mutual Insurance Company, 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 Knox County Farmers Mutual Insurance Company, 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 Derek Petersen on this 31 day of July, 2018.

(SEAL)   
  
Notary Public

My commission expires 4-27-21 [date].