

JUN 14 2021

FILED

CERTIFICATION

June 14, 2021

I, Eric Dunning, 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

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES

AS OF

DECEMBER 31, 2019

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.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES

236 COUNTY ROAD 2000

CRETE, NEBRASKA 68333

dated as of December 31, 2019 verified under oath by the examiner-in-charge on
May 24, 2021, and received by the company on May 28, 2021, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 14th day of June 2021.

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

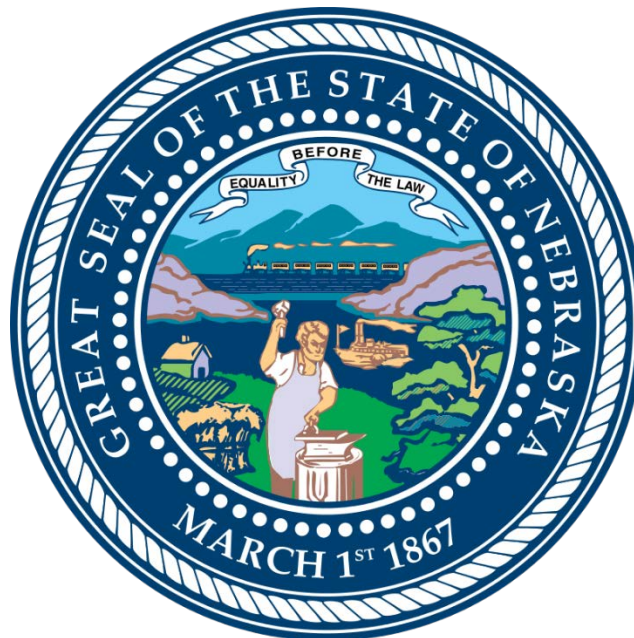
EXAMINATION REPORT

OF

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES

as of

December 31, 2019



Lincoln, Nebraska
April 27, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
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:

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES
236 County Road 2000
Crete, Nebraska 68333

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

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2014. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2019, and 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

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

The Department made a general review 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, 2019.

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

DESCRIPTION OF COMPANY

HISTORY

The Company was organized on June 12, 1890 as an assessment fire and lightning insurance company. It was incorporated on January 27, 1892 and restricted its writings to Saline and Seward Counties. On January 15, 1932, the Company's Articles of Incorporation were amended to allow the writing of insurance in Saline, Seward, and adjoining counties. A subsequent amendment on June 15, 1943, permitted the writing of fire and lightning, windstorm and tornado, and hail or other hazards as are authorized by statute. On April 11, 1947, the Articles were further amended to permit the writing of insurance on residence properties and contents in towns and cities with approved fire protection, and to provide that the corporate existence shall be until dissolved by law.

MANAGEMENT AND CONTROL

Members

Article 7 of the Company's Articles of Incorporation provides that, "any person owning property in Saline and Seward and adjoining counties, Nebraska, may become a Member of this company by complying with its Articles of Incorporation and By-Laws, and shall be entitled to all the rights and privileges appertaining thereto." Article 16 states, "the annual meeting of Members of this company shall be held on or before April 30th of each year. The specific date and time of the annual meeting shall be set by the Board of Directors."

Board of Directors

Article 3 of the Company's Article of Incorporation states, "there shall be five Directors, a majority of whom shall constitute a quorum for the transaction of business. All of the elected

Directors shall be Members of the association and reside within the state of Nebraska. The Directors shall be elected at the annual meeting.”

The following persons were serving as Directors at December 31, 2019:

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Donald Jirsa	Milford, Nebraska	2020
Diana Pomajzl	Crete, Nebraska	2020
William Stahly	Milford, Nebraska	2021
Terry Vaverka	Milford, Nebraska	2021
Ronald Vosta	Milford, Nebraska	2022

Directors are paid \$25 for each Board meeting attended and \$50 for every Nebraska Farmers Mutual Reinsurance Association (NFMRA) or State Association of Mutual Insurance Companies (SAMIC) meeting attended.

Officers

Article 4 of the Articles of Incorporation states, “the policy holders shall elect by ballot at each annual meeting from their number a President, Vice-President, Secretary, and Treasurer, the last two may be the same for one year or until their successors are elected and qualified.”

The following is a listing of Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
Larry J. Dedic	President
Jim Krejci	Vice-President
Cheryl Retherford	Secretary-Treasurer

For 2019, the President was paid a \$2,000 salary, and the Secretary-Treasurer was paid \$18,000.

FIDELITY BOND AND OTHER INSURANCE

A fidelity bond issued on the Secretary-Treasurer in the amount of \$25,000 is in place to protect the Company. This bond is issued by an authorized insurer.

The Company's agents are covered under an Errors & Omissions policy written through Nebraska Farmers Agency, Inc. This coverage provides a \$1,000,000 policy limit subject to a \$5,000 per claim deductible and a \$15,000 aggregate deductible for the policy period. The premium is paid by the Company on behalf of its two agents.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska.

The Company writes fire, lightning, windstorm, tornado, hail, theft, and vandalism insurance coverage on farm dwellings, farm buildings, mobile agriculture equipment, county churches, and schools, and protected town and city dwellings and contents therein. An extended coverage endorsement is printed on the policy form and is included with all coverages. Policies are written for a five-year term and are subject to assessments as determined by the Directors. Any person owning property in Saline, Seward and adjoining counties may apply to become a member by making application for insurance and paying the annual premium currently in effect, subject to policy provisions, and terms and conditions as stated in the NFMRA contract.

REINSURANCE

The Company, as a member of the NFMRA, used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2019, the Company retained a liability up to an amount equal to \$2,700 per million of the 2019 average insurance in force. After

this aggregate retention limit was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention limit for 2019 was noted as being \$234,443.

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 (\$1,160,000 as respects risks of single farm outbuildings and contents therein). Any recoveries made that are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Company makes recoveries under this coverage but its net losses do not exceed its 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 Company 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 reviewed contract contained a standard insolvency clause, an arbitration clause, an offset clause, and an errors and omissions clause. The contract also contained the entire agreement clause as required per 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 Company at December 31, 2019. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Balance, beginning of year	\$1,085,765	\$1,337,987	\$1,490,616	\$1,694,447	\$1,904,423
<u>Income</u>					
Total assessments and fees	\$ 475,417	\$ 478,068	\$ 451,228	\$ 447,513	\$ 423,172
Less return on cancellations	<u>2,130</u>	<u>1,180</u>	<u>1,288</u>	<u>2,857</u>	<u>3,688</u>
Net received from assessments	\$ 473,288	\$ 476,888	\$ 449,941	\$ 444,656	\$ 419,485
Interest on investments	4,497	4,133	5,500	8,609	16,159
Other interest	501	17,006	3,820	12,402	11,598
Liability premium	14,164	15,279	15,198	15,711	15,478
Miscellaneous				276	
Reinsurance premium refund	24,132	24,132		33,841	
Returned checks	<u> </u>	<u>7,661</u>	<u> </u>	<u> </u>	<u> </u>
Total income	<u>\$ 516,582</u>	<u>\$ 545,099</u>	<u>\$ 474,458</u>	<u>\$ 515,220</u>	<u>\$ 462,996</u>

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Disbursements</u>					
Gross losses paid	\$ 464,700	\$ 216,162	\$ 127,355	\$ 103,879	\$ 75,886
Less discount and salvage					200
Less recovered from reinsurance	<u>\$ 440,028</u>	<u>63,421</u>	<u>88,128</u>	<u>45,244</u>	<u> </u>
Net losses paid	\$ 24,671	\$ 152,741	\$ 39,227	\$ 58,635	\$ 75,686
Salaries of office employees	\$ 17,281	\$ 17,429	\$ 18,284	\$ 19,264	\$ 19,335
Rent	1,200	1,200	1,200	1,200	1,200
Insurance department licenses & fees	6,942	5,954	5,828	5,505	5,443
All other taxes	3,458	3,633	4,396	2,991	3,805
Advertising, printing, and stationary	536	366	463	412	442
Telephone and postage	1,111	1,401	1,320	1,278	970
Reinsurance premiums paid	190,262	187,203	183,033	195,288	195,354
Liability premiums	13,484	12,869	12,251	15,387	14,063
Dues	3,008	3,374	3,631	3,688	3,702
Miscellaneous	<u>2,406</u>	<u>6,299</u>	<u>994</u>	<u>1,595</u>	<u>792</u>
Total expenses	\$ 239,688	\$ 239,729	\$ 231,400	\$ 246,608	\$ 245,105
Total disbursements	<u>\$ 264,359</u>	<u>\$ 392,470</u>	<u>\$ 270,627</u>	<u>\$ 305,244</u>	<u>\$ 320,791</u>
Balance, end of year	<u>\$1,337,987</u>	<u>\$1,490,616</u>	<u>\$1,694,447</u>	<u>\$1,904,423</u>	<u>\$2,046,628</u>

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2019

ASSETS

Ledger Assets

Surplus note	\$ 246,479	
Certificates of deposit	1,343,585	
Other cash deposited in banks	<u>456,565</u>	
Total assets		<u>\$2,046,628</u>

Assets Not Admitted

Surplus note to NFMRA	\$ <u>246,479</u>	
Total assets not admitted		<u>\$ 246,479</u>
Total admitted assets		<u>\$1,800,149</u>

LIABILITIES AND SURPLUS

Losses adjusted and unpaid	\$ 27,000	
Unearned premiums	187,633	
Taxes, licenses, and fees payable	1,260	
Liability premiums payable	1,383	
Premium tax payable	<u>4,645</u>	
Total liabilities		\$ 221,921
Surplus as regards members		<u>\$1,578,228</u>
Total liabilities and surplus		<u>\$1,800,149</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:

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

Action: The Company has complied with this recommendation.

Interest Due or Accrued on Investments – It is recommended that in future annual statements that the accumulated interest on certificates of deposit is reported on page 5, line 13.

Action: The Company has complied with this recommendation.

Reinsurance Receivable – It is recommended that the Company establish in future annual statements an asset for any receivable amounts from reinsurers related to claims paid in the current year for which applicable reinsurance recoveries have not yet been received.

Action: The Company has complied with this recommendation.

Reinsurance on Unpaid Losses – It is recommended that the Company report any applicable reinsurance coverage on outstanding losses on page 5, line 29 of future annual statements and that the difference between outstanding losses and applicable reinsurance coverage be reported in annual statement page 5, line 30 “Net unpaid losses.”

Action: The Company has complied with this recommendation.

Unearned Premium – It is recommended that the Company revise their estimation methods for calculating unearned premiums in order to more accurately reflect when premiums are being collected throughout the year.

Action: The Company has complied with this recommendation.

Taxes, Licenses, and Fees – It is again recommended that the Company calculates the unpaid taxes, licenses, and fees and include the balance on future annual statements.

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

Liability Premiums Payable – It is recommended that the Company establish a liability for any amounts owed to Acceptance Casualty Insurance Company for liability premiums collected but not yet remitted as of year-end.

Action: The Company has complied with this recommendation.

Single Risk Retention – It is recommended that the Company comply with Nebraska Statute §44-222 and only retain in any one risk 1/8th of 1% of its prior year-end inforce insurance.

Action: The Company has complied with this recommendation.

Recoveries from Reinsurance – It is recommended that the Company report reinsurance recoveries received on paid claims on page 4, line 4 of future annual statements.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Surplus Note

\$ 246,479

The Company purchased a surplus note from NFMRA in 2015. The surplus note bears an interest rate of 2.5% per annum. The surplus note is not considered a liability or claim against the assets of NFRMA. The principal and/or interest can be paid only when the amount of the surplus of the reinsurance association over all liabilities is double that of the amount of the principal and/or interest then being paid. The Company agreed to buy the note in lieu of realizing substantial increases in their reinsurance rates. The amount of the surplus note was confirmed with NFMRA.

The surplus note is non-admitted in the Company's 2019 Annual Statement in accordance with the NAIC Accounting Practices and Procedures Manual due to the restrictions based upon Membership with NFMRA, the fact that there is no established market or fair value, and that the notes have no independent rating.

Certificates of Deposit

\$1,343,585

The Company had thirty-two certificates of deposit issued by various state banks totaling \$1,343,585. Certificates of deposit were verified by confirmations received from the respective banks.

Other Cash Deposited in Banks

\$456,565

Cash in bank was verified by obtaining a certification from Pinnacle Bank. This amount is the Company's sole checking account.

Losses Adjusted and Unpaid **\$ 27,000**

The Company established a liability for unpaid losses in the amount of \$27,000. These unpaid losses were the estimated cost to settle the reported claims for 2017, 2018, and 2019 loss years as of December 31, 2019.

Unearned Premiums **\$187,633**

The Company reported unearned premiums of \$187,633 in its December 31, 2019 Annual Statement. This amount was calculated by dividing each month's premium collected by 12 then multiplying each per month premium by the number of months remaining on the contract at year end.

Taxes, Licenses, and Fees **\$ 1,260**

The Company reported a liability for payroll taxes payable relating to December 2019 personnel salaries.

Liability Premiums Payable **\$ 1,383**

The Company reported a liability premiums payable relating to December 2019 liability premiums.

Premium Tax Payable **\$ 4,645**

The Company did not report a premium tax liability in its Annual Statement. The liability amount reported in the 2019 State of Nebraska Annual Tax Return was \$4,645. It is again recommended that this amount be accrued as a liability for premium tax within the Annual Statement on page 5 line 34.

Conflict of Interest Statements

The Company did not have the Board of Directors sign conflict of interest statements annually. It is recommended that conflict of interest statements are signed by all Directors of the Board on an annual basis.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Premium Tax Payable – It is again recommended that the amount of premium taxes due to the State of Nebraska be accrued as a liability for premium tax within the Annual Statement on page 5 line 34.

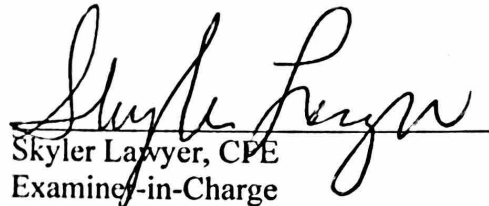
Conflict of Interest Statements – It is recommended that conflict of interest statements are signed by all Directors of the Board on an annual basis.

ACKNOWLEDGMENT

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

In addition to the undersigned, Daniel Rousseau, AFE, Financial Examiner with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

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

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

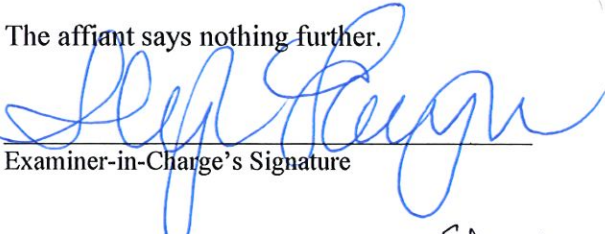
State of Nebraska,

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 Mutual Insurance Company of Saline and Seward Counties.
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 Mutual Insurance Company of Saline and Seward Counties was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

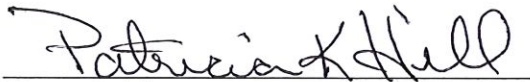
The affiant says nothing further.

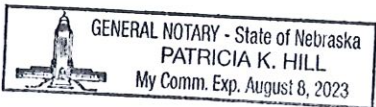


Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 24 day of May, 2021.

(SEAL)


 Notary Public



My commission expires 8-8-23 [date].