

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

MAY 19 2023

FILED

CERTIFICATION

May 19, 2023

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

NORTHERN NEBRASKA UNITED MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2021

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

NORTHERN NEBRASKA UNITED MUTUAL INSURANCE COMPANY

601 WEST PARK AVENUE

PLAINVIEW, NE 68769

dated as of December 31, 2021, verified under oath by the examiner-in-charge on
May 11, 2023, and received by the company on May 12, 2023, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 19th day of May 2023.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "L. Crawford".

Lindsay Crawford, CFE
Chief Financial Regulator

STATE OF NEBRASKA

Department of Insurance

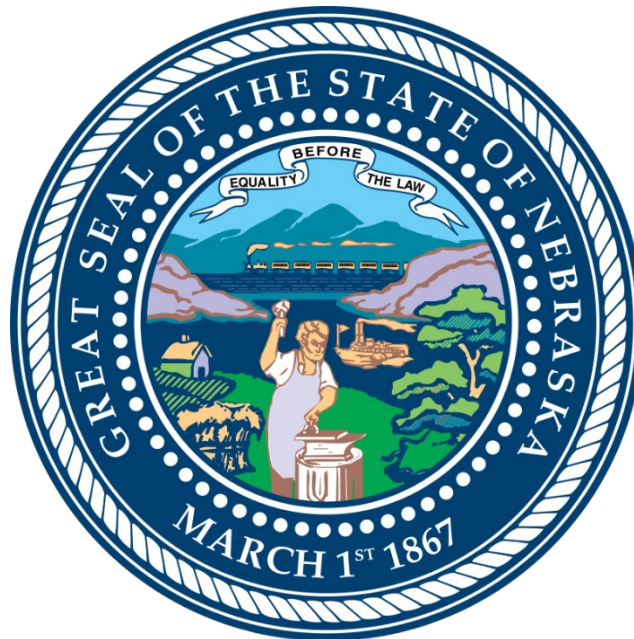
EXAMINATION REPORT

OF

NORTHERN NEBRASKA UNITED MUTUAL INSURANCE COMPANY

as of

December 31, 2021



Lincoln, Nebraska
April 3, 2023

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:

NORTHERN NEBRASKA UNITED MUTUAL INSURANCE COMPANY
601 West Park Avenue
Plainview, Nebraska 68769

(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, 2017. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2021 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 Nebraska Department of Insurance conducted this examination pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

The Nebraska Department of Insurance 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, 2021.

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 formed by means of the consolidation of Farmers Mutual Insurance Company of Wausa and Pierce County Farmers Mutual Insurance Company on January 1, 1996. The Nebraska Department of Insurance granted tentative approval for the consolidation September 21, 1995. The Members of the then existing companies approved the consolidation on September 30, 1995 and October 7, 1995, respectively, and the Nebraska Director of Insurance granted final approval on December 29, 1995 for the consolidation to be effective January 1, 1996.

MANAGEMENT AND CONTROL

Members

Article V of the Articles of Incorporation provides that, “the Membership of this Company shall be every person, corporation, association or partnership insured in this Company, and they shall be entitled to one vote at any annual or special meeting of this Company in person or by proxy.”

Article I, Section 1 of the By-Laws states that, “the annual meeting of the Members shall be held on the first Saturday after the first Monday in February for the purpose of electing Directors and for the transaction of such other business as may come before the meeting...Special meetings of the Members of the Company may be called by the President upon petition of a majority of the Board of Directors.”

Article I, Section 6 of the By-Laws further states that, “a majority of the Members attending a meeting, represented in person or by proxy, shall constitute a quorum at a meeting of the Members.”

Board of Directors

Article II, Section 1 of the By-Laws states that, “the business and affairs of the corporation shall be managed by a Board of Directors consisting of nine (9) Directors. The Directors must be Members in good standing of the corporation.” As of December 31, 2021, the Company had a total of 8 Directors. The Company amended its By-Laws at the February 2022 annual meeting to allow a minimum of 6 and not more than 9 Directors.

Article II, Section 6 of the By-Laws also states that, “the annual meeting of the Board of Directors shall be held on the first Monday in February and shall be held at the same place as the annual meeting of Members unless some other place is agreed upon by vote of majority of the then elected Board of Director.” Section 2 provides that, “at the first meeting of the Members and at each annual meeting thereafter, the Members shall elect 3 Directors each year. No more than 1/3 of the Directors shall be elected in any one year.”

The following persons were serving as Directors at December 31, 2021:

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Tim Johnson	Wausa, Nebraska	2022
Gene Pfanstiel	Randolph, Nebraska	2022
Steve Wacker	Osmond, Nebraska	2022
Gordon Fulton	Creighton, Nebraska	2023
Steve Pellatz	Brunswick, Nebraska	2023
Larry Silhacek	Pierce, Nebraska	2023
Steve Kumm	Wausa, Nebraska	2024
Tim Spatz	Pierce, Nebraska	2024

Nate Schwager of Orchard, Nebraska was appointed to the Board of Directors at the February 8, 2022 meeting to replace retired member Tim Johnson.

Directors received \$150.00 per meeting for their attendance of each Board of Director meeting.

Officers

Article III, Section 1 of the By-Laws states that, “the Officers of the corporation shall be a President, one or more Vice-Presidents (as the Board of Directors shall determine), a Secretary and a Treasurer and such other Officers and agents as may be deemed necessary by the Board of Directors. Any two or more offices may be held by the same person, except the President and Vice-President.”

The following is a listing of Officers elected and serving the Company at December 31, 2021:

<u>Name</u>	<u>Office</u>
Gordon Fulton	President
Larry Silhacek	Vice President
Micheal Wingert	Secretary/Treasurer

FIDELITY BOND AND OTHER INSURANCE

Article VI of the By-Laws states that, “every person elected to office, or employed in any capacity requiring receipt, management or expenditure of money or property, shall give a good and sufficient corporate surety bond, approved by the Board of Directors of this company, before entering upon the duties of this office.” At year-end 2021, the Company had a financial institution bond in the amount of \$75,000.

The Company also purchased a combined professional liability and directors and officers liability policy. The policy has a limit of \$2,000,000 per claim and \$2,000,000 in the aggregate for all claims for the policy period and a deductible of \$10,000 per claim. The Company also holds a combined insurance agents and brokers professional liability policy. The policy has a limit of \$3,000,000 per claim and \$3,000,000 in the aggregate for all claims for the policy period and a deductible of \$2,500 per claim.

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; with its present territory being the counties of Antelope, Boone, Brown, Cedar, Cumming, Dakota, Dixon, Holt, Knox, Lincoln, Madison, Pierce, Polk, Sarpy, Stanton, Wayne, and Wheeler.

The Company insures real and personal property and interest therein, against loss or damage from fire, lightning, windstorm, cyclones, hail and extended coverage.

The Company has available to its Members comprehensive personal and general liability coverages underwritten by Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA).

REINSURANCE

Ceded

The Company is a member of the NFMRA and used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2021, the Company retained a liability up to an amount equal to \$2,970 per million of the 2021 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2021 was noted as being \$1,398,117.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000. Recoveries made which are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Company 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 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.

The Company also cedes 100% of their equipment breakdown and service line coverage, effective July 1st, 2014, to The Hartford Steam Boiler Inspection and Insurance Company (Hartford). Hartford is paid a set fee per policy for coverage.

General

The reviewed contract contained a standard insolvency clause, an offset clause, and an errors and omissions clause. All contracts 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, 2021. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Balance, beginning of year	\$2,871,472	\$2,846,465	\$3,070,581	\$3,592,488
<u>Income</u>				
Gross receipts from assessments	\$2,491,046	\$2,524,239	\$2,710,221	\$2,860,860
Returns on cancellations	<u>34,938</u>	<u>28,901</u>	<u>24,441</u>	<u>24,183</u>
Net received from members	\$2,456,107	\$2,495,337	\$2,685,780	\$2,836,677
Interest on investments	43,949	56,412	47,310	34,050
Liability premiums	273,170	270,914	275,096	215,910
Hartford Steam claim reimbursement	21,496	43,107	32,172	34,862
Processing fee liability	<u> </u>	<u>1,149</u>	<u>2,040</u>	<u>1,528</u>
Total income	<u>\$2,794,722</u>	<u>\$2,866,920</u>	<u>\$3,042,397</u>	<u>\$3,123,026</u>
<u>Disbursements</u>				
Gross losses paid	\$1,104,461	\$ 842,091	\$ 652,160	\$1,379,747
Less discount and salvage	8,200	2,500	22,322	2,500
Less recovered from reinsurance	<u>69,189</u>	<u>5,269</u>	<u> </u>	<u> </u>
Net losses paid	\$1,027,072	\$ 834,322	\$ 629,838	\$1,379,747
Adjusting expense	\$ 20,056	\$ 19,615	\$ 20,601	\$ 11,402
Legal and accounting fees	11,005	680	680	705
Commissions to agents	233,694	249,737	264,588	283,715
Office equipment	214	3,713	3,364	
Loss on sale of investment	7,663			
Salaries and expenses of Directors and Officers	39,958	41,606	38,598	36,650
Salaries of office employees	42,831	51,008	51,370	105,047
Bank fees	22	22	100	58
Repair on real estate	5,770	8,624	8,876	18,204
Taxes on real estate	1,722	1,702	3,435	1,799
Insurance department licenses & fees	433	456	438	506
All other taxes	171,565	94,203	130,735	66,803
Advertising, printing and stationery	12,107	15,751	13,991	15,407
Telephone & postage	21,747	21,951	17,625	27,880
Reinsurance premiums paid	884,122	933,387	968,209	972,901
Building depreciation	1,913	1,913	1,913	1,913
Dues, state and national	24,445	26,061	7,298	27,149
E&O, Work Comp and Bond	18,725	24,033	20,398	41,722

STATEMENT OF INCOME AND DISBURSEMENTS – continued

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Employee benefits, building insurance			31,168	
Liability premiums	237,337	237,593	244,760	126,329
Hartford claims paid	21,496	43,107	32,172	34,862
Commissions paid NFMRA, Grinnell, And Hartford Steam Boiler	<u>\$ 35,833</u>	<u>\$ 33,321</u>	<u>\$ 30,335</u>	<u>\$ 89,580</u>
Total disbursements	<u>\$2,819,728</u>	<u>\$2,642,804</u>	<u>\$2,520,490</u>	<u>\$3,239,879</u>
Balance, end of year	<u>\$2,846,465</u>	<u>\$3,070,581</u>	<u>\$3,592,488</u>	<u>\$3,475,635</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2021

ASSETS

Ledger Assets

Book value real estate	\$ 35,032	
Surplus note NFMRA	70,423	
Cash in office	50	
Certificates of deposit	1,658,864	
Money markets	1,722,473	
Checking	<u>(16,014)</u>	
Total ledger assets		<u>\$3,475,635</u>

Non-Ledger Assets

Furniture	<u>\$ 1,264</u>	
Total non-ledger assets		<u>\$ 1,264</u>
Gross assets		<u>\$3,476,899</u>

Assets Not Admitted

Furniture	\$ 1,264	
Surplus note NFMRA	<u>70,423</u>	
Total assets not admitted		<u>\$ 71,687</u>
Total admitted assets		<u>\$3,405,213</u>

LIABILITIES AND SURPLUS

Amount of losses adjusted and unpaid	\$ 710,276
Less reinsurance	(311,164)
NE premium tax 2021	<u>13,761</u>
Total liabilities	<u>\$1,427,641</u>
Surplus as regards policyholders	<u>1,977,572</u>
Total liabilities and surplus	<u>\$3,405,213</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:

Conflict of Interest – It is recommended that the Company have the Board of Directors and Officers complete a conflict of interest statement on an annual basis.

Action: The Company has complied with this recommendation.

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.

Entire Agreement Clause – It is 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.

Investment Objectives – It is recommended that the Company become compliant with the Board approved investment objectives.

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.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Real Estate

\$ 35,032

The Company purchased two lots in Plainview, Nebraska in 1995 for \$8,500 and built a home office building on the site. Total construction expenses paid, less depreciation accumulated to December 31, 2021, totaled \$35,032.

Surplus Note

\$ 70,423

The surplus note issued by NFMRA had a value of \$70,423 as of December 31, 2021. This item is deducted as an asset not admitted in both the Company's 2021 Annual Statement and the financial statements of this report 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.

Cash in Office

\$ 50

This asset is being reflected at \$50 as of December 31, 2021 for purposes of this examination. The carrying balance of this fund has historically been \$50.

Certificates of Deposit

\$1,658,864

The Company had twenty-one Certificates of Deposit at December 31, 2021 with a reported balance of \$1,658,864. The certificates were verified by confirmations received from the issuing depositories.

Money Market Accounts

\$1,722,473

The Company had three money market accounts in the amount of \$1,722,473. All of these accounts were verified by direct confirmation received from the issuing depositories.

Checking**\$ (16,014)**

The Company 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 Company's records as of December 31, 2021 by giving consideration to outstanding checks and deposits. Items subsequent to year end 2021 were included in the checking account reported balance of (\$11,205.90). It is recommended that the Company report its checking balance at year end and do not include items subsequently received.

Furniture and Equipment**\$ 1,264**

This asset reflects the carrying value of the Company's office equipment and supplies. The total of these items is deducted, as an asset not admitted in both the Company's 2021 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

Net Unpaid Losses**\$ 399,112**

The Company established a liability for losses adjusted and unpaid in the amount of \$710,276. The Company also reported reinsurance recoverable in the amount of \$311,164 on 2021 claims in excess of retention, reflecting a net unpaid loss of \$399,112.

Unearned Premiums**\$1,014,768**

The Company reported unearned premiums of \$1,014,768 in its December 31, 2021 Annual Statement. Amounts reported are system generated and represent the unearned portion of each policy based on the remaining policy days on each policy at December 31, 2021.

Premium Tax Payable

\$ 13,761

The Company reported a premium tax liability of \$13,761 in its December 31, 2021 Annual Statement. The above listed amount represents actual taxes, which were incurred during the year 2021 and paid during 2022.

Surplus as Regards Policyholders

\$1,977,572

Policyholder's surplus, as determined by this examination, amounted to \$1,977,572 at December 31, 2021.

Investment Objectives

The Company has Board approved Investment Policy Objectives which layout the minimum and maximum portfolio distribution of asset classifications. The Company is not in compliance with the approved asset distribution. It is recommended that that the Company become compliant with the Board approved investment objectives or amend the objectives to align with the Companies current investment goals.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

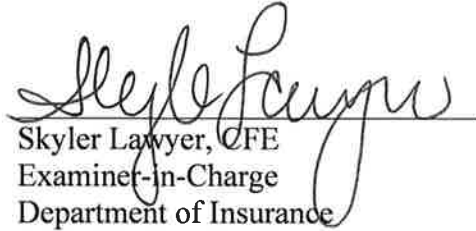
Checking Account Balance– It is recommended that the Company report its checking balance at year end and do not include items subsequently received.

Investment Objectives– It is recommended that the Company become compliant with the Board approved investment objectives or amend the objectives to align with the Companies current investment goals.

ACKNOWLEDGMENT

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

Respectfully submitted,



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

State of Nebraska,

County of Lancaster,

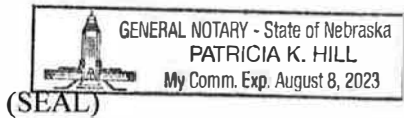
Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Northern Nebraska United Mutual Insurance Company.
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 Northern Nebraska United Mutual Insurance Company 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 11 day of May, 2023.




Notary Public

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