

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

JUN 28 2021

FILED

# CERTIFICATION

June 28, 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

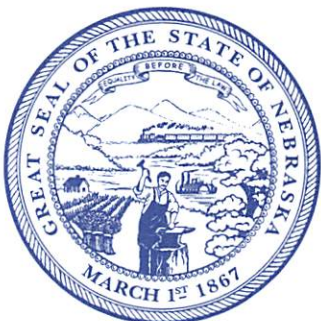
**POLK AND BUTLER MUTUAL INSURANCE COMPANY**

**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

**POLK AND BUTLER MUTUAL INSURANCE COMPANY**

**431 HAWKEYE STREET**

**OSCEOLA, NEBRASKA 68651**

dated as of December 31, 2019, verified under oath by the examiner-in-charge on June 14, 2021, and received by the company on June 14, 2021, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 28<sup>th</sup> 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**

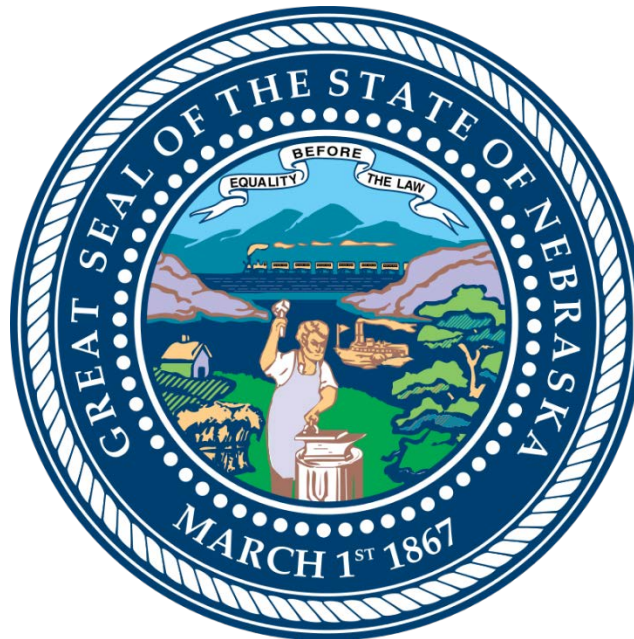
**EXAMINATION REPORT**

**OF**

**POLK AND BUTLER MUTUAL INSURANCE COMPANY**

**as of**

**December 31, 2019**



Lincoln, Nebraska  
June 10, 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:

**POLK AND BUTLER MUTUAL INSURANCE COMPANY**  
**431 Hawkeye Street**  
**Osceola, Nebraska 68651**

(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 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, 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, formerly the "Polk and Butler Counties Farmers Insurance Company," was incorporated under the laws of the State of Nebraska on February 23, 1892 as an assessment fire and lightning insurance company for the purpose of insuring the property of its members located in Polk and Butler Counties in Nebraska against loss or damage by fire and lightning.

At a special meeting of the policyholders held on February 28, 1963, the Articles of Incorporation were amended to change the Company's name to Polk and Butler Mutual Insurance Company, the principle place of business to Osceola, Nebraska, and the territory of the Company to be limited to Polk County, Nebraska and the counties contiguous thereto.

The Articles of Incorporation provide that, "the purposes of the Company shall be to insure the property of its Members against the risks and hazards permitted by Section 44-201(1) and (8) of the Revised Statutes of 1943 of the State of Nebraska and all acts amendatory thereto; to issue policies of insurance of the general character provided for mutual and assessment companies by Chapter 44 of the Revised Statutes of 1943, State of Nebraska; and to perform all other acts and to have and exercise all such rights and privileges as are necessary to carry out the general purposes of said company." The Articles of Incorporation also provide that the Company shall have perpetual existence.

### **MANAGEMENT AND CONTROL**

#### **Members**

Article IV of the Articles of Incorporation state that, "the membership of the Company shall be limited to those persons, corporations, associations or partnerships having insurance in full force and effect." Membership is obtained by an application being approved by the

Secretary or his authorized representative and shall cease when such insurance is canceled or terminates from any other cause. Each member is entitled to one vote at any annual or special meeting. The Articles state that, “the annual membership meeting shall be held at Shelby, Nebraska on the second Thursday in February of each year commencing at 10 o’clock a.m. Special membership meetings may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the Members of the Company.”

**Board of Directors**

Article VI of the Articles state that, “the corporate powers of the Company shall be vested in a Board of nine Directors each elected by a majority vote of the annual meeting for terms of three years or until their successors are duly elected and qualified.” The Articles further state that, “no person shall hold the office of Director unless he is a policyholder.” A majority of the Board shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

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

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Term Expires</u></b>
Mike Crook	Rising City, Nebraska	2020
Lee Fozzard	Rising City, Nebraska	2020
Curtis Ingalls	Shelby, Nebraska	2020
Scot Bauer	Surprise, Nebraska	2021
Dean Heins	David City, Nebraska	2021
Darin Sterup	Osceola, Nebraska	2021
Roger Augustin	Osceola, Nebraska	2022
John Messing	Shelby, Nebraska	2022
Dannie Steager	Surprise, Nebraska	2022

Directors receive \$50.00 per diem plus mileage at the rate set by the Federal government, for each meeting attended.

**Officers**

The Articles of Incorporation state that, “at the annual meeting of the Directors which shall be held immediately following the annual meeting of the Members, they shall elect for a term of one year a President, Vice-President, Treasurer, and Secretary who when so designated by the Board may also serve as Treasurer and such additional Officers as they deem necessary.”

The President receives a \$200 annual stipend as compensation for the extra duties required of his position. The Board of Directors approved a 2019 salary for the Secretary/Treasurer of \$21,096 per year.

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

<b><u>Name</u></b>	<b><u>Office</u></b>
Lee Fozzard	President
Dannie Steager	Vice President
Darin Sterup	Secretary and Treasurer

**FIDELITY BOND AND OTHER INSURANCE**

The Company has a fidelity bond providing coverage in the amount of \$25,000 on the Secretary-Treasurer. This bond was issued by an authorized insurer.

Directors and Officers are protected under a combined Professional Liability and Directors and Officers Liability policy providing a \$500,000 limit on each claim and in the aggregate, subject to a \$10,000 deductible on each.

Agents of the Company are protected under Insurance Agents and Brokers liability policy providing \$1,000,000 limit on each claim and in the aggregate, subject to a \$2,500 deductible.



## **TERRITORY AND PLAN OF OPERATION**

The Company is authorized to transact business in the State of Nebraska. The Company transacts the business of insurance in Polk, Butler, York, Merrick, and Platte Counties in Nebraska. The Company insures farms and farm property, town residence property, churches, schools, mobile trailer homes, and non-commercial buildings.

The Company currently has two licensed agents producing business for the Company and two persons who adjust claims that may occur.

Policies are written for a term of three years with premiums being collected each year during the term of the policy. No membership fees are charged to the members.

The Company, as a convenience for its policyholders and agents, made available general liability coverage written by Acceptance Casualty Insurance Company through the Nebraska Farmers Agency Company. The Company handles the premium accounting on such business. Commissions received by the Company are transferred and disbursed to the agents responsible for the production of such business. The Company retains any expense or handling fees.

## **REINSURANCE**

### **Ceded**

The Company 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 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 was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2019 was noted as being \$207,212.

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 1/8<sup>th</sup> 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	\$573,358	\$530,450	\$604,823	\$679,638	\$767,240
<b><u>Income</u></b>					
Gross receipts from assessments	\$363,544	\$351,950	\$410,812	\$472,922	\$478,851
Gross membership, cancellation and policy fees		75	6,271	7,115	7,350
Less return on cancellations	<u>1,436</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net received from members	\$362,108	\$352,025	\$417,083	\$480,037	\$486,201
Interest on investments	3,472	13,044	6,490	11,487	10,916
Rents	1,600	2,400	2,800	3,300	3,600
Liability premiums	<u>22,499</u>	<u>22,734</u>	<u>24,635</u>	<u>25,997</u>	<u>26,439</u>
Total income	<u>\$389,679</u>	<u>\$390,203</u>	<u>\$451,008</u>	<u>\$520,821</u>	<u>\$527,156</u>
Gross losses paid	\$285,093	\$ 45,000	\$ 79,973	\$134,114	\$ 80,328
Less discount and salvage			6,450		
Less reinsurance recovered	<u>138,677</u>	<u>14,153</u>	<u>1,237</u>	<u>          </u>	<u>12,474</u>
Net losses paid	\$146,416	\$ 30,847	\$ 72,286	\$134,114	\$ 67,854
Adjusting expense	1,855	3,115	735	413	913
Commissions to agents	53,812	63,600	59,019	68,744	76,926
Expenses of agents	3,723	2,403	2,342	2,499	2,713
Salaries and expenses of Directors and Officers	24,208	18,500	19,400	20,100	21,096
Repair on real estate	286	3,502	1,224	2,761	1,091
Taxes on real estate	316	293	304	381	392
Insurance department licenses & fees	8,477	7,242	7,469	8,000	13,389
All other taxes	10,715	4,815	5,048	4,897	4,612
Advertising, printing & stationary	799	4,190	4,423	11,703	10,594
Telephone & postage	4,396	5,927	3,965	4,492	5,113
Reinsurance premiums paid	126,259	123,124	132,188	96,367	160,209
Account write-offs				1,227	994
Annual meeting expense	175	332	100	189	120
Retirement expense	12,000	15,600	15,600	32,000	6,000
Professional fees	2,200	2,327	2,175	1,900	1,805
Liability insurance	22,361	21,202	22,015	22,609	23,124
Utilities	3,455	3,337	3,353	3,771	3,029
Other insurance	6,162	5,223	5,702	5,771	6,143

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Continuing education				595	675
Office expense	3,044				
Office equipment	846			1,220	
Leasehold improvements			18,845	9,090	
Travel expenses	<u>1,082</u>	<u>250</u>	<u>          </u>	<u>375</u>	<u>529</u>
Total disbursements	<u>\$432,587</u>	<u>\$315,830</u>	<u>\$376,193</u>	<u>\$433,219</u>	<u>\$407,321</u>
Balance, end of year	<u>\$530,450</u>	<u>\$604,823</u>	<u>\$679,638</u>	<u>\$767,240</u>	<u>\$887,321</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2019**

**ASSETS**

**Ledger Assets**

Certificates of deposit	\$429,316	
Cash deposited in banks	334,520	
NFMRA surplus note	<u>123,239</u>	
Total ledger assets		<u>\$887,075</u>

**Non-Ledger Assets**

Interest due and accrued on investments	\$ 160	
Supplies	<u>28,493</u>	
Total non-ledger assets		<u>\$ 28,653</u>

**Assets Not Admitted**

Furniture & supplies	\$ 28,493	
NFMRA surplus note	<u>123,366</u>	
Total assets not admitted		<u>\$151,859</u>
Total admitted assets		<u>\$763,869</u>

## LIABILITIES AND SURPLUS

Amount of losses adjusted and unpaid	\$ 14,895
Unearned premiums	161,928
Accounts payable	683
Premium tax payable	1,548
Payroll tax payable	<u>887</u>
Total liabilities	<u>\$179,941</u>
Surplus as regards Members	<u>\$583,928</u>
Total liabilities and surplus	<u>\$763,869</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 reinsurance contract to include an arbitration clause, an offset clause, and an error 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.

**Reinsurance Receivable** – It is recommended that the Company account for reinsurance receivables in accordance with SSAP No. 62R

**Action:** The Company has complied with this recommendation.

**Post Retirement Compensation (Walter Crook)** – It is recommended that the Company establish a liability in the amount of \$9,600, which represents one year of payments due to Mr. Crook under his post retirement compensation agreement. This liability should continue to be recorded on future annual statements until such a time that the Company's obligations to Mr. Crook have been settled. It is also recommended that the Company include a note to the annual statement that discloses the remaining balance payable to Mr. Crook.

**Action:** The Company has complied with this recommendation.

**Post Retirement Compensation (Darin Sterup)** – It is recommended that the Company include a note to the annual statement disclosing the accumulated balance of the contributions made to Mr. Sterup's retirement during the five year vesting period. Once

vested, it is recommended that the Company establish a liability for the entire amount due to Mr. Sterup.

**Action:** The Company has complied with this recommendation.

### **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

#### **Certificates of Deposit** **\$429,316**

As of December 31, 2019, the Company had five certificates of deposit with a value of \$429,316. Each certificate of deposit was verified by direct confirmation from the respective depositories.

#### **Cash Deposited in Banks** **\$334,520**

This asset consisted of a standard checking and savings account balance. The value was 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, 2019 by giving consideration to outstanding checks.

#### **Surplus Note** **\$123,239**

The Company obtained a surplus note from NFMRA on January 1<sup>st</sup>, 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 note has no independent rating.

**Interest Due or Accrued on Investments** **\$ 160**

The Company estimated the amount of interest due or accrued on its investment holdings as of December 31, 2019 and booked the non-ledger amount of \$160.

**Furniture and Supplies** **\$ 28,493**

The non-ledger amount of \$28,493 reflects the depreciated cost of the Company's office equipment. This item is deducted, as an asset not admitted in both the Company's 2019 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

**Losses Adjusted and Unpaid/Claims Reported but Unadjusted** **\$ 14,895**

The Company established a liability for losses adjusted and unpaid in the amount of \$14,895. The liability was incorrectly reported on Annual Statement page 5 line 34. It is recommended the Company report unpaid claims on Annual Statement page 5 line 25 "Amount of losses adjusted and unpaid."

**Unearned Premiums** **\$161,928**

The Company reported unearned premiums of \$161,928 in its December 31, 2019 Annual Statement. Amounts are calculated in the computer system with unearned factors based on the policy effective date.

**Accounts Payable** **\$ 683**

The Company reported an accounts payable liability of \$683 in its December 31, 2019 Annual Statement. This amount consists of unpaid, but not overdue, utilities for the Company's office building.

**Premium Tax Payable**

**\$ 1,548**

The Company reported a premium tax liability of \$1,548 in its December 31, 2019 Annual Statement.

**Payroll Tax Payable**

**\$ 887**

The Company reported a payroll tax liability for future amounts owed of \$887 in its December 31, 2019 Annual Statement.

**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:

**Unpaid Claims** – It is recommended the Company report unpaid claims on Annual Statement page 5 line 25 "Amount of losses adjusted and unpaid."

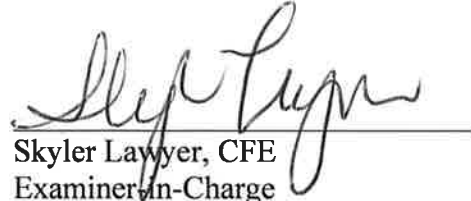
**Conflict of Interest Statements** – It is recommended that conflict of interest statements are signed by all Directors of the Board on an annual basis.



**ACKNOWLEDGMENT**

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

Respectfully submitted,

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

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

State of Nebraska,

County of Lancaster,

Skylar 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 Polk and Butler 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 the Polk and Butler 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.

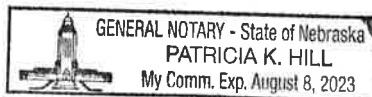
The affiant says nothing further.

  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skylar Lawyer on this 14 day of June, 2021.

(SEAL)

  
Notary Public



My commission expires 8.8.23 [date].