

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

OCT 03 2019

FILED

CERTIFICATION

October 3, 2019

I, Bruce R. Ramage, 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

YORK COUNTY FARMERS MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

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

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



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

YORK COUNTY FARMERS MUTUAL INSURANCE COMPANY

414 NORTH LINCOLN AVENUE, SUITE 1

YORK, NEBRASKA 68467

dated as of December 31, 2018 verified under oath by the examiner-in-charge on August 27, 2019 and received by the company on J August 28, 2019, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 18nd day of September 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

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

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

YORK COUNTY FARMERS MUTUAL INSURANCE COMPANY

as of

December 31, 2018



York, Nebraska
August 7, 2019

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

Dear Sir:

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

YORK COUNTY FARMERS MUTUAL INSURANCE COMPANY
414 North Lincoln Avenue, Suite 1
York, Nebraska 68467

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

SCOPE OF EXAMINATION

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

A general review was made of the 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, 2018.

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

DESCRIPTION OF COMPANY

HISTORY

The Company was organized and incorporated as “The Farmers Mutual Insurance Company of York County” on February 11, 1893. Its objective was to insure detached farm dwellings, barns, farm buildings, and livestock against damage by fire and lightning on the assessment plan. Business was restricted to the territory embraced by York County, Nebraska. On December 19, 1914, the Articles of Incorporation were amended to permit the Company to insure farm property, country school houses, country town halls and parsonages, the contents of such buildings, and hay and grain against loss by fire and lightning and, to insure all such property against loss by tornado and windstorm.

The Company’s current name was adopted by proper amendments to the Articles of Incorporation on January 6, 1936. The amendments also provided for a corporate existence of 99 years from that date and allowed that the general nature of business shall be to insure property in accordance with the laws of Nebraska relating to assessment associations. This amendment eliminated the territorial restrictions as had been imposed by the original Articles of Incorporation.

MANAGEMENT AND CONTROL

Members

Article IV of the Articles of Incorporation states that, “every person, corporation, association or partnership insuring in this Company shall be a member thereof and entitled to one vote at any annual or special meeting of the Company in person or by proxy.” Article VI provides that, “the annual or special meetings of the Company shall be held at the time and place provided in the By-Laws and ten members present shall constitute a quorum.”

Section 4 of the By-Laws requires that, “the annual meeting of this Company shall be held in York, Nebraska, on the second Saturday in January, of each year at 1:30 o’clock P.M. At each annual meeting such Officers and Directors shall be elected as may be necessary to fill all vacancies.”

Board of Directors

Section 5 of the By-Laws requires that, “the Board of Directors shall consist of not less than 5 nor more than 9 members and shall be elected for a term of two years, shall have general management and control of the business of the Company, and shall meet at such times as they may determine.”

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

| <u>Name</u> | <u>Residency</u> | <u>Term Expires</u> |
|--------------------|---------------------------|----------------------------|
| William Hoffman | York, Nebraska | 2019 |
| Randy Quick | Benedict, Nebraska | 2019 |
| Mark Sackschewsky | Waco, Nebraska | 2019 |
| Kevin Wegener | York, Nebraska | 2019 |
| Craig Bolton | Benedict, Nebraska | 2020 |
| William Brown | York, Nebraska | 2020 |
| Ronald Clark | McCool Junction, Nebraska | 2020 |
| David Doremus | Benedict, Nebraska | 2020 |

Directors currently receive \$100 per meeting attended and mileage for Company business.

Claim adjustments are paid \$50 plus mileage for each visit.

Officers

The Company’s By-Laws state that, “the Officers shall consist of a President, Vice President, Secretary, and Treasurer, and such other officers as may be elected by the members at annual meetings. The Officers shall be elected for terms of one year each, shall perform the duties incident to their respective offices, and such other duties as are respectively delegated to them by the Board of Directors.”

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

| <u>Name</u> | <u>Office</u> |
|-------------------|----------------|
| Randy Quick | President |
| Mark Sackschewsky | Vice President |
| William Brown | Secretary |
| Ronald Clark | Treasurer |

During the examination, it was noted that the Directors and Officers of the Company do not complete conflict of interest statements. It is recommended that the Company require each of its Directors and Officers to complete a conflict of interest statement on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

The Company currently has fidelity coverage with Nationwide Mutual Insurance Company providing \$25,000 coverage. The Company is also protected by a professional liability policy with NAMIC Insurance Company (NAMICO) providing \$1,000,000 coverage with a \$2,500 deductible. NAMICO also provides directors and officers liability coverage in the amount of \$1,000,000 with a \$10,000 deductible. The Company's adjustor is covered by a workers' compensation policy from SFM Mutual Insurance with a limit of \$500,000.

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. Fire, windstorm and extended coverage is written on farm property, real and personal, county churches, parsonages, dwellings located in towns or cities in York County, and farm property, town dwellings and buildings (not commercial) in adjoining counties. Certain Directors and outside agencies act as soliciting agents in procurement of new members and new business.

The Company utilizes a perpetual policy, which is reviewed and updated at no more than a five-year interval. Premiums had been charged annually, but now also bill in monthly and quarterly installments.

The Company, as a convenience for its policyholders and agents, makes available general liability insurance coverage written by Acceptance Casualty Insurance Company. The accounting on such business for premiums and agents' fees is handled by the Company. Commissions received by the Company are disbursed to the agents responsible for the production of such business.

REINSURANCE

Ceded

The Company is a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA). Under the contract for 2018, the Company retained a liability equal to \$2,700 per million of its average insurance in-force. After the aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2018 was initially estimated at \$246,002.

Prior to incurring the retention limit, NFMRA assumes 100% of any insured loss on a single risk greater than \$40,000 up to \$660,000 (\$1,160,000 as respects risk of single farm outbuildings and contents therein). Recoveries made under this section, which are greater than recoveries available under the aggregate retention, are deducted from subsequent aggregate recoveries.

The contract reviewed contained a standard insolvency, arbitration, offset, and errors and omissions clause. The 2018 contract did not contain the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual. The

exam team reviewed the 2019 contract and noted that NFMRA is now including the entire agreement clause in current policy forms.

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, 2018. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Balance, beginning of year | \$656,698 | \$610,127 | \$775,743 | \$787,613 | \$863,430 |
| <u>Income</u> | | | | | |
| Gross receipts from assessments | \$496,694 | \$501,182 | \$474,217 | \$524,114 | \$549,011 |
| Return on cancellations | (20,417) | (4,433) | (1,790) | | |
| Liability premiums | <u>22,502</u> | <u>22,751</u> | <u>25,098</u> | <u>27,605</u> | <u>29,760</u> |
| Total underwriting income | \$498,779 | \$519,500 | \$497,525 | \$551,719 | \$578,771 |
| Interest on investments | 3,521 | 4,731 | 4,660 | 5,974 | 7,658 |
| Other interest | | | | 64 | 484 |
| Work comp premium refund | | | | | 239 |
| Reinsurance premium refund | | | | | 17,493 |
| Miscellaneous income | (13) | 1,258 | 20,013 | 6,486 | |
| Reinstatement fees | | | | 50 | |
| Installment fees | <u> </u> | <u> </u> | <u> </u> | <u>612</u> | <u>634</u> |
| Total income | <u>\$502,288</u> | <u>\$525,489</u> | <u>\$522,197</u> | <u>\$564,904</u> | <u>\$605,279</u> |

Disbursements

| | | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Gross losses paid | \$543,274 | \$201,097 | \$311,054 | \$166,775 | \$466,996 |
| Discount and salvage | | | | (1,000) | (179) |
| Recovered from reinsurance | <u>(349,597)</u> | <u>(166,575)</u> | <u>(118,861)</u> | <u>(21,272)</u> | <u>(185,974)</u> |
| Net losses paid | \$193,677 | \$ 34,522 | \$192,194 | \$144,503 | \$280,842 |
| Adjusting expense | 10,700 | 7,331 | 5,717 | 7,400 | 4,350 |
| Bank charges | 60 | | | | 243 |
| Commissions paid to agents | 73,643 | 76,804 | 73,465 | 81,404 | 85,206 |
| Accounting | 65,068 | 5,300 | 1,515 | 2,232 | 1,201 |
| Insurance and bonding | | | | 180 | 180 |
| Mileage | | | | | 1,936 |
| Directors and officers salaries | 11,023 | 8,199 | 10,551 | 8,000 | 8,050 |
| Employee salaries | 7,500 | 30,000 | 33,600 | 30,000 | 35,000 |
| Rent | | | | | 4,700 |
| Workers compensation premium | | | | 530 | 531 |
| Travel expense | 223 | 253 | | 1,195 | 619 |
| Insurance department fees | 3,291 | 9,541 | 4,945 | 4,820 | 220 |
| Other taxes | 6,688 | 5,510 | 6,056 | 6,731 | 9,772 |
| Advertising, printing, stationary | 356 | 3,761 | 3,390 | 757 | 1,465 |
| Telephone, postage | 2,812 | 2,418 | 1,981 | 1,615 | 1,277 |
| Reinsurance premiums | 107,689 | 135,511 | 144,024 | 152,917 | 177,244 |
| Meals and entertainment | | | | | 316 |
| Liability premiums | 20,292 | 20,760 | 21,220 | 24,062 | 25,515 |
| Miscellaneous expense | 741 | 7,733 | 5,492 | 262 | 1,430 |
| Dues | 2,768 | 3,125 | 3,261 | 3,422 | 3,612 |
| D&O/A&B liability premium | | | | 4,273 | 4,349 |
| Payroll tax liability adjustment | (874) | | | | 276 |
| Payroll taxes | 3,008 | 2,777 | 2,917 | 2,906 | |
| Promotions | 2,278 | 792 | | 5,391 | |
| Investment adjusting account | | | | 6,486 | |
| Outside adjustment expense | | 5,500 | | | |
| Donations | 34 | 34 | | | |
| Legal expenses on losses | 140 | | | | |
| Insurance premiums | 4,324 | | | | |
| NFMRA assessment | <u>33,418</u> | | | | |
| Total disbursements | <u>\$548,859</u> | <u>\$359,871</u> | <u>\$510,327</u> | <u>\$489,087</u> | <u>\$648,334</u> |
| Balance, end of year | <u>\$610,127</u> | <u>\$775,745</u> | <u>\$787,613</u> | <u>\$863,430</u> | <u>\$820,374</u> |

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2018

ASSETS

Ledger Assets

| | | |
|-------------------------------|----------------|---------------|
| Surplus note | \$ 12,791 | |
| Common stock | 1,500 | |
| Cash in office | 20 | |
| Certificates of deposit | 444,808 | |
| Other cash deposited in banks | <u>361,254</u> | |
| Total ledger assets | | \$820,374 |

Non-Ledger Assets

| | | |
|-------------------------------|--|-----------------|
| Deferred gain on common stock | | <u>\$ 8,021</u> |
| Gross assets | | \$828,395 |

Assets Not Admitted

| | | |
|-----------------------|--|------------------|
| Surplus note | | <u>\$ 12,791</u> |
| Total admitted assets | | <u>\$815,603</u> |

LIABILITIES AND SURPLUS

| | | |
|-------------------------------|--|------------------|
| Losses unpaid | | \$126,405 |
| Reinsurance recoverable | | (123,693) |
| Unearned premiums | | 400,496 |
| Payroll taxes payable | | <u>3,156</u> |
| Total liabilities | | \$406,364 |
| Surplus as regards members | | <u>409,239</u> |
| Total liabilities and surplus | | <u>\$815,603</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 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.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

NFMRA Surplus Note

\$ 12,791

The surplus note issued by NFMRA had a value of \$12,791.42 as of December 31, 2018. This item is deducted, as an asset not admitted in both the Company’s 2018 Annual Statement and the financial statements of this report in accordance with Statement of Statutory Accounting Principles No. 41.

Statement of Statutory Accounting Principles No. 41, Paragraph 10(b)(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ to the outstanding face amount of the capital or surplus notes. The ‘statement factor’ is equal to the total capital and surplus, including surplus notes, less the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus notes. If ‘statement factor’ is negative, the surplus note(s) shall be carried at zero.”

Calculation of the Company’s surplus note is as follows:

| | |
|----------------|-----------------------------------------|
| \$828,395 | Admitted asset (including surplus note) |
| <u>406,364</u> | Less liabilities |
| \$422,031 | Total capital, surplus and surplus note |

| | |
|-----------|--------------------|
| \$815,603 | |
| <u>5%</u> | of admitted assets |
| \$ 40,780 | |

Greater of \$40,780 or \$6,000,000

| | |
|---------------------------------|------------------|
| \$ 422,031 | |
| <u>- 6,000,000</u> | |
| \$ (5,577,969)/422,031 = -13.22 | statement factor |

Common Stock **\$ 1,500**

The Company owns 30 shares of NAMIC common stock that had an initial par value of \$10 per share or \$300. The Company purchased these shares for \$50 per share or \$1,500. The market value of the stock is \$9,521. The Company is appropriately reporting the cost as a ledger asset and the unrealized gain as a non-ledger asset of \$8,021.

Cash in Office **\$ 20**

The Company retains \$20 of petty cash in the office at all times.

Certificates of Deposit **\$444,808**

As of December 31, 2018, the Company had six certificates of deposit with a value of \$444,808.25. Each certificate of deposit was verified by direct confirmation from the respective depositories.

Cash Deposited in Banks **\$361,254**

This asset consisted of a checking account and a savings account balance. These deposits were verified by obtaining a direct confirmation from the banks. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2018, by giving consideration to outstanding checks.

Deferred Gain on NAMIC Stock **\$ 8,021**

As noted under Common Stocks, the Company is accurately reporting the cost of the stock as a ledger asset for \$1,500. The difference between market value, \$9,521, and cost is appropriately recorded as unrealized interest accrued on investments

Unpaid Losses **\$126,405**

The Company established a liability for unpaid losses amounting to \$126,405 in its December 31, 2018 Annual Statement. The exam team reviewed the records to support this

amount and found that the reports are living documents and have been updated since 2018 reporting. The exam team was able to review the current report and trace back the reserve with minimal variance. It is recommended that for future reporting periods the Company retain documentation of the year-end unpaid claims that comprise the amount reported in the Annual Statement.

Reinsurance Recoverable

\$123,693

The Company met its retention in 2018 and it would be expected that the reinsurance recoverable would match the unpaid claims reserve. The difference exists based on an adjustment to the retention level during the year. At the beginning of 2018, NFMRA utilizes the 2017 in-force amounts to estimate the 2018 retention. Once the 2018 in-force numbers are known, NFMRA adjusts the retention based on actual results. The difference between the initial estimate and the actual retention for 2018 was an increase in retention of \$2,712. The Company would owe \$2,712 more on the 2018 unpaid claim estimate based on this adjustment. The difference between the 2018 unpaid claims, \$126,405, and the adjustment is \$123,693.

Unearned Premiums

\$400,496

The Company reported unearned premiums of \$400,496 in its December 31, 2018 Annual Statement. Amounts reported are calculated by applying unearned factors, computed using the monthly pro rata method, to each month's premiums. The Company was not able to provide documentation supporting this amount as the reports are updated continually. The exam team was able to take the 2018 premiums collected database and recalculate the unearned premium reserve within a minimal variance. It is recommended that for future reporting periods the Company retain documentation supporting the unearned premium reserve that is reported in the Annual Statement.

Payroll Taxes Payable

\$ 3,156

The Company reports the accrued payroll taxes that it will pay subsequent to year-end in its Annual Statement.

Policyholders' Surplus

\$409,239

Policyholders' surplus, as determined by this examination, amounted to \$409,239 at December 31, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Conflict of Interest Statements – It is suggested that the Company require its Directors and Officers to complete annual conflict of interest questionnaires that are reviewed by the Directors at the annual meeting.

Unpaid Losses – It is recommended that for future reporting periods the Company retain documentation of the year-end unpaid claims that comprise the amount reported in the Annual Statement.

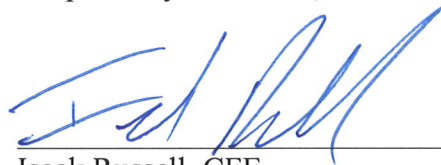
Unearned Premium – It is recommended that for future reporting periods the Company retain documentation supporting the unearned premium reserve that is reported in the Annual Statement.

ACKNOWLEDGMENT

The courteous cooperation extended by the Company during this examination is hereby acknowledged.

In addition to the undersigned, Santosh Ghimire, CFE, Financial Examiner with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

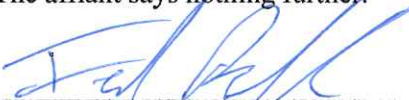
State of Nebraska,

County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the York County Farmers 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 York County Farmers 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.

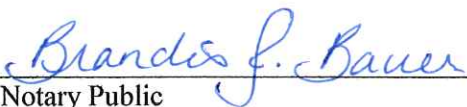
The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAIAK RUSSELL on this 27th day of AUGUST, 20 19.

(SEAL) 



Notary Public

My commission expires July 25, 2022 [date].