

CERTIFICATION

June 12, 2014

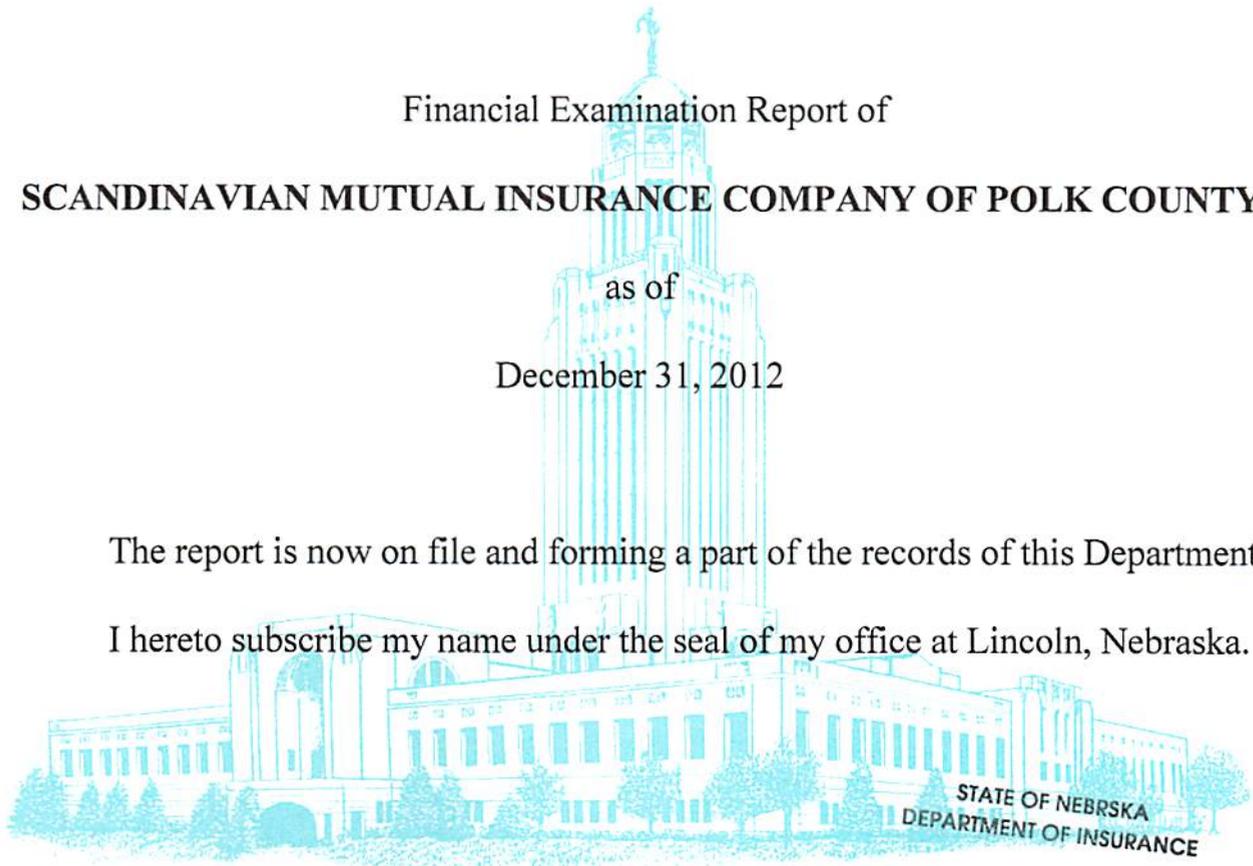
I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of
SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY

as of
December 31, 2012

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

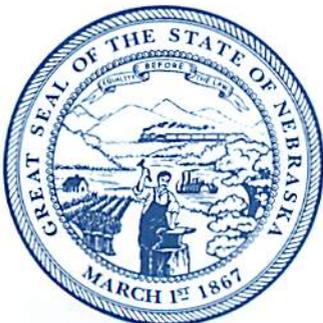
I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 12 2014

FILED



DEP

Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY

dated as of December 31, 2012, verified under oath by the examiner-in-charge on May 15, 2014, and received by the company on May 15, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 2 day of June 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

Scandinavian Mutual Insurance Company of Polk County

as of

December 31, 2012



Stromsburg, Nebraska
April 17, 2014

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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:

**Scandinavian Mutual Insurance Company of Polk County
305 Commercial Street
Stromsburg, Nebraska 68666**

(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, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, 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, including the departmental organization of the Company. 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. 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, 2012.

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 March 26, 1887, and incorporated under the laws of the State of Nebraska, as a mutual assessment fire insurance company with perpetual existence.

MANAGEMENT AND CONTROL

Members

The Amended By-Laws state that, “any person, corporation, association or partnership owning personal property or buildings, churches, or parsonages in rural, village or city areas may become a member of the Company.” Membership is obtained by presenting an application for membership, approval of the application by the President or Secretary, and one other member of the Board of Directors, and the payment of the authorized premium. Each member is entitled to one vote at any annual or special meeting. The Amended By-Laws state that, “annual meetings of the members shall be held on the second Tuesday of February of each year...Special meetings of the members of the Company may be called by the President or Vice-President, and in their absence, by the Secretary or by any fifteen members of the Company.”

Board of Directors

The Amended By-Laws state that, “the affairs of this corporation shall be conducted by a Board of Directors, consisting of seven members, all of whom shall hold a current and valid membership in the corporation.” Furthermore, the Amended By-Laws state that, “the Board of Directors shall be elected at the annual meeting, except those appointed to fill vacancies. The term of each Board of Directors shall be three years...A majority of the Board of Directors, being four, shall constitute a quorum for the transaction of all business presented.”

The following persons were serving as Directors at December 31, 2012:

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Leonard Anderson	Polk, Nebraska	2014
Colin Petersen	Stromsburg, Nebraska	2014
Carl Brown	Polk, Nebraska	2015
Ronald Girard	Osceola, Nebraska	2015
Corwin Hengelfelt	Stromsburg, Nebraska	2015
Douglas Jones	Osceola, Nebraska	2016
Mervin Ransom Jr.	Osceola, Nebraska	2016

The unexpired terms of vacancies occurring by death or resignation may be filled by the remaining Directors from among the members.

Officers

The Amended Articles of Incorporation state that, “immediately following the annual meeting in each year, this board shall hold an organizational meeting, and shall select one of their members to serve as President for the ensuing year, one as Vice-President, one as Secretary and one as Treasurer. Each Officer shall serve in the capacity to which he is elected until the next ensuing organizational meeting, or until his office is vacated for some other reason.”

The following is a listing of Officers elected and serving the Company at December 31, 2012:

<u>Name</u>	<u>Office</u>
Douglas Jones	President
Colin Petersen	Vice-President
Ronald Girard	Secretary
Mervin Ransom Jr.	Treasurer

FIDELITY BOND AND OTHER INSURANCE

A combined professional liability and Directors and Officers liability policy, in the amount of \$1,000,000, is carried by the Company. This coverage is subject to a \$10,000 deductible. Employee dishonesty coverage, in the amount of \$25,000 per occurrence, was in effect at the time of the examination.

The Company also carries an errors and omissions policy in the amount of \$1,000,000. This coverage is subject to a \$2,500 deductible.

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 issues policies for the perils of fire, lightning, wind and hail. All applications are referred to the Treasurer and one member of the Board of Directors who make an appraisal of the property to be insured. All policies are issued for three years and are renewable annually, with a \$500 deductible. Policies for towers and antennas have a \$50 deductible.

The Company also issues a Multi-Peril endorsement covering theft, vandalism, malicious mischief, overturn, collision, water damage; and smothering, freezing and electrocution of livestock.

Assessments are made for the following year at each annual meeting. The annual assessment on fire, wind and lightning coverage is \$3.90 per thousand. The rate for pivot irrigation systems is \$9.60 per thousand.

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 transferred and disbursed to the agent 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 2012, the Company retained a liability up to an amount equal to \$2,700 per million of its average insurance in-force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's preliminary retention for 2012 was noted to be \$238,232.

Prior to incurring the retention limit, NFMRA assumes 100% of any insured loss on a single risk greater than \$40,000 up to \$460,000. Recoveries made under this section which are greater than recoveries available under the aggregate coverage shall be deducted from subsequent aggregate recoveries.

NFMRA agreed to participate in losses to single risks insured up to a limit of \$500,000. The contract provides that the Company is the judge of what constitutes one risk except that in no event shall a building and its contents be considered more than one risk.

General

The contract reviewed contained a standard insolvency clause, but did not contain an arbitration clause, an offset clause, or an errors and omissions clause. The contract also did not contain 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 financial statements reflect the Company's operations during the examination period and the financial condition of the Company at December 31, 2012. All amounts are based on the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Balance, beginning of year	<u>\$1,050,678</u>	<u>\$1,022,691</u>	<u>\$1,135,056</u>	<u>\$1,259,045</u>	<u>\$1,107,576</u>
<u>Income</u>					
Gross receipts from assessments	\$ 293,958	\$ 318,651	\$ 334,373	\$ 355,040	\$ 444,727
ACH premiums			270	4,085	8,779
Less return on cancellations	<u>3,179</u>	<u>11,158</u>	<u>2,624</u>	<u>6,725</u>	<u>2,578</u>
Net received from members	\$ 290,778	\$ 307,494	\$ 332,019	\$ 352,399	\$ 450,928
Interest on investments	27,113	23,447	19,484	17,134	11,181
Other income					67
Gain on mutual fund		56,834	46,600	2,017	49,202
Liability premiums received	46,479	29,857	28,304	27,811	29,039
Vehicle commissions received	518	851	1,331	1,556	1,614
Auto club advertising received	20	60	120		
Telephone share received	456	442	479	509	560
Grinnell Mutual refund				222	
Vehicle premiums received					1,160
Miscellaneous	<u>65</u>	<u>575</u>	<u>485</u>	<u> </u>	<u> </u>
Total revenue	<u>\$ 365,430</u>	<u>\$ 419,561</u>	<u>\$ 428,821</u>	<u>\$ 401,650</u>	<u>\$ 543,751</u>

Disbursements

Gross losses paid	\$ 94,339	\$ 95,663	\$ 80,719	\$ 677,066	\$ 274,343
Less discount and salvage				15,500	2,000
Less reinsurance recovered				<u>400,000</u>	<u>118,825</u>
Net losses paid	\$ 94,339	\$ 95,663	\$ 80,719	\$ 261,566	\$ 153,518
Adjusting expense	1,114	2,056	2,173	35,736	1,015
Legal expenses on losses	752	786	597	300	389
Commissions to agents	34,842	35,617	38,564	39,502	50,218
Liability premium received	28,866	25,249	24,934	25,019	24,419
Company dues				2,373	2,719
Salaries and expenses of					
Directors and Officers	3,721	3,542	3,110	4,266	4,304
Salaries of office employees	20,537	21,081	21,685	21,112	21,096
Rent	4,800	4,800	4,800	4,800	5,250
Office equipment/supplies	657	1,347	1,031	1,817	602
Accounting	575	845	815	805	1,085
Insurance department licenses					
and fees	5,274	3,697	3,851	4,182	4,429
All other taxes	9,722	8,695	9,028	9,267	11,409
Advertising, printing and					
stationery	5,047	5,682	6,820	7,277	7,316
Telephone and postage	2,971	2,809	2,968	2,985	2,942
Reinsurance premiums paid	71,937	82,941	92,398	120,972	176,068
Office utilities	1,609	1,572	1,615	1,676	1,547
D&O insurance/Agents E&O	7,951	7,833	7,544	7,706	7,702
Donations/CE exp/Misc./ACH					
charge	1,759	2,980	2,180	1,758	2,379
Loss on mutual funds	<u>96,944</u>				
Total expenses	\$ 299,078	\$ 211,532	\$ 224,113	\$ 291,553	\$ 324,888
Total disbursements	<u>\$ 393,417</u>	<u>\$ 307,195</u>	<u>\$ 304,832</u>	<u>\$ 553,119</u>	<u>\$ 478,406</u>
Balance, end of year	<u>\$1,022,691</u>	<u>\$1,135,056</u>	<u>\$1,259,045</u>	<u>\$1,107,576</u>	<u>\$1,172,921</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2012

ASSETS

Ledger Assets

NFMRA surplus note	\$ 80,735	
Midwest Bank flex CD	61,665	
Certificates of deposit	443,659	
Cash deposited in banks	237,524	
Mutual fund	<u>349,338</u>	
Total ledger assets		<u>\$1,172,921</u>

Non-Ledger Assets

Furniture and supplies	\$ 4,500	
Total non-ledger assets		<u>\$ 4,500</u>

Gross assets \$1,177,421

Assets Not Admitted

Non-admitted surplus note	\$ 80,735	
Furniture and supplies	<u>4,500</u>	
Total assets not admitted		<u>\$ 85,235</u>

Total admitted assets \$1,092,186

LIABILITIES AND SURPLUS

Losses adjusted and unpaid	\$ 38,000	
Unearned premiums	180,500	
Premium tax liability	<u>5,574</u>	
Total liabilities		<u>\$ 224,074</u>
Surplus as regards policyholders		<u>868,122</u>
Total liabilities and surplus		<u>\$1,092,186</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:

In-force - It is recommended that the Company reconcile the in-force ledger to the computer totals on a monthly basis.

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.

Interest Received - It is recommended that the Company reconcile the interest received per the card stock file to the computer totals on a monthly basis.

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.

Mutual Funds - The excess investment in mutual funds of \$49,142 is admitted pursuant to Neb. Rev. Stat. §44-5153, Limitations on Other Investments.

Action: Company's investment in Mutual funds still exceeds investment limitations of Neb. Rev. Stat. §44-5139(2). Additional investments are still admitted pursuant to Neb. Rev. Stat. §44-5153, Limitations on Other Investments.

Surplus Note - It is recommended that the surplus note be non-admitted per the Statement of Statutory Accounting Principles No. 41, Paragraph 10(b)(d).

Action: The Company has complied with this recommendation.

Salaries and Expenses of Directors and Officers - It is suggested that salaries and expenses for Directors and Officers be combined for future reporting.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Interest on Investments

\$ 11,181

Interest on investments as of December 31, 2012 amounted to \$11,181. The Company's annual statement reported interest on investments of \$10,957. The Company records interest payments received on card stock and then enters them into the computer system. After review of this income, it was found that the Company did not enter several interest payments amounting to \$224. The amount reported on the 2012 Annual Statement is therefore underreported by \$224. It is recommended that the Company reconcile the card stock file to the computer system on a monthly basis.

NFMRA Surplus Note

\$ 80,735

The surplus note issued by Nebraska Farmers Mutual Reinsurance Association (NFMRA) had a value of \$80,735 as of December 31, 2012. This item is deducted, as an asset not admitted in both the Company's 2012 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:

\$1,172,921	Admitted asset (including surplus note)
<u>224,074</u>	Less liabilities
\$ 948,847	Total capital, surplus and surplus note

\$ 1,172,921
5% of admitted assets
\$ 58,646

Greater of \$58,646 or \$6,000,000

\$ 948,847
- 6,000,000
\$(5,051,153)/948,847 = -5.32 statement factor

Midwest Bank Flex CD

\$ 61,665

The Company held a flex certificate of deposit with a December 31, 2012 balance of \$61,665, as verified by direct confirmation from the respective depository. The Company had erroneously reported the balance as \$61,441 in the 2012 Annual Statement. The difference of \$224 represents interest payments that were automatically credited to the account but not entered into the Company's ledger system.

Certificates of Deposit

\$443,659

As of December 31, 2012 the Company had six certificates of deposit with a value of \$443,659. Each certificate of deposit was verified by direct confirmation from the respective depositories.

Cash Deposited in Banks

\$237,524

This asset consisted of two checking account balances. These deposits were verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2012, by giving consideration to outstanding checks.

Mutual Fund**\$349,338**

The Company held one mutual fund with Waddell & Reed with a December 31, 2012 balance of \$349,338. The balance was verified by direct confirmation from the respective investment firm.

Furniture and Supplies**\$ 4,500**

The non-ledger amount of \$4,500 reflects the depreciated cost of the Company's office equipment. This item is deducted, as an asset not admitted in both the Company's 2012 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

Losses Adjusted and Unpaid**\$ 38,000**

The Company established a liability for unpaid losses amounting to \$38,000 in its December 31, 2012 Annual Statement. 2013 claim payments made for prior-year claims totaled \$8,242. There is also one outstanding claim of \$16,130 for losses prior to 2012 at year-end 2013.

Unearned Premiums**\$180,500**

The Company reported unearned premiums of \$180,500 in its December 31, 2012 Annual Statement. Amounts reported are calculated by applying unearned factors, computed using the monthly pro rata method, to each month's premiums.

Premium Tax Liability**\$ 5,574**

The Company did not report a premium tax liability in its Annual Statement. The liability amount reported in the 2012 State of Nebraska Annual Tax Return was \$5,574. It is recommended that this amount be accrued as a liability for premium tax within the Annual Statement on page 5 line 34.

Surplus as Regards Policyholders

\$868,122

Policyholder's surplus, as determined by this examination, amounted to \$868,122 at December 31, 2012.

In-force Reconciliation

The Company's in-force premium amount is taken from its computer system which contains only a running total for in-force. The Company also keeps a monthly ledger that contains the changes to in force and cancellations per policy on new, renewals and riders. Monthly additions from new, renewal and riders totaled \$33,528,186 for 2012. Cancellations per the Company ledger totaled \$27,550,355 for new, renewal and riders. The difference is \$5,977,831. In-force on January 1, 2012 was \$176,976,646 giving a total in-force at December 31, 2012 of \$182,954,477 per the ledger. The amount reported in the 2012 Annual Statement was \$189,975,208. The difference between the reported and ledger is \$7,020,731. It is recommended that the Company reconcile the in-force premiums from the system to the ledger.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

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.

Interest on Investments – It is recommended that the Company reconcile the card stock file to the computer system on a monthly basis.

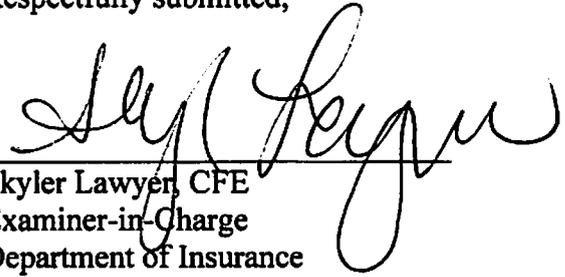
Premium Tax Liability - It is recommended that the Company accrue a liability for premium tax within the Annual Statement on page 5 line 34.

In-force Reconciliation – It is recommended that the Company reconcile the in-force premiums from the system to the ledger.

ACKNOWLEDGMENT

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

Respectfully submitted,

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

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

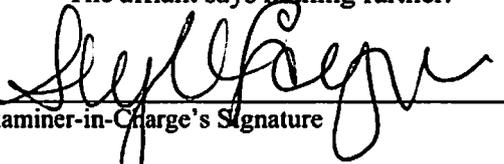
State of Nebraska,

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 Scandinavian Mutual Insurance Company of Polk County.
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 Scandinavian Mutual Insurance Company of Polk County 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 15th day of May, 2014.



(SEAL)


Notary Public

My commission expires December 24, 2017 [date].