

CERTIFICATION

March 22, 2013

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

Financial Examination Report of

Boone and Antelope Mutual Insurance Company

as of

December 31, 2011

and 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

STATE OF NEBRASKA

Department of Insurance

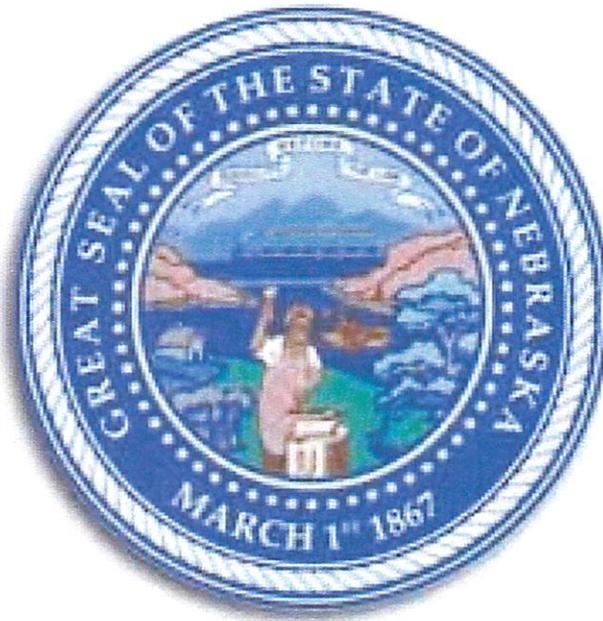
EXAMINATION REPORT

OF

BOONE & ANTELOPE MUTUAL INSURANCE COMPANY

as of

December 31, 2011



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
MAR 22 2013
FILED

Elgin, Nebraska
February 12, 2013

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

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

BOONE AND ANTELOPE MUTUAL INSURANCE COMPANY
104 North 2nd Street
P. O. Box H
Elgin, Nebraska 68636

(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, 2006 by the State of Nebraska. The current financial condition examination covered the intervening period to, and including, the close of business on December 31, 2011, and included such subsequent transactions as were deemed pertinent to this report. The State of Nebraska participated in the examination and assisted in preparation of this report.

SCOPE OF EXAMINATION

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 Articles of Incorporation and By-Laws were reviewed. The minutes of the meetings of the Members and the Board of Directors held during the five-year period under review were read and noted. Annual Statement items were checked to the Company's records. Income and disbursement items were checked in sufficient detail to assure proper handling. Its method of claim handling and all procedures pertaining to the adjustment and payment of incurred losses were also noted. The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed and noted. Reinsurance facilities were ascertained. The assets were verified and evaluated, and the liabilities determined in order to present herein a statement of the Company's financial condition as of December 31, 2011.

HISTORY

The Company was organized on February 27, 1892, under the name of "Roman Catholic Farmers Mutual Fire Insurance Company of Boone and Antelope Counties, Nebraska." It was later incorporated under the laws of the State of Nebraska on May 10, 1915, as a mutual assessment fire and lightning insurance company. Its purpose was to insure farm properties against the hazards of fire and lightning only.

Article I of the Articles of Incorporation was amended at the annual meeting of Members held on February 11, 1964 to change the name of the Company to "Boone and Antelope Mutual

Insurance Company.” Article II likewise was amended, granting authority to insure the property of its members against the risks and hazards permitted by Neb. Rev. Stat. §44-201(5) and (18) and all acts amendatory thereto: to issue policies of insurance of the general character provided for mutual assessment companies by Chapter 44 of the Revised Statutes 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. Also at that same meeting, Article III was amended to provide for perpetual existence.

The Investment Committee convened on March 29, 1993 in order to pass a resolution allowing purchase an office building and to relocate the Home Office from Petersburg, Nebraska to Elgin, Nebraska. Article I of the Articles of Incorporation was again amended at the annual meeting of members held on February 13, 2001. This amendment changed the principal place of business from Petersburg, Nebraska to Elgin, Nebraska.

MANAGEMENT AND CONTROL

Membership

Article V of the Company’s Amended Articles of Incorporation provides that, “the annual membership meeting shall be held at Elgin, Nebraska, on the second Tuesday in February of each year, commencing at 2:00 p.m.” “Ten members shall constitute a quorum for any annual membership meeting.” The corporate minutes indicate that a quorum was present at all membership meetings held during this examination period. The previous report of examination recommended the annual meeting minutes contain the names of all Directors present. The Company complied with the recommendation and recorded the attendance of Directors present in the annual meeting minutes.

Directors

Article VI of the Company's Amended Articles of Incorporation provides that, "the corporate powers of the Company shall be vested in a Board of not less than five (5), nor more than eleven (11) Directors, each elected by a majority vote at the annual meeting for a term of three years or until his successor is duly elected and qualified. Any person desiring to become a candidate for the office of Director of the Company shall file with the Secretary nomination papers signed by three or more members of the Company, at least fifteen (15) days in advance of the annual meeting at which election is sought. The number of Directors to be elected shall be determined by the number of terms that expire on the date of each meeting. Any vacancy on the Board of Directors may be filled for the unexpired term by the remaining Directors." Directors serving the Company at the 2011 year-end were as follows:

<u>Name</u>	<u>Legal Residence</u>	<u>Term Expires</u>
Joseph Reestman	Oakdale, Nebraska	2012
Stephen J. Lordemann	Petersburg, Nebraska	2012
Gloria J. Lordemann	Petersburg, Nebraska	2013
Steven Beckman	Petersburg, Nebraska	2013
LaVern Jochum	Elgin, Nebraska	2014
Henry R. Thieman	Petersburg, Nebraska	2014
Tracy R. Prater	Elgin, Nebraska	2014

The Board of Directors shall meet on the call of the President or Secretary or upon petition of a majority of the Directors. In such meetings, a majority shall constitute a quorum. The Board of Directors, at their November 29, 2007, meeting, increased the fee from \$100 to \$150 for Board of Director meetings.

Investment Committee

In 1989, the Board of Directors formed an Investment Committee to approve investments. This committee is composed of the President, Secretary-Treasurer and any one available Board member at the time the meeting is called. This committee has not met during the examination period.

Officers

Article VI of the Company's Amended Articles of Incorporation requires that the Directors, immediately following the annual meeting of the Members, shall elect such Officers as may be required for the proper conduct of the business of the Company. The By-Laws of the Company provide that the Secretary-Treasurer shall give bond for faithful performance of his duties. Officers serving the Company at December 31, 2011, were as follows:

<u>Name</u>	<u>Position</u>	<u>Total Compensation Paid During 2011</u>
Henry R. Thieman	President	\$ 500
Steven Beckman	Vice-President	\$ 200
Stephen J. Lordemann	Secretary-Treasurer	\$40,200
Gloria J. Lordemann	Assistant Treasurer	\$28,500

Officers and Directors are paid \$10.00 per hour and \$0.40 cents per mile expenses when employed in the interest of the Company. The Board of Directors approved a resolution to hire an adjustor/inspector through Grinnell Mutual Insurance Company. The Company paid Grinnell an annual fee of \$17,300, payable monthly, during 2011 for the adjustor/inspector.

The previous report of examination recommended that the Board approve a set salary range to pay the Secretary rather than a percentage of insurance in-force. The Company complied with

the recommendation and set the salaries for the Secretary and Assistant Secretary at the November 29, 2007 Board meeting.

TERRITORY AND PLAN OF OPERATION

The Company has authority to transact the business of insurance in the State of Nebraska only. It had sixteen licensed agents at the 2011 year-end. As provided in its Articles of Incorporation, the Company may produce business in Boone and Antelope Counties, and adjoining counties.

All liability coverages, which are written either separately or in conjunction with other coverages such as the Home-Guard and Farm-Guard policies, represent the direct writings of the Grinnell Mutual Reinsurance Company (Grinnell). All claims arising from said business are paid directly by Grinnell. The Company, acting as an agent for Grinnell, does receive a commission on any such business it produces.

REINSURANCE

The Company is a member of the Grinnell Mutual Reinsurance Company of Grinnell, Iowa (Grinnell). Under the contract for 2011, Grinnell agreed to indemnify the Company for 100% of their aggregate net loss in excess of \$375,294 and limited the Company's liability on an individual loss occurrence to \$100,000.

The contract provided that loss amounts exceeding \$1,000,000 for livestock, poultry or horse operations, commercial and public property, farm outbuildings, and dwellings would not be

considered in determining the aggregate net loss. Exposures that exceeded these limits can be covered under the facultative reinsurance provisions contained in the contract.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected up to \$100,000 under a fidelity bond on its Secretary-Treasurer. This bond is placed with a company authorized to transact business in the State of Nebraska. The Company has Professional Liability and Directors and Officers Liability through NAMIC (National Association of Mutual Insurance Companies). The coverage limit is \$1,000,000 with a \$10,000 deductible.

ACCOUNTS AND RECORDS

The Company's accounting records consist of an Income Journal, a Disbursement Journal and a Policy Register, along with a number of supporting records and documents. These records appear to be adequate for proper record keeping, for the preparation of the Company's Annual Statement, and for its reports to Members.

FINANCIAL STATEMENTS

The following financial statements reflect the Company's operations during the examination period and the financial condition of the Company as of December 31, 2011:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Balance, beginning of year	<u>\$801,898.15</u>	<u>\$996,833.81</u>	<u>\$990,456.71</u>	<u>\$1,044,621.59</u>	<u>\$1,089,922.93</u>
<u>INCOME</u>					
Gross assessments	\$656,269.99	\$705,823.70	\$796,950.90	\$ 867,044.44	863,399.11
Less return on cancellations	<u>5,171.99</u>	<u>15,138.48</u>	<u>6,300.02</u>	<u>14,646.83</u>	<u>10,103.39</u>
Net assessments	\$651,098.00	\$690,685.22	\$790,650.88	\$ 852,397.61	853,295.72
Interest on investment	17,015.30	12,140.92	8,813.37	6,812.16	5,303.18
Refunds	<u>629.01</u>	<u>400.00</u>	<u>727.87</u>	<u>21,050.88</u>	<u>284.21</u>
Total income	<u>\$668,742.31</u>	<u>\$703,226.14</u>	<u>\$800,192.12</u>	<u>\$ 880,260.65</u>	<u>\$ 858,883.11</u>
<u>DISBURSEMENTS</u>					
Gross losses paid	\$109,136.68	\$296,531.58	\$464,328.63	\$1,134,713.02	\$ 458,749.32
Less discount and salvage	2,645.00	4,403.38		23,200.00	450.00
Less reinsurance recovered	<u>3,784.80</u>	<u>26,888.28</u>	<u>173,250.22</u>	<u>808,569.95</u>	<u>96,136.58</u>
Net losses paid	<u>\$102,706.88</u>	<u>\$265,239.92</u>	<u>\$291,078.41</u>	<u>\$ 302,943.07</u>	<u>\$ 362,162.74</u>

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Adjusting expense	\$ 15,589.05	\$ 17,086.65	\$ 17,278.71	\$ 23,296.52	\$ 21,087.81
Legal/CPA/tax prep expenses	4,690.69	1,209.81	1,382.75	2,814.55	1,316.80
Commissions paid to agents	91,739.83	103,971.72	119,593.56	125,102.42	129,190.13
Salaries of Officers and Directors	47,694.51	56,094.39	56,901.03	59,543.14	60,588.65
Salaries of office employees	4,293.79	4,834.50	4,232.45	3,726.79	3,556.33
Insurance	17,303.21	21,660.67	26,492.38	31,370.03	34,784.40
Repair on real estate		2,094.81			
Taxes on real estate	347.44	309.46	920.78	310.98	293.86
Insurance dept. licenses and fees	160.00	142.00	128.00	123.00	147.00
All other taxes	19,718.97	29,802.46	22,179.92	22,845.74	21,313.32
Advertising and office supplies	5,256.34	8,639.93	6,279.08	7,176.87	6,778.36
Telephone express, postage	10,760.63	10,557.29	11,620.28	12,074.84	12,043.91
Reinsurance premiums paid	144,524.37	166,814.63	179,163.89	232,833.36	227,106.82
Bond	805.00			298.00	805.00
State fire tax	8,215.94	9,153.00	8,776.00	10,500.00	10,892.00
Service fee		5.00			
Paid for salvage	_____	_____	_____	_____	23,200.00
Total expenses	<u>\$371,099.77</u>	<u>\$432,376.32</u>	<u>\$ 454,948.83</u>	<u>\$ 532,016.24</u>	<u>\$ 553,104.39</u>
Other disbursements:					
Building depreciation	_____	<u>\$ 11,987.00</u>	_____	_____	_____
Total disbursements	<u>\$473,806.65</u>	<u>\$709,603.24</u>	<u>\$ 746,027.24</u>	<u>\$ 834,959.31</u>	<u>\$ 915,267.13</u>
Balance, end of year	<u>\$996,833.81</u>	<u>\$990,456.71</u>	<u>\$1,044,621.59</u>	<u>\$1,089,922.93</u>	<u>\$1,033,538.91</u>

BALANCE SHEET
December 31, 2011

Ledger Assets

Real estate	\$ 4,480.00
Common stocks	1,500.00
Cash deposited in banks	832,785.79
Certificates of deposit	<u>191,197.43</u>
Total ledger assets	<u>\$1,029,963.22</u>

Non-Ledger Assets

Excess of market value over book value	<u>\$ 5,110.95</u>
Gross assets	<u>\$1,035,074.17</u>
Total admitted assets	<u>\$1,035,074.17</u>

Liabilities

Losses adjusted and unpaid	\$ 8,800.00	
Less reinsurance	<u>8,800.00</u>	
Net unpaid losses		\$ 0.00
Unearned premiums		313,331.97
Unpaid salaries and commission		13,605.10
Reinsurance premium payable		16,647.69
Taxes, licenses, and fees		2,595.00
Adjusting service payable		<u>2,250.00</u>
Total liabilities		\$ 348,429.76
Surplus as regards policyholders		<u>686,644.41</u>
Total liabilities and surplus		<u>\$1,035,074.17</u>

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Recommendations appearing in the last previous report of examination are reflected below together with the corrective actions taken by the Company:

1. **Management and Control – Membership:** It is recommended that the annual meeting minutes record the Directors in attendance.

Action: The Company has complied.

2. **Management and Control – Officers:** It is recommended that the Board approve a set salary range to pay the Secretary rather than a percentage of insurance in-force.

Action: The Company has complied.

3. **Real Estate:** It is recommended that the Company establish a depreciation schedule effective back to 1993 and show the depreciated value of the real estate on the Annual Statement.

Action: The Company has not complied. The Company does have a depreciated value in their 2011 Annual Statement, however, it is not the same amount as suggested in the last report nor is it the amount calculated by the Company's CPA.

4. **Common Stocks:** It is recommended that the unrealized gain on the NAMIC stock be accurately presented on future Annual Statements.

Action: The Company has not complied.

5. **Losses Adjusted and Unpaid:** It is recommended that a loss liability be established for all losses incurred during, or prior to, the year for which the Annual Statement is being prepared.

Action: The Company has complied.

6. **Reinsurance Premiums Payable:** It is recommended that reinsurance premiums for December and paid in January be established as a liability in future Annual Statements.

Action: The Company has complied.

7. **Unpaid Commission:** It is recommended that unpaid commission be established as a liability in future Annual Statements.

Action: The Company has complied.

8. **Taxes, Licenses and Fees:** It is recommended that premium taxes and fees be established as a liability in future Annual Statements.

Action: The Company has not complied.

ASSETS

REAL ESTATE

\$ 4,480.00

The above amount is the depreciated value of the Company's home office and land. The amount of both the home office and land, purchased in 1993, was \$15,500.00. In the previous report of examination, it was noted that the Company had not recorded any depreciation on real estate and a recommendation was made that the Company expense the depreciation for the years of 1993 thru 2007 and show the depreciated value of the real estate in the 2007 Annual Statement. The Company recorded the amount of real estate as \$14,013.00 in the 2011 Annual Statement which does not coincide with the real estate depreciation schedule from the previous report of examination. The Company was unable to explain how they reached the real estate amount in the 2011 Annual Statement. A new depreciation schedule was created for the Company depreciating the building for 25 years and the improvements at 10 years. It is recommended that the Company expense the depreciation for the years of 1993 thru 2011 in 2012 and show the depreciated value of the real estate in the 2012 Annual Statement. The total depreciation from 1993-2011 was \$15,892.00.

COMMON STOCKS

\$ 1,500.00

The Company owns 30 shares of NAMIC common stock valued at \$1,500 on the Company's general ledger. The market value of the stock is \$6,610.95. The difference between

cost and market value of \$5,110.95 has been included in the balance sheet as a non-ledger asset. The Company reported the increase as \$6,610.95, which is the total market value of the stock. For purposes of this examination, \$5,110.95 is the value of this non-ledger asset. It is recommended that the Company report the difference between cost and market value as a non-ledger asset in future Annual Statements.

CASH DEPOSITED IN BANKS

\$832,785.79

The following schedule reflects the items comprising cash on deposit at year-end 2011:

Checking Account	\$169,429.45
Short Term Federal Investment Trust Account	20,000.00
Money Market Savings Account	<u>643,356.34</u>
Total	<u>\$832,785.79</u>

The Company reconciles its accounts on a monthly basis. Balances as of December 31, 2011 were confirmed with the depository.

The money market account is considered a “savings” type account rather than a “stock mutual fund” and therefore is not subject to the limitation contained in Section 44-5115 of the Nebraska Insurance Statutes.

The Company has a \$20,000.00 Federal Investment Trust investment with Union Bank and Trust Company located in Lincoln, Nebraska. This investment consists of packaged student loans guaranteed by the U.S. Government and are authorized under Section 44-5123 of the Nebraska Insurance Code. This amount was verified by confirmation from the bank.

It is noted that the checking account and money market savings account are with the same bank. In addition, the Company has over \$70,000 of Certificates of Deposit in the same bank. It is

strongly suggested that the Company diversify its deposits in this institution. At the very least, insurance should be obtained for the amount in excess of that insured by the F.D.I.C.

The Company reported \$812,785.79 as cash in office in the 2011 Annual Statement. The \$812,785.79 reported is made up of the checking account and money market savings account. This amount should have been reported as other cash deposited in banks. It will be recommended that the Company report the amounts from their checking account and money market savings account as other cash deposited in banks in the 2012 Annual Statement.

CERTIFICATES OF DEPOSIT

\$191,197.43

The Company has nine Certificates of Deposit located in three banks. The Company reported the amount of Certificates of Deposit as \$185,000 on the 2011 Annual Statement. Confirmations were received from the depositories and compared to company records. The confirmations show the total value to be \$191,197.43.

COMMON STOCK EXCESS OF MARKET VALUE OVER BOOK VALUE **\$ 5,110.95**

This amount represents the excess of market value over book value for the thirty shares of NAMIC common stock owned by the Company. The Company mistakenly reported \$6,610.95 in the 2011 Annual Statement which is the full value of the stock.

LIABILITIES AND SURPLUS

NET UNPAID LOSSES

\$ 0.00

The Company reported a gross liability for unpaid losses amounting to \$8,800 in its December 31, 2011 Annual Statement. The Company also reported reinsurance recoverable for

previous years in the amount of \$8,800, reflecting a net unpaid loss of \$0. Losses paid in 2012 for claims prior to 2012 amounted to \$6,798.28.

UNEARNED PREMIUM **\$313,331.97**

The Company reported unearned premium as \$313,331.97 in its Annual Statement.

UNPAID SALARIES AND COMMISSION **\$ 13,605.10**

Commission unpaid at December 31, 2011 amounted to \$8,753.96 and salaries unpaid at December 31, 2011 amounted to \$4,851.14.

REINSURANCE PREMIUMS PAYABLE **\$ 16,647.69**

This liability represents reinsurance premiums unpaid as of year-end 2011. This amount was disbursed in January 2011.

TAXES, LICENSES, AND FEES **\$ 2,595.00**

Premium taxes and fees at December 31, 2011 amounted to \$2,595, which was paid on March 1, 2012. The liability was not reported in the 2011 Annual Statement. It is again recommended that premium taxes and fees be established as a liability in future Annual Statements.

ADJUSTING SERVICE **\$ 2,250.00**

The amount for adjusting service performed in 2011 and paid in 2012 amounts to \$2,250.00 as recorded in the 2011 Annual Statement.

SURPLUS TO POLICYHOLDERS **\$686,644.41**

Surplus as regards policyholders at the 2011 year end, as determined by this examination, amounted to \$686,644.41. Such amount represents the total assets of the Company, including non-

ledger items, less year-end 2011 liabilities as were determined from a review of 2012 disbursements.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Interest on investment

Interest on investment was recorded as \$5,063.06 in the 2011 Annual Statement. According to the 1099 INT documents the total of interest on investment was \$5,303.18. It is recommended that the Company use the 1099 INT documents to properly record interest on investment in future Annual Statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

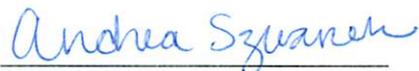
1. **Real Estate:** It is recommended that the Company expense the depreciation for the years of 1993 thru 2011 in 2012 and show the depreciated value of the real estate in the 2012 Annual Statement.
2. **Common Stocks:** It is recommended that the Company report the difference between cost and market value as a non-ledger asset in future Annual Statements.
3. **Cash Deposited in Banks:** It is strongly suggested that the Company diversify its deposits in Bank of Elgin. At the very least, insurance should be obtained for the amount in excess of that insured by the F.D.I.C.
4. **Certificates of Deposit:** It is recommended that the Company correctly report the amount of their Certificates of Deposit.
5. **Cash in Office:** It is recommended that the Company report the amounts of their money market savings account and checking account as other cash deposited in banks in future Annual Statements.

6. **Taxes, Licenses and Fees:** It is recommended that premium taxes and fees be established as a liability in future Annual Statements.
7. **Interest on Investment:** It is recommended that the Company properly record interest on investment by using the interest amounts listed on the 1099 INTs.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Secretary-Treasurer and Assistant Secretary-Treasurer of the Company is hereby acknowledged. In addition to the undersigned, Erin Garvin, Financial Examiner, also participated in this examination and in the preparation of this report.

Respectfully submitted,



Andrea Szwanek, CFE
Financial Examiner
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

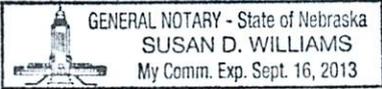
Andrea Szwaneck, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Boone & Antelope 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 Boone & Antelope 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.

Andrea Szwaneck
Examiner-in-Charge's Signature

Subscribed and sworn before me by Susan Williams on this 26th day of February, 2013.

(SEAL) 

Susan D. Williams
Notary Public

My commission expires 9/16/13 [date].